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Housing, Construction and Allied Industries as an Engine of Indian Commerce: A Conceptual Review of Demand Linkages, Investment and Labour

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Abstract

This conceptual review examines the role of housing, construction and their allied industries in Indian commerce, treating the sector as a demand-linked cluster rather than a single industry. Adopting an integrative literature review design, the study synthesises 24 scholarly and institutional sources, comprising foundational theory on multipliers, inter-industry linkages and surplus labour, international evidence on construction and economic development, and India-focused studies and official reports on housing, macroeconomic trends and construction labour, through thematic analysis. Four themes emerge: construction as a component of aggregate demand with strong backward linkages; housing as the demand anchor of the cluster, sustained by a large and persistent urban shortage; the allied industries of cement, steel, paints, fittings and housing finance whose fortunes move with construction activity; and the sector's dual role as the largest non-farm absorber of labour and a site of informality and precarity. The synthesis is organised into a Demand–Linkage–Labour framework and five research propositions. The paper argues that the commercial significance of the sector lies as much in the industries it pulls along and the workers it absorbs as in its own output, and that policy and business strategy should treat it accordingly. Implications are offered for firms in the cluster, financial institutions and policymakers.

Keywords: - Construction Industry, Housing Sector, Backward Linkages, Allied Industries, Construction Labour, Indian Economy, Conceptual Review

I. INTRODUCTION

1.1. Background and Context

Few sectors touch as many parts of an economy as construction. Every dwelling, factory, road or office that is built draws on cement, steel, bricks, timber, glass, paints, sanitary fittings, electrical goods, machinery, transport and finance, and it employs, directly and indirectly, a workforce drawn from every state of the country. Economists have long recognised this reach. Turin (1973) documented the relationship between construction output and national income across countries at different stages of development, and Wells (1986) and Ofori (1990) developed the case that construction is a strategic sector for developing economies because of the demand it transmits to other industries. Giang and Pheng (2011), reviewing four decades of this literature, conclude that the sector's contribution to development is best understood through its linkages rather than its own value added alone.

In India the sector has grown alongside the broader economy. Aswani and Kalluraya (2024) trace the country's macroeconomic trend, in which sustained growth in output has been accompanied by rising investment in physical assets. According to the Periodic Labour Force Survey, construction employs roughly one in eight Indian workers and is the largest non-agricultural employer of men in rural areas (Ministry of Statistics and Programme Implementation [MoSPI], 2024). Housing is the largest single segment of construction demand, and the sector's growth and sustainability have attracted specific attention in the Indian commerce literature (Aswani, 2024).

1.2. Problem Statement

Commerce scholarship in India tends to study the constituent parts of this system separately: housing finance in one literature, cement and building materials in another, real estate marketing in a third and construction labour in a fourth. This fragmentation obscures what is most distinctive about the sector, namely that its parts move together because they are linked by demand. When housing starts rise, cement despatches, paint sales, steel offtake, mortgage lending and migrant employment rise with them; when construction stalls, as it did during the COVID-19 lockdowns, the effects are felt across the cluster and most acutely by its workers (Aswani & Kalluraya, 2023). An integrated account of housing, construction and allied industries as a single commercial system, with the labour that sustains it, is lacking. This study addresses that gap.

1.3. Research Objectives

This study pursues the following specific objectives:

- To synthesise theoretical and empirical literature on the contribution of construction to economic activity, with particular reference to India.
- To examine the role of housing as the principal source of demand in the construction cluster.
- To map the allied industries linked to construction and the mechanisms through which demand is transmitted to them.
- To assess the labour dimension of the sector, including absorption, migration, informality and working conditions.
- To develop an integrative conceptual framework and research propositions for future empirical work.

1.4. Research Questions

- Through what mechanisms does construction activity contribute to aggregate demand and output in India?
- How does housing demand shape the performance of the construction cluster?
- Which industries are linked to construction, and how strongly?
- What are the employment and welfare consequences of the sector's reliance on informal and migrant labour?

