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In search of effective argumentation for informal sector growth: The case of emerging bag producing industry and gems & jewellery industry in West Bengal

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Abstract

The present study is an effort to explore how spatial informal cluster industries ensure their growth. To reveal this, the concern of the present study is to detect the proximity of the set of factors that influence growth of the industries. To do this, two specific sites of two distinct informal industries in West Bengal have been selected, namely Belgharia Bag Producing industry in North 24 Paraganas and Sinthi Gems and Jewellery industry in North Kolkata. The study is confined to depict the fact that while a small spatial cluster of the respective industries is able to promote its growth. To analyze this in a theoretical argumentative frame, the analysis has included spatial dispersion and coherence of the two informal industrial activities within their respective regional economies. The uneven distribution of concentrated informal production units across space and time is incorporated in the study within the frame of the standard model approach in references to micro-level field studies conducted based upon purposive sampling. The study strongly attributes its literature support as derived from the classical and new economic geography school in the field of Location Economics, Regional Economics and Urban Economics. The study is confined to derive a comparative analysis of the two industries in the context of growth of the two regional industrial economies.

Keywords: Informal sector, Cluster economy, Economies of scale, Location, Mobility.
JEL Classification: E26, F02, J61, R10, R12.

1. Introduction

The present study is an effort to explore how an “industrial district” within the frame of informal localization is formed. To analyze this in the Regional Economics context, the primary concern here is to explore: why and how economic organization of such an industrial economy is formed with spatial dispersion and coherence of informal industrial activity within a region. The study, therefore, is confined to depict what are the factors that are able to inherit a growing informal industrial localization sufficient to influence employment, output and growth of the entire regional economy. What is striking here is that the industry may or may not exhibit significant formal-informal linkages in both product and labour market processes, rather the contraction of the formal industrial unit(s) may inherit faster expansion of some informal industrial localization within the regional economy over time.

It is common to observe that production units in several informal industrial economies are agglomerated in specific spatial clusters in particular geographical horizons. The present study is confined to capture two informal localization of two specific industries in West Bengal, namely the Belgharia Bag Producing Industry in the district of North 24 Paragon’s and the Sinthi Gems & Jewellery industry, as per our primary survey conveys. The sites have been selected not on the basis of their size or significant position to the industrial map in West Bengal but due to their specificity to fulfill the basic objective of our study. This is why the study is not confined to focus on the concentration of other important spatial clusters of the respective industries in West Bengal. Rather, the study is confined to detect two less explored industrial sites in West Bengal in order to explore how a small spatial cluster of informal industrial enterprises is becoming able to influence output, growth and employment of any regional economy through its faster expansion despite horizontal contraction of formal

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industrial production in the economy. The uneven distribution of concentrated production units across space and time is incorporated within the frame of the study in references with mic growth and employment o-level field studies conducted on the basis of purposive sampling. The consideration here is strongly based upon the support derived from classical and new economic geography school within the frame of Location Economics, Regional Economics and Urban Economics literatures.

2. Methodology of Analysis

The logical argumentation of the study is based upon literature support, case studies conducted and primary survey results. The survey process is exhaustive. The survey is based upon qualitative purposive sampling with semi-structured questionnaire and indirect interview method. The micro-level field studies, sampling design and data analysis are based on standard model approach. The implication is that the selection of any sampling region does not depend on data availability (or non-availability), therefore, avoids spatial homogeneity. The study assumes that the producing firms within a cluster of the industry are non-homogeneous in nature. However, spatial distribution of production units of the industry is cross-sectional, given and known. Sometimes an ethnographic study has been approached due to data non-availability and data non-responses in the sample survey area under the purview of the study.

