Article

An Analysis of MSME's Efficiency: A Study of Two Comparable Northern Indian Regions

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Abstract

Jammu and Kashmir (J&K) and Himachal Pradesh (HP) are the two northern states of the Indian union. The two neighbouring states are mountainous and backward as compared to the rest of the country. Of the two, J&K has more natural resources and population. On the contrary, HP, over time, has demonstrated higher outcomes in terms of basic indicators, gross state domestic product (GSDP) and economic growth. This article examines these two economies and attempts to compare them on the basis of their respective efficiencies in industrial production. Although data on GSDP show that HP has grown over time and has surpassed that of J&K in 2017–2018, technical efficiencies of the two regions, as drawn from Annual Survey of Industries (2017), are low and converging. Stochastic frontier results demonstrate that industrialisation in both regions is labour-intensive. Tobit regression results point to low contribution of inputs towards technical efficiency. Also, minimal use of communication and technology, low profits and weak policies contribute negatively in the direction of the technical efficiency of the firms in the two regions. The results specifically imply that in the region of J&K, government support and interventions are needed to address both endogenous and exogenous factors contributing to firms' inefficiencies.

Keywords

Jammu and Kashmir, Himachal Pradesh, stochastic frontier analysis, MSME, technical efficiency, backward/mountainous region

Introduction

The manufacturing sector is an important contributor of gross state domestic product (GSDP) in every developing state. The growth in this sector is directly correlated with the overall growth of the economy and betterment of people. The harbinger of growth and development in underdeveloped world are the

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