1.5. Significance of Study

The study contributes in three ways. First, it brings together literatures on macroeconomics, industrial organisation and labour that are usually read apart, and shows how they bear on a single sector. Second, it grounds the analysis in Indian evidence on housing, macroeconomic trends and construction labour, which gives the propositions local relevance. Third, it offers a framework and propositions that researchers can take to primary or secondary data, together with practical guidance for firms in the cluster, financial institutions and policymakers.

1.6. Scope and Limitations

The study is conceptual. It relies on published literature and official secondary data and reports no primary survey or econometric results. The literature was selected purposively and not through an exhaustive systematic search, so the synthesis is illustrative of the field rather than a census of it. The focus is on residential and general building construction and its immediate supplier industries; large infrastructure such as ports, power and railways is referred to only where the literature treats it together with building construction. The propositions advanced are hypotheses for future testing and not established findings.

II. LITERATURE REVIEW

2.1. Theoretical Foundations

Three theoretical traditions inform the study. The first is the theory of aggregate demand. Keynes (1936) identified investment as the volatile component of demand whose changes are amplified through the multiplier, and construction, as the largest form of fixed investment in most economies, is the principal channel through which this operates. Green (1997) shows empirically that residential investment leads changes in gross domestic product, which supports the treatment of housing construction as a leading indicator. The second tradition is the theory of inter-industry linkages. Leontief (1936) provided the input–output framework for tracing how demand in one industry generates demand in its suppliers, and Hirschman (1958) argued that development strategy should favour sectors with strong backward linkages, since these pull other industries into existence. Porter (1990) later described such demand-linked groups of industries as clusters whose competitiveness is jointly determined.

The third tradition is the theory of surplus labour and migration. Lewis (1954) modelled development as the transfer of labour from a low-productivity traditional sector to a modern sector at a roughly constant wage, and Harris and Todaro (1970) explained rural–urban migration as a response to expected, rather than actual, urban earnings. Construction is the archetypal receiving sector in both models: it requires little formal skill at entry, it is urban and it pays more than agriculture. These theories together suggest that construction matters for commerce through three channels: demand, linkages and labour.

2.2. Construction and Economic Development

The international literature has examined the construction–development relationship for half a century. Turin (1973) found that construction's share of output rises with income up to a middle-income threshold and then declines, a pattern later refined by others. Wells (1986) and Ofori (1990) drew out the policy implications for developing countries, arguing for domestic capacity in materials and contracting so that the demand generated by construction is retained within the economy. Wong et al. (2008) tested the direction of causality for Hong Kong and found that construction activity follows rather than leads the wider economy at a mature stage, which underlines that the relationship differs by stage of development. Giang and

Pheng (2011) conclude their review by calling for research that treats construction's linkages and labour effects, not only its value added. For India, Aswani and Kalluraya (2024) place the sector within the country's macroeconomic trend, in which investment-led growth has been a recurring feature.

2.3. Housing as the Demand Anchor

Housing is the largest component of construction demand and the one most directly connected to household commerce. The Technical Group on Urban Housing Shortage estimated a shortage of 18.78 million dwelling units in urban India for the period 2012–17, concentrated overwhelmingly among economically weaker sections and low-income groups (Ministry of Housing and Urban Poverty Alleviation [MoHUPA], 2012). This shortfall represents latent demand that public programmes, mortgage finance and rising incomes progressively convert into effective demand. Aswani (2024) provides a comprehensive analysis of the Indian housing sector's dynamic and sustainable growth, examining the drivers of expansion and the conditions under which that growth can be sustained. Green's (1997) finding that residential investment leads output implies that housing is not merely a beneficiary of growth but a contributor to it.