3. A Brief Profile of the Regional Industrial Economies

The name "Belgharia" has appeared from "Bell Ghor" (bell house) - there was a big bell used to call the porters of the area to unload and carry jute from the boats majorly from the oldest jetty situated in nearby Ariadaha on river Ganges. It is worth to mention that the British Bengal inherited different spatial clusters of the jute industry distributed throughout the two sides of river Ganges in the districts of Howrah, Hooghly and North 24 Paraganas. Ariadaha accrued the advantage of its geographical proximity and locational benefit to appear as a place for connecting adjacent locations including Belgharia. In the 17th century, Belgharia and nearby Nimta (about 30 minutes road distance form Belgharia) appeared to be the biggest wholesale markets for Jute, Fish and vegetables in the region. Later in the British regime, the region became well-known for the existence of several factories. The trend continued thereafter even after independence by which it became a well-known place for the working class that imputed the place with low cost of living covered by well-developed transport facilities which was required for industrial expansion within the regional economy. The region inherited a group of small formal industries in the decade of 1960s and 1970s including the Mohini Mills, Hindustan Cotton Mills, Prabartak Jute Mills, Oriental Cotton Mill, Power Loom, Beni Engineering, Mania Bull Casting, Bharat Glass Factory, Vegetable Products Limited, Duckback etc. The two cinema halls, Biva and Rupmandir, made the place popular with mere arrangements for refreshment of the working group mostly at the evening of the working days and in the holidays. The dominance of the working classes in the composition of regional

population inhibited a strong demand for necessary commodities supplied at low prices. The industrial proximity of the region provided the State Labour Minister from the locality in the decades of 1970s and 1980s.

Since the mid-1970s, however, closing down of several formal sector industries in the region due to diversified reasons along with the problem of labour movements and labour unrests has inherited a closing down of a number of formal sector industries in the region. At present, the renowned formal industries of the adjacent region are Agarpara Jute Mill, Allied Ceramics, Emami, Kamarhatty Jute Mill, ESDEE Allumina, Dalmia factory and Texmaco Private Limited. The phenomenon has inherited growing prominence of informal localization particularly since the decade of early 1990s when the expectation for government support appeared at the end due to the increasing proximity of market regime. Introduction of reform measures at the national level has provided the informal sector of the region a new avenue with close proximity with the market along with searches for newer markets. The vulnerable small and medium entrepreneurs due to non-pruning condition of the regional industrial economy have attributed this opportunity to make expansion of informal localization of the regional economy to continue its employment generation. The required entrepreneurship skill has been generated from the previous small and medium entrepreneurs or from the skilled experienced workers of the region. The vast populous region has supplied semi-skilled and unskilled informal industrial employment and also the market for finished products at the local market – both of which were required for informal industrial expansion at their earlier days.

The newly built Belgharia Expressway, linking Jessore Road with Dumdum Airport, the Kalyani Expressway, and Nivedita Setu on river Ganges, has increased the importance of the place with the chance of enhancement of well-developed transport and communication facilities. The corollary is that the expanding informal localization at the region has created a strong demand for government-sponsored infrastructure generation in order to connect production clusters of the region with diversified market portfolios in different geographical domains. This is because the local consumers become informed about the cost of production due to their larger access in knowledge endowment and are able to purchase the finished informal industrial products at a price much lower than market prices due to their familiar cordial relation with the informal producers of the region.

However, the HI rising flats in the past two decades are causing faster expansion of informal localization of the region due to Marshallian labour market pooling due to the entrance of previously formal sector labourers to informal labour force of the region to continue their employment and maintenance of their families and Venable's Home Market Effect (HME) due to ensured demand for local-made informal products by the increasing affluent and middle-class families in the regional population. The well-developed transportation and communication have caused ease in marketing of finished products in distant areas through adjacent roadways and railways communication.



