

Trade Liberalization and Firm Level Productivity in Indian Cement Industry: Evidences from Post-Reform Period

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Productivity growth has an important linkage with economic growth and standard of living. It increases output and also improves the efficiency of firms/industries through better utilization of factors of production. This study estimates firm level productivity in cement industry in India and examines the impact of trade liberalization. The period of the study is from 1991-1992 to 2012-2013 which is sub-divided into two sub-periods, i.e., from 1991-1992 to 2001-2002 and from 2002-2003 to 2012-2013. Productivity has been estimated using Levinshon-Petrin (gross revenue case) method. The firm levels productivity growth (semi-log trend rate of growth) in cement industry in balanced and unbalanced panels are negative 0.14 per cent and negative 0.01 per cent respectively. A significant difference in productivity growth among large, medium and small scale firms is found. Trade liberalization has led to decline in input-tariffs, output-tariffs and effective rate of protection. Increase in trade openness led to increased productivity. The study shows positive impact of increase in construction sector growth rate and decline in rate of interest and inflation rate on firm level productivity in this industry.

I Introduction

Cement industry is India's one of the largest core/infrastructure industries. It occupies a prominent place in India's manufacturing sector. It was partially decontrolled in 1982 and fully decontrolled when all price and distribution controls were withdrawn on March 1, 1989. The industry was de-licensed on July 25, 1991. This liberalization has proved a big factor for its growth.

The weight of cement industry in total industrial production has increased from 1.6 at Base 1980-1981:100 to 1.99 at Base 1993-1994:100 and to 2.41 at Base 2004-2005:100. (*Handbook of Statistics on Indian Economy, 2013-2014/HBSIE, 2013-2014.*) This shows the increasing share of cement industry in India's industrial sector. "Presently India is the second largest cement producer in the world, next to China. India's share in world's total cement production is about six per cent. Presently, country has 154 large cement plants with an installed capacity of 230.82 million tonnes. The industry provides direct employment to 1.35 lakh persons". (Background Note, Ministry of Commerce