2.4. Allied Industries

The backward linkages of construction run to a wide set of industries. Cement and steel are the most visible, but paints and coatings, ceramics and sanitaryware, glass, timber and wood products, electrical fittings, plumbing hardware, construction equipment and logistics all depend on building activity for a large share of their demand. Housing finance, property insurance and real estate brokerage constitute the service side of the cluster. Hirschman (1958) would classify construction as a sector with unusually strong backward linkages and relatively weak forward linkages, since its output is a final good. Porter's (1990) cluster concept adds that the competitiveness of these industries is shaped jointly by demand conditions, supplier quality and rivalry. Ofori (1990) and Wells (1986) stress that where materials must be imported, much of the multiplier leaks abroad, so domestic materials capacity is a precondition for construction-led growth.

2.5. Construction Labour

Construction is the largest employer of non-farm labour in India. The Periodic Labour Force Survey reports that the sector accounts for about 12 to 13% of total employment, and that the overwhelming majority of construction workers are casual or self-employed (MoSPI, 2024). Mehrotra (2019) shows that the movement of workers out of agriculture has gone disproportionately into construction, and that this shift has not reduced informality. Much of the workforce is migrant: Srivastava and Sutradhar (2016) find that migration into construction reduces rural poverty for the households that send workers, while exposing the workers themselves to insecure contracts, poor housing at the worksite and limited access to entitlements, and Deshingkar and Akter (2009) document the circular character of such migration. The International Labour Organization (2001) identified the same pattern internationally, noting the industry's poor image, casualisation and weak skill development. Aswani and Kalluraya (2023) examine labour conditions in the Indian construction sector before and after COVID-19, a period in which the abrupt halt of construction and the return migration of workers exposed the vulnerability of this workforce.

2.6. Research Gaps

Three gaps follow. First, the demand and linkage effects of construction are usually estimated in aggregate, with little attention to the specific industries of the Indian cluster. Second, housing is treated as a real estate or finance topic rather than as the anchor of a wider industrial system. Third, the labour literature documents precarity but rarely connects it to the sector's commercial cycle, even though the two are linked. The framework developed below responds to these gaps.

III. RESEARCH METHODOLOGY

3.1. Research Design

The study adopts an integrative literature review design. Snyder (2019) identifies the integrative review as appropriate where the aim is to combine perspectives from different fields and to generate a new conceptual framework, and Torraco (2005) describes it as a form of research that produces new frameworks through critique and synthesis of representative literature. The design suits a topic that spans macroeconomics, industrial organisation, real estate and labour studies.

3.2. Research Propositions

Because the study is conceptual, it advances propositions for future testing in place of statistical hypotheses:

- P1: Construction investment leads aggregate output in India, and its multiplier effect is larger than its direct share of value added.
- P2: Housing demand, sustained by the urban housing shortage and by mortgage finance, is the principal driver of activity in the construction cluster.
- P3: The output and profitability of allied industries, including cement, steel, paints and building fittings, co-move with construction activity, so that the cluster behaves as a single commercial system.
- P4: Construction absorbs surplus and migrant labour on a scale larger than any other non-farm sector, but predominantly through informal employment.
- P5: Fluctuations in the construction cycle are transmitted disproportionately to informal and migrant workers, so that the welfare cost of downturns is concentrated at the base of the cluster.

3.3. Data Sources and Selection

The review corpus comprises the 24 sources listed in the references. They fall into three groups: (a) foundational theoretical works on aggregate demand, inter-industry linkages, clusters and surplus labour; (b) international studies of construction and economic development; and (c) India-focused studies and official reports on housing, macroeconomic trends, employment and construction labour. Sources were selected purposively on three criteria: direct relevance to at least one research question, publication in a peer-reviewed or institutional outlet, and availability of bibliographic details. No primary data were collected.

3.4. Analytical Strategy

The sources were analysed thematically following the phases described by Braun and Clarke (2006): familiarisation, generation of initial codes, search for themes, review of themes, definition and naming of themes, and reporting. Codes were first derived deductively from the research questions and then refined inductively as recurring ideas emerged. The resulting themes were related to one another to construct the conceptual framework, and each proposition was derived from the convergence of theory and evidence within a theme.