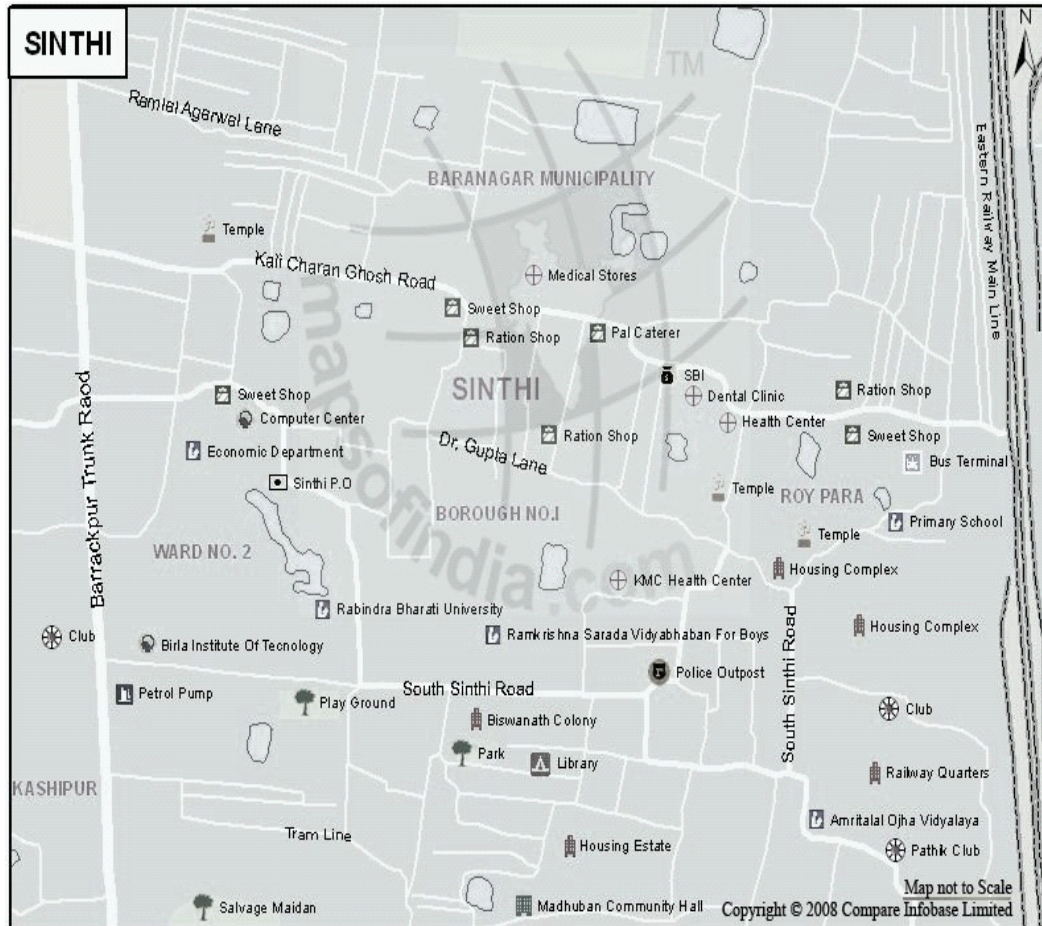
The Belgharia Bag Industry has become an uprising informal industrial cluster in the past two decades which produces especially school bags, travel bags, big shoppers, purses, fashionable trendy bags preferred by children and female etc. The production orders majorly come from the contractors of far distant spaces throughout the state and the neighbouring states like Assam and also by the local middlemen and businessmen who prefer to sell the finished products on their own or to others. The raw materials required for production, mainly raw clothes (*Jyoti* cloth and rubber pasting cloth) and sewing are being purchased from the contractors or intermediaries at the local level or from the contractors from the distant areas who import the items mainly from China and Bangladesh. The local contractors or intermediaries give production orders along with raw materials to the local (usually 4-10) producers and collect finished products from them. The finished products are supplied in small packs through trains or heavy loads through roadways to far distant markets of Kolkata, Howrah, Hooghly, North and South 24 Paraganas, Nadia, North Bengal and Assam. Often contractors purchase the finished product to supply them to the formal sector of the industry (locally called '*company*'), thereby incorporating a mere formal-informal linkage in which intermediate production appears in the informal sector which gets a finishing touch with labeling-branding and is ready for sale in by the formal sector at a higher price than the informal sector prices.

