ABSTRACT

Manufacturing is the engine of growth in an economy. Its share in Indian GDP is about 15.24% and it provides employment to over 6 million people. In the recent years however, its growth has been severely affected due to the slowdown in overall GDP growth as a result of the economic crisis. Growth in manufacturing sector is vital for employment generation as well as to correct the trade balance.

Realising the importance of this sector and its current crisis, the Twelfth Plan aims to reverse this trend. Output growth could be possible by increasing input growth, technical progress and improvement in technical efficiency. In order to identify the source of the problem, this paper attempts to decompose the manufactured output growth in three industries – Basic metals, Coke and refined petroleum products and chemicals and chemical products industry, obtained in 20 major states for the period 2005-06 to 2010-11 into the above three components using the random coefficients frontier production function model. Results show that even though the technical efficiency has increased over time, there is a potential to increase the existing output without increasing inputs.