

# The Multi-Plant Trap: Rethinking India's Manufacturing Puzzle

[policyedge.in/p/the-multi-plant-trap-rethinking-indias](https://policyedge.in/p/the-multi-plant-trap-rethinking-indias)

The Policy Edge

September 24, 2025

## THE POLICY EDGE

[View as PDF](#)

Abhishek Anand, Madras Institute of Development Studies

Arvind Subramanian, Peterson Institute for International Economics.

Naveen Joseph Thomas, OP Jindal Global University.

**SDG 8:** Decent Work and Economic Growth | **SDG 9: Industry, Innovation and Infrastructure**

**Institutions:** Ministry of Commerce and Industry | Ministry of Labour and Employment

India's development story continues to be marked by one stubborn fact: its underperformance in labour-intensive manufacturing. Whether one looks at output, exports, or employment, India has remained below its potential.

Take apparel exports. In 2005, India held about 3 percent of the global market. Almost two decades later, even after China began vacating space, the share is unchanged. Bangladesh, once behind, has surged to nearly 8 percent.

Conventional wisdom blames India's regulatory environment, especially restrictive labour laws, for keeping plants small. But the deeper question is not why Indian plants remain modest, but why so few have grown into the very large factories. And the answer lies in a phenomenon that has been hiding in plain sight: the rise of "multi-plants."



## The Rise of the Multi-Plant Firm

---

When a firm decides to expand its scale of production, it can either increase capacity in a single large factory or distribute production across several smaller factories or plants. Firms that adopt the latter approach are the ‘multi-plant establishments,’ as per the Annual Survey of Industries (ASI).

Shahi Exports, India’s largest garment exporter, exemplifies the ‘multi-plant’ phenomenon. Its CEO, Harish Ahuja, told *The Economist* that large investments are deliberately spread across multiple factories, rather than concentrated in a single site.

The numbers bear this out. In labour-intensive industries and among plants with more than 200 workers, the share of multi-plants doubled from 15 percent in 2001 to 30 percent in 2022. Their share of non-managerial employment grew even faster: from 17 percent to 43 percent. Nearly half of all jobs in large labour-intensive plants are now in firms that operate multiple establishments rather than one big factory.

## Why Multi-Plants Matter

---

More than a statistical quirk, the rise of multi-plants is significant for three reasons:

They distort the understanding of firm size. The ASI allows companies with two or more plants in a state to file joint returns if each unit employs at least 100 workers. This practice creates the impression of giant factories where none exist. One major manufacturer, for example, expanded from 11 to 58 plants between 2005 and 2023 in a single state, yet official records

present this as a single establishment swelling from 14,000 to 76,000 workers. Once adjusted for this accounting artefact, the picture changes dramatically: after two decades of liberalisation, and despite the rise of contract labour, average plant size has stagnated or declined. The statistical illusion masks the reality of fragmentation.

The productivity consequences are equally significant. Multi-plant firms are about 5 percent less productive than single-plant firms of the same scale, and the gap widens as employment grows. A single 500-worker plant consistently outperforms two 250-worker plants because fragmentation prevents firms from capturing the full benefits of scale: spreading fixed costs across larger output, integrating processes, and investing in advanced technology.

The international contrast is telling. A decade ago, apparel plants in Bangladesh were consistently larger than those in India. Looking at the 95th percentile - that is, comparing plants near the very top of the size distribution - Bangladeshi factories were about 40 percent larger. Scale has direct consequences: larger Bangladeshi plants exported around 95 percent of their output, compared with just 37 percent for Indian plants. While India has struggled to gain ground.

## **Why Do Firms Split into Multi-Plants?**

---

If scale drives efficiency, why do Indian companies deliberately shun mega-factories?

Practical constraints provide part answer: acquiring several modest parcels of land is easier than a single large site for a giant plant. Smaller factories also benefit from dispersed labour pools, especially women workers in garments and footwear, reducing logistic barriers and improving retention.

The role of political and regulatory levers, however, is critical. Operating through multiple mid-sized units allows firms to stay below thresholds that trigger restrictive labour laws while insulating them from the risks of closure, conflict, or political interference. Fragmentation, in this sense, is not a weakness, but a survival strategy in an uncertain industrial policy environment.

The result is that India's most competitive exporters look less like East Asia's vast integrated complexes and more like webs of modest factories - efficient at navigating constraints but constrained in achieving global scale.

## **Multi-Plants vs Contract Labour: Substitutes in Flexibility**

---

Firms do not rely on plant fragmentation alone. They combine it with another strategy that has reshaped Indian industry: the rise of contract labour.

Labour contractualisation, that is hiring workers through third-party agencies such as TeamLease has been a defining feature of Indian manufacturing. It gives firms the flexibility to adjust employment without directly confronting labour laws.

Yet here lies a puzzle. Contractualisation is *lower* in labour-intensive industries, where the incentive to cut costs and remain nimble should be the strongest. The share of contract labour in these industries rose from 23 percent to 31 percent between 2001 and 2022, compared with a jump from 19 percent to 47 percent in other industries.

The explanation lies in the rise of multi-plants. Single plants depend on contract labour for flexibility, but multi-plant firms achieve the same effect by shifting workers across units. As one chief executive put it, shutting down a 500-workers plant is far less risky than scaling back a 5,000-strong facility.

In practice, contract labour and multi-plants act as substitutes - different strategies for the same goal of hedging against regulatory and political risk.

### **Signs of Change: Scale Returns in Electronics**

---

If contract labour and multi-plants have been ways to adapt to rigidities, the question is whether Indian manufacturing can break out of this low-scale equilibrium. There are, at last, some signs that it can.

Despite the sobering record of the past two decades, new investment is beginning to alter the landscape. The “China plus one” strategy is drawing global supply chains to India, and Tamil Nadu has emerged as a hub for large-scale manufacturing in electronics, apparel, and footwear. Here, plant sizes are approaching international benchmarks. A Foxconn plant in Sriperumbudur employs around 18,000 workers, while Tata’s facility in Hosur has about 40,000. These remain exceptions, but they demonstrate that large-scale manufacturing is possible in India under the right policy and institutional conditions.

Whether this becomes a broader, nationwide trend is still uncertain. For now, fragmentation continues to dominate the overall picture of Indian manufacturing.

### **Rethinking the Policy Debate**

---

The prevalence of multi-plant strategies shows that entrepreneurs are not merely hemmed in by regulation; they are making deliberate choices. By avoiding mega-factories, firms trade away productivity gains and export competitiveness that come with scale in order to hedge against legal, political and labour-market risks.

As India seeks a deeper role in global supply chains, the lesson is clear: scale matters. Unless the uncertainties that discourage large-plant investment are reduced, the country will struggle to match the export performance of neighbours such as Bangladesh and Vietnam.

India does not lack entrepreneurs, workers, or ambition. What it lacks is scale. Unlocking it will not raise productivity and boost exports but also transform the quality of jobs. That is the challenge - and the promise - of Indian manufacturing today.

[View as PDF](#)

## Authors:

---



Abhishek  
Anand



Arvind  
Subramanian



Naveen Joseph  
Thomas

Abhishek Anand is a visiting fellow at the Madras Institute of Development Studies. Arvind Subramanian is a senior fellow at the Peterson Institute for International Economics. Naveen Joseph Thomas is a Professor at OP Jindal Global University.

The discussion in this article is based on authors' research published in *Journal of Development Economics* (Volume 174). **Views are personal.**

**Subscribe to The Policy Edge**