The consumers coming from the upper milieu of the society prefer to purchase these high-priced branded products when security and quality assurance are the main factors, while middle and low income group prefer the low-priced informal sector produces with enough bargaining processes when making lesser expenses on the item purchased appears to be the major concern. The informal tie-up and bonding in the product market has targeted the latter phenomenon in order to ensure faster expansion of the industry. Therefore, industrial production appears in the informal sector, sale

appears both in the formal and informal sector, and export appears both by the formal and informal sector. In the region, about 3,000 small and medium scale production units inheriting 4-5 artisans each on the average, thereby promoting about 15,000 employments at the local level. More than 300 sales outlets are clustered in the main site besides the railway station from where delivery of finished products appear through roadways and railways and to where products are transferred from the production centers of the hinterland.

In the labour market, majority of the labourers come from the local market who get training and acquire skills and experiences at the local level. Often skilled informal workers, after a few years of experiences, appear as small and medium independent entrepreneurs at the local level who employ local semi-skilled and unskilled informal workers. This has created a large initiative among the young generation of the region to enter into the industrial labour market at their teen ages, to earn skill, wages and experiences, to arrange necessary capital in order to start a new business and become small entrepreneur thereby making profit in the growing informal industry. The informal entrepreneurship development plays a major contributory factor behind promoting industrial growth in the recent past by making accesses beyond the regional market to the far distant markets within and outside the state.

The nearby Sinthi in North Kolkata has appeared as a separate cluster in the Bengal Gems and Jewellery industry in the last 35 years. The growth of this particular location is quite high. The growth has been attributed from the faster expansion of the location. The location is situated near Kolkata (about 30 minutes from Bowbazar which is the 'core' cluster of the Bengal Gems and Jewellery industry). The location is near Dumdum railway junction and metro railway (only 10-15 minutes by roadways). This locational advantage is accrued by strong exchange relationship with the Bowbazar location.



About 250 production units are operating in the main site of the location, others are operating in the hinterland spread up to Nowapara, as per our primary survey conducted. The production is mostly export-oriented – exports appear mostly to Chennai, Hyderabad, Bangalore, Coimbatore, and even to Kathmandu in Nepal. The production is majorly based on self-enterprises and most of the producers have their own production houses. The producers in Sinthi are specialized in heavy-weight Gold Jewellery and diamond Jewellery production. The producers purchase raw gold from Bowbazar and other raw materials from local market at Barabazar in Kolkata.

Usually producers are prone to use modern technology in production in order to increase their productivity. Use of capital is a significant feature of this market, thereby promoting high capital-labour ratio than any other location of West Bengal. This high capital intensity is reflected in high skilled and semi-skilled labour absorption ratio of the location. Such skilled and semi-skilled labourers possess the know-how about the use of latest technology. The use of machine-based production technology improves productivity, thereby promotes faster growth of the market by offering variety of products at a low cost. Often producers sell their finished products directly to Kolkata or they export the products via Kolkata to large cities of other states in India like Delhi, Surat, Mumbai, Pune, Chennai, Hyderabad, Coimbatore etc., and even to other countries, especially to the middle-East Asian countries and Nepal.

Recently, Sinthi has become an attractive location for semi-skilled and skilled workers. About 10-12 thousands labourers are operating in the location, as per our primary survey. The skilled and semi-skilled labourers working here come from

the districts of North 24 Paraganas, Howrah, Hooghly, West Midnapore, even from Nepal. Often they migrate to Mumbai, Delhi and other cities in India and to Kathmandu (Nepal) and return back to Sinthi. In this way, circular migration becomes a common feature here.

In Sinthi, the informal labourers work at the informal production units situated in spatially separated site(s) away from the formal retailing units at the main site of the location. The informal work-sites function as ancillary production units of the formal sector and they produce according to the work orders provided by the formal sector. Raw material is procured by the small owner-employer and gold ornaments are produced by informal employees hired by him/her. Wages vary according to the skill of the labourers and most of the production units operate on a small scale, where even the owner-employer takes part as a skilled artisan. Retail selling does not take place largely - all the products are sold directly to the formal units of Bowbazar. In this way, Sinthi in North Kolkata performs as an ancillary cluster to Bowbazar.