IV. RESULTS

4.1. Overview of the Literature Reviewed

The 24 sources span the period 1936 to 2024. The theoretical works are drawn from macroeconomics, development economics and strategy; the construction–development studies are international; and the contextual sources concern India and include official statistics, an institutional working paper and journal studies of housing, macroeconomic trends and construction labour. Four themes were identified, and they are summarised in Table 1.

Table 1. Thematic Synthesis of the Literature and Derived Propositions

Theme	Core insight from the synthesis	Representative sources	Proposition
Construction as a growth engine	Construction investment is a leading component of aggregate demand whose multiplier and linkage effects run through a wide range of supplier industries.	Keynes (1936); Hirschman (1958); Leontief (1936); Turin (1973); Green (1997); Aswani & Kalluraya (2024)	P1
Housing as demand anchor	Housing is the largest single construction segment; a persistent urban shortage sustains demand, and policy programmes convert latent need into effective demand.	MoHUPA (2012); Aswani (2024); Green (1997); Giang & Pheng (2011)	P2
Allied industries and clusters	Cement, steel, paints, fittings and finance form a demand-linked cluster whose fortunes move with construction activity.	Hirschman (1958); Porter (1990); Ofori (1990); Wells (1986); Wong et al. (2008)	P3
Labour: absorption and precarity	Construction absorbs surplus and migrant labour on a large scale, but mostly informally and with limited protection and skill development.	Lewis (1954); Harris & Todaro (1970); ILO (2001); Srivastava & Sutradhar (2016); MoSPI (2024); Aswani & Kalluraya (2023)	P4, P5

Note. MoHUPA = Ministry of Housing and Urban Poverty Alleviation; MoSPI = Ministry of Statistics and Programme Implementation; ILO = International Labour Organization. Propositions P1 to P5 are stated in Section 3.2.

4.2. Construction as a Growth Engine

The first theme confirms that construction's economic weight exceeds its direct share of output. The multiplier logic of Keynes (1936), the linkage logic of Hirschman (1958) and the input–output accounting of Leontief (1936) all point to the same conclusion, and the empirical work of Turin (1973) and Green (1997) supports it for economies at India's stage of development. The Indian macroeconomic record described by Aswani and Kalluraya (2024) is consistent with an investment-led pattern in which construction has been a persistent contributor. Wong et al. (2008) caution that the causal direction may reverse at maturity, which suggests the relationship should be tested rather than assumed. This grounds P1.

4.3. Housing as Demand Anchor

The second theme identifies housing as the anchor of the cluster. The urban shortage of 18.78 million units (MoHUPA, 2012) is a stock of unmet need that policy, finance and income growth turn into orders for builders and their suppliers. Aswani's (2024) analysis of the sector's dynamic and sustainable growth suggests that this conversion has been under way and that sustaining it depends on affordability, finance and regulatory conditions. Combined with Green's (1997) evidence on the leading role of residential investment, the theme grounds P2.

4.4. Allied Industries and Clusters

The third theme maps the industries that construction pulls along. The literature is consistent that cement, steel, paints, ceramics, fittings, equipment, logistics and housing finance form a demand-linked group (Hirschman, 1958; Ofori, 1990; Wells, 1986), and Porter's (1990) cluster concept provides a way of thinking about their joint competitiveness. Two implications follow for Indian commerce. First, the performance of firms in these industries cannot be forecast without reference to construction activity. Second, domestic capacity in materials is a precondition for retaining the multiplier within the economy. This grounds P3.