4. Factors Influencing Formation of “Industrial District”

To explore the formation of any industrial localization, the issue must be examined in the context of the literature support with Alfred Marshall, one of the early contributors in the literature of location economics – though the analysis of location started much before than Marshall with ‘monocentric city model’ of Von Thunen (1826) [Von Thunen’s “Der Isolierte Staat in Beziehung auf Landschaft und Nationalökonomie”]. Alfred Marshall (1891) in his ‘Principles of Economics’ has referred the idea of “industrial district” to describe industrial localization as any area that

has emerged almost as a “district” with settling down of spatially concentrated small and medium enterprises.

It is difficult to refer when and how the Belgharia Bag Producing Industry and the Sinthi Gems & Jewellery industry have exactly settled down. It is almost 40-45 years earlier when a small cluster of 10-15 enterprises were operating in the respective localities in a scattered manner. The necessary skill appeared from the adjacent formal sector of Duckback industry in the Sodepur-Panihati region in case of the Belgharia Bag Producing Industry and by district-level in-migration in case of the Sinthi Gems & Jewellery industry. The small informal cluster was operating as an ancillary to the formal sector in case of the Belgharia Bag Producing Industry and as an informal periphery in case of the Sinthi Gems & Jewellery industry. However, sharp reduction in formal sector production has caused spread of informal localization of the industry in the adjacent Belgharia region and increasing volume of work orders from the ‘core’ Bowbazar to the Sinthi periphery. It is often observed that once localized industries are developed, trading functions of the town are developed. The informal localization has chosen the already established spatial cluster, even small, in the site of Belgharia and Sinthi. With the spread of industrial enterprises, it has become stochastic that rent becomes higher in the central sites of the town and the production units ‘congregate’ in the outskirts of the towns and in their neighbourhood rather than in the central sites of the towns themselves – which is the case of the Belgharia Bag Producing Industry and Sinthi Gems & Jewellery industry over time with their faster spread. Easy transport and communication facilities through adjacent railways along with roadways have made it easier to avail raw materials necessary for industrial expansion. To Marshall, this ‘primitive localization’ has been transformed into almost an ‘industrial district’ in the respective regions.

In the Scitovskian (1954) sense, “information spillover” due to “labour market pooling” influences firm’s production function by extracting “pure” external economies of scale consistent with imperfect competition with some market power of influential local producers contributing to internal economies at the firm level which leads to an increase in output of the firm – which has appeared in the two sites. To the revised version of the Central Place Theory of Walter Christaller (1933) by August Losch (1944a, 1954b), the spatial economy of the region then tend to be dominated by a central primal city, the hinterland of which owes to be characterized by smaller settlements and alternating areas of industrial concentration and dispersion - which has acted as a strong factor to spread the industrial localization of the two industries from the central site to the hinterland areas by making the region almost an “industrial district” through smaller settlements and alterations of the firms in the neighbouring areas.

Much later, Becattini (1989, 1990) in the location literature has raised the issue that government and/or government-sponsored institutions are not able to create an industrial organization with collective efficiency - rather a minimum concentration of privately initiated industrial activity may involve. The argument is true for the Bag Producing Industry in Belgharia which inherits concentration of a large number of privately initiated informal firms at the local level along with its faster expansion with competitive effort to grab the marketing networks within the industry without any government-sponsored industrial organization.

In the Krugmanian (1991) sense in the new growth theory, a combination of (1) Transportation costs, (2) Economies of scale and (3) Knowledge spillover result in increasing returns at the firm level which has largely influenced the geographical structure of the industrial economy by attracting a large number of competitive informal enterprises within the two localization. The outcome is attributed to the dominance of small and medium firms producing with the Marshall-Arrow-Romer (MAR) externality which suggests that an increased concentration of a particular industry within a specific geographical region facilitates knowledge spillovers across the producing firms, thereby promoting incentives to further inter-firm spillovers executing positive economies of scale. Moreover, the execution of Jacobs and Porter externality suggest that local competition is suitable to extract knowledge externality by the producing firms.

A circular causation of all these has provided maximum individual interaction in the informal industrial periphery from the industrial ‘core’ with well-established social capital network within an informal frame. The functioning of the “spread effects” has accrued from the ‘core’ impeding eventually development of the periphery through multiplier effect on employment and output and a “relay” function has appeared through urban hierarchy at the peripheries from the ‘core’ of the localization. The result is a growing incentive among the informal producers to form firms within the localized informal industrial periphery which has changed the spatial production pattern dramatically with its faster horizontal spread.

An increased “labour market pooling” has inherited the Home Market Effect (HME) in the two industries due to larger knowledge externality by which the geographically concentrated industry has generated an additional demand for its products particularly in the peripheries of large urban locations in the peripheral hinterland and other distant destinations. This has further attracted a pool of imperfectly competitive firms, even the younger generation entrepreneurs, towards this large and growing market. This has acted as influential factors to make spread of the peripheries in the hinterland of the region and also the spread of sales outlets in the adjacent center in the past two decades indicating high growth of the industry. The two locations are becoming renowned for produces in far distant areas throughout the state and even neighbouring states and are extracting work orders through the intermediation of influential contractors of those regions. The effect is so strong that the two informal industrial localizations of the respective regional industrial economies are appearing almost as an independent “industrial district” in the Marshallian sense inheriting large influences upon the growth, employment generation and entrepreneurship development of the regional economies.

Higher is the skill with positive knowledge spillover and access to social capital network; higher is the probability for inter-state migration at the national level, thereby ensuring higher income earnings for the industrial labourers of Sinthi. This approaches a ‘stochastic’ pattern of skill-deterministic labour mobility to many large cities of the country such as Mumbai, Surat, Ahmedabad and Delhi, sometimes even to the international level. Krugman’s labour market “network” and “system” (out-) migration has caused significant arrays in promoting growth of the Sinthi Gems & Jewellery industry. An increased volume of vertical (hierarchical) labour mobility has further contributed to faster growth of the industry in which previously (skilled) workers appear as

independent individual entrepreneurs who now attract a pool of investments and employ skilled and semi-skilled labourers from the peripheral areas. To explain this in the context of Venable's (1996) New Economic Geography Synthesis, the immobility of the vertically-migrant entrepreneurial income at destination has resulted in increased volume of industrial investment, production, and employment generation. This may be an explanation for comparatively higher horizontal expansion and growth of the Sinthi Gems and Jewellery industry.

5. Conclusion

The theories on location economics refer that industries do not develop arbitrarily. The present study is an effort to explore the case of the informal localization of the Belgharia Bag Producing Industry and Sinthi Gems & Jewellery industry. To analyze why and how economic organization of these particular industrial economies is formed; the study is framed within the broader context of Regional Economics to include spatial dispersion and coherence of the two informal industrial activities. The depiction is to explore how contracting formal sector is inheriting a growing informal industrial localization sufficient to influence employment, output and growth of the entire regional economy. The uneven distribution of agglomerated production units across space and time is studied in references to micro-level field studies conducted backed by literature coverage. What is crucial is that the exhibition of significant formal-informal linkages in both product and labour market processes within any industry does not serve as effective instrument to promote growth of the industry - rather the contraction of the formal sector industry appears to be insufficient to curtail faster expansion and growth of the informal industrial localization of any regional economy.