4.5. Labour: Absorption and Precarity

The fourth theme concerns the workforce. Construction is the largest non-farm absorber of labour (MoSPI, 2024; Mehrotra, 2019), consistent with the Lewis (1954) and Harris–Todaro (1970) models of labour transfer. Yet absorption has been almost entirely informal, and the workforce is heavily migrant (Srivastava & Sutradhar, 2016; Deshingkar & Akter, 2009). The pre- and post-COVID comparison by Aswani and Kalluraya (2023) shows what this means when the cycle turns: the halt in construction transmitted immediately to workers with no contractual or social protection. The ILO (2001) had earlier identified casualisation and weak skill development as structural features of the industry. These observations ground P4 and P5.

4.6. The Demand–Linkage–Labour Framework

Taken together, the themes yield an integrative framework with three layers. Demand, anchored in housing and supplemented by commercial and public building, is the antecedent. Linkages transmit that demand to the allied industries, so that the cluster's commercial performance is jointly determined. Labour is the base of the system: it supplies the capacity to build, and it bears the cost when demand falls. The five propositions correspond to these relationships. The framework implies that any analysis of one part of the cluster, whether a cement company's sales, a housing finance portfolio or migrant workers' earnings, is incomplete without reference to the others.

V. DISCUSSION

The synthesis supports treating housing, construction and allied industries as a single commercial system. This has consequences for how the sector is studied and managed. For research, it means that sectoral studies of cement, paints or housing finance should incorporate construction activity as an explanatory variable, and that housing policy should be evaluated for its effects on the wider cluster and not on dwellings alone. The leading role of residential investment (Green, 1997) also suggests that housing indicators deserve a place among the early-warning measures used by firms and financial institutions in India.

For firms in the cluster, the central implication is that demand is shared. Building-materials producers, equipment suppliers and lenders face a common cycle, and their planning, inventory and credit decisions should be informed by leading indicators of construction and housing demand. The cluster concept of Porter (1990) further suggests that competitiveness is collective: quality standards, logistics and skills developed in one part of the cluster raise the performance of the rest.

For the workforce, the concern is that the sector's social value as an absorber of labour is undermined by the conditions under which it absorbs. The evidence reviewed shows that construction workers gain relative to agriculture (Srivastava & Sutradhar, 2016) but remain informal, mobile and exposed (Mehrotra, 2019; Aswani & Kalluraya, 2023). Lewis (1954) assumed that labour transfer would eventually raise wages and formalise employment as the surplus was exhausted; the Indian experience suggests that this transition is not automatic and requires institutional support in the form of registration, portable social security and skill certification.

VI. RECOMMENDATIONS

6.1. For Firms in the Construction Cluster

- Incorporate housing starts, approvals and mortgage disbursements into demand forecasting for building materials, fittings and equipment.
- Develop cluster-level cooperation on quality standards, logistics and skills, since the competitiveness of allied industries is jointly determined.
- Invest in the formal engagement, training and site welfare of workers as a matter of productivity and resilience, not only compliance.

6.2. For Financial Institutions

- Treat housing finance and lending to allied industries as exposures to a common cycle, and manage concentration accordingly.
- Expand affordable housing finance for lower-income groups, where the shortage and the latent demand are greatest.

6.3. For Policymakers

- Evaluate housing programmes for their multiplier and linkage effects on allied industries and employment, not only for units completed.
- Strengthen registration, portable social security and skill certification for construction workers, especially inter-state migrants.
- Support domestic capacity in building materials so that the demand generated by construction is retained within the economy.

VII. CONCLUSION

This conceptual review has argued that housing, construction and their allied industries should be understood as a single demand-linked system at the centre of Indian commerce. Drawing on foundational theory, international evidence and India-focused studies and reports, it identified four themes and integrated them into a Demand–Linkage–Labour framework with five propositions. Construction investment leads and multiplies output; housing anchors the cluster's demand; allied industries move with construction activity; and the sector absorbs labour on a large scale but informally, so that downturns fall hardest

on its workers. The study is limited by its conceptual nature and its purposive selection of literature. Future research should test the propositions with input–output data for India, with firm-level data from allied industries and with longitudinal data on construction workers across the cycle.

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