6. Appendix

1. Saha Sukanta. Spatial Concentration and Localization A Core-Periphery Linkage Model of Domjur-Ghatal Gems and Jewellery Industry, *International Journal of Information Research and Review*. ISSN: 2349-9141, 2015; 2(07):893-899.
2. Saha Sukanta. Localized Informal Agglomeration: A Classical Syntax, *Journal Desh Vikas*. ISSN: 2394-1782, 2015; 2(2):129-136.
3. Saha Sukanta. Linkage Analysis in an Informal Localized Industry the Case of Bengal Gems and Jewellery, *Splint International Journal of Professionals*. 2015; 2(09):39-46.
4. Saha Sukanta. Bowbazar-Sinthi Gems and Jewellery Core-Ancillary Linkage Model, *International Journal of Current Research*. Impact factor: 5.349, ISSN: 0975-833X, 2015; 7(07):18688-18693.
5. Saha Sukanta. Spatial Concentration and Localization: A Core-Periphery Linkage Model of Domjur-Ghatal Gems and Jewellery Industry, *International Journal of Information Research and Review*. ISSN: 2349-9141, 2015; 2(07):893-899.
6. Saha Sukanta. Formal-Informal Linkage and Tie up of Informal Labour a Study Focused on Gold and Jewellery Industry, West Bengal, India, the *International Journal of Management*. ISSN: 2277-5846, 2015; 4(2):54-60.
7. The term 'agglomeration' of firms refers to decline in average costs in production as more production occurs within a specified geographic area Anas, Arnott and Small 1998. In other words, it relies strongly on

increasing returns to scale, considering internal and external economies of scale.

8. Cluster of enterprises is a geographical concentration of micro, small, medium and large enterprises producing same or similar type of goods and services.
9. As referred by Brulhart (1998), while concentration analyzes location across space of a few well-defined sectors, agglomeration analyzes location across space for a larger part of economic activity, and specialization deals with share of a particular location in specific industry in comparison to share of other locations in that industry.
10. Saha Sukanta. Small Informal Spatial Clusters in Bengal Hosiery Industry: Inferring Marshallian "Industrial District" Syndrome? *The International Journal of Business Management*. 2015; 3(10).
11. Saha Sukanta. Bowbazar Gems and Jewellery Industry: A Classical and NEG Syntax, *Journal of Commerce and Economics*. DAV PG College, Banaras Hindu University, Varanasi, ISSN 0976-9528, 2015; 6(02):05-12.
12. Saha Sukanta. An Informal Industrial District Syntax from Marshall to Krugman, *Splint International Journal of Professionals*. ISSN: 2349-6045, 2015; 2(5):17-23.
13. To Scitovsky (1954), incorporation of imperfect competition initiates internal economies of scale that implies market power. Scitovsky distinguishes between "pure" (technological) and "pecuniary" external economies. The former affects firm's production function (e.g. Marshallian information spillover).
14. The Chris taller model of central place is, however, inductive rather than deductive in the sense that the model is primarily based on observations rather than exploration of any schema constructed from first principles. To Parr (2002), the Loschian approach is completely deductive and a microeconomic foundation has been approached to understand the urban system. It shows that industrial concentration and urbanization may arise independently of local peculiarity and particularity.
15. In the Big Push theory (Rosenstein-Rodan, 1943), the solution to the insufficient size of the local market is referred to a co-ordinated (government-led) expansion of investment - hence big push enters into. This enables firms to reap the benefits of economies of scale, thereby promoting industrialization of a backward region. Without such a big push, the backward periphery cannot catch up with the core.
16. In 1957, Gunnar Myrdal introduced the concept of circular or cumulative causation. In this, once a region (or country) takes lead in the process of economic development, positive external economies of scale in the region (or country) appears there - which ensures that the location will become an attractive place to invest and more attractive location for the labourers to work. The existence of strong localized spillovers leads to the establishment of a core in the region with large market and a periphery [Dicken and Lloyd 1990].
17. Social capital is social organizations (such as trust, norms, reciprocity, co-ordination, interactions belongingness and networks) between producers and workers that facilitate better coordinated actions among themselves.

18. Ref: Djajic, 1986; Appleyard, 1992; Massey *et al*, 1993; Bocker, 1994; Waldorf, 1998; Levitt, 1998; Massey, 1999; Taylor, 1999; De Haas, 2003.
19. Ref: Mabogunje, 1970; Arizpe, 1981; Borcoz, 1987; Portes & Borcoz, 1987; McKee & Tisdell, 1988; Fawcett, 1989; Massey, 1990; Kritz *et al*, 1992; Martin, 1992; Gurak & Caces, 1992; Bohning, 1994; Martin & Taylor, 1996; Rotte *et al*, 1997; Vertovec, 1999; Olesen, 2002; van Dalen *et al*, 2005.
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