

4 INDUSTRIAL DEVELOPMENT IN KARNATAKA- PAST, PRESENT AND FUTURE

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Abstract

India's rise in recent years is a most prominent development in the world economy. India has re-emerged as one of the fastest growing economies in the world. India's growth particularly in the manufacturing and services sectors has boosted the sentiments, both within country and abroad. This article traces the industrial development in Karnataka by analyzing the past present and future growth of the industrial sector.

Introduction:

Industrialization is considered as a central dynamic force around the world for the development of an economy. During the last few decades Indian economy, which was in a resilient mode has shown moderately encouraging performance on industrial front. However, different studies indicate that still the overall industrial development is lacking efficiency and productivity. India has made considerable economic progress since its Independence. Most noticeable are the expansion and diversification of production both in industry and agriculture. New technologies were introduced in many industries. Industrial investment took place in a large variety of new industries. With an upsurge in investment and robust macroeconomic fundamentals, the future outlook for India is distinctly upbeat. According to many commentators, India could unleash its full potentials, provided it improves the infrastructure facilities, which are at present not sufficient to

meet the growing demand of the economy. Failing to improve the country's infrastructure will slow down India's growth process. Therefore, Indian government's first priority is rising to the challenge of maintaining and managing high growth through investment in industries and also to earn more foreign exchange through more export.

Significance of study

There have been a number of causes behind growth of Indian economy in last couple of years. A number of market reforms have been instituted by Indian government and there has been significant amount of foreign direct investment made in India. Much of this amount has been invested into several businesses including knowledge process outsourcing industries. India's foreign exchange reserves have gone up in last few years. Real estate sector as well as information technology industries of India have taken off. Capital markets of India are doing pretty well too. All these factors have contributed to growth of Indian economy.

Economic policy in post-independence India was strongly influenced by the idea that there is high degree of correlation between the extent of industrialization in an economy and its economic development. A natural corollary was that developing countries should embark upon the path of industrialization in order to get rid of their economic problems. Industrialization ensures a rise in national income and standard of

living by more extensive and intensive utilization of the productive resources, increasing the productivity of an economy, increasing gainful employment opportunities and making available basket of goods and services at large scale. Karnataka is considered a pioneer in the field of industrialization in India. The state has been in the forefront of industrial growth of our country since independence. In the era of economic liberalization since 1991, the state has been spearheading the growth of Indian industry, particularly in terms of high-technology industries such as Electrical and Electronics industries, Information & Communication Technology (ICT) industries, Biotechnology industries and more recently in terms of Nanotechnology industries. However, the industrial structure of Karnataka presents a blend of modern high-tech capital goods and knowledge intensive industries on the one hand and traditional consumer goods industries on the other. Given this, this article throws light on the industrial growth of Karnataka in 2010-11 as well as the industrial policy initiatives taken by the government, among others.

Trends in Industrial Production

India has witnessed the development of a strong and diversified industrial base since independence. The growth of industrial sector has opened a lot of opportunities for people aiming at increasing the avenues for employment, decreasing the social and economic disparities and achievement of self-reliance. However, there is a long way to go to ensure that these objectives are met fully. Yet, the growth of industrial sector has ensured organizations a platform where competitive forces decide the fate of organizations. Market forces like competition, customer, suppliers etc. have forced organizations to remain competitive or otherwise perish. As a result of which organizations are increasingly undertaking endeavors to cut costs and improve profitability to contribute to industrial growth.

The industrial sector of Karnataka can be broadly classified into organized and unorganized. The growth of organized industrial sector is measured by means of Index of Industrial Production (IIP) and industrial statistics from Annual Survey of Industries (ASI). Both are compiled and published by the Central Statistical Organization (CSO), Ministry of Statistics and Program Implementation, Government of India. The IIP (Quarterly/Annual) is also compiled by the Directorate of Economics and Statistics. It is an abstract number, the magnitude of which represents the status of production in the industrial sector for a given period of time as compared to a reference (base) period of time. The current reference (base) year for IIP is 1999-2000. IIP is compiled and published on a quarterly basis. The scope of IIP is confined to mining, manufacturing and electricity sub-sectors of organized industrial sector. Therefore, IIP has been one of the key lead indicators of industrial growth on a current basis.

Karnataka is one amongst the industrially developed states in the country. The State has been focusing on development of industries, trade and service sectors. In order to make the State more attractive and investor friendly, investment promotion policies and programmes have been aimed at more inclusive industrial development, comprehensive HRD programmes, special attention towards development of sector specific zones, backward taluks. The current Industrial Policy 2009-20 of the Government of Karnataka is a reflection of these broad aims for promotion of industrial investment and development in the State through various fiscal and financial incentives, concessions and exemptions, such as, capital investment subsidy, exemption of electricity duty on captive power generation, exemption of stamp duty & reduction of registration charges, waiver of conversion fee (on lands converted for industrial use), acquisition and allotment of land through KIADB, subsidy for setting up of Effluent Treatment Plants (ETPs), entry tax & special entry tax concessions,

technology up gradation, industrial infrastructure development/common infrastructure/facilities in notified industrial clusters, agriculture produce processing industries – exemption of APMC cess, incentives for Export Oriented Enterprises under medium, small and micro enterprise, large and mega projects, interest free loan on VAT for large and mega projects, anchor unit subsidy, special incentives for enterprises coming up in low HDI districts only for large and mega projects, interest subsidy for micro manufacturing enterprises, exemption from electricity duty for micro and small manufacturing enterprises and refund of cost incurred for preparation of project reports .

Review of Literature

Literature survey was done to explore area of research already made in the relevant field so that it lays a foundation of knowledge already available in the field. This would help to identify the possible gaps where research is needed and will permit the present study in hypothesizing links. Therefore this part of the study deals with the studies already conducted by different research followers. The somewhat hesitant mid 1980s liberalization has not come under much scrutiny. **Chand and Sen (2002)** find significant increase in total factor productivity growth. **Basant (2000)** provides an analytical narrative of corporate responses to the reforms of 1991. Multinational Enterprises (MNEs) offered significant competition to domestic incumbents, engaging in mergers and acquisitions to enter Indian markets. In response, domestic firms were vigorous in attempts to restructure and consolidate in chosen areas. **Patibandla (2002)**, in turn, argues that domestic firms clearly needed to improve organizational and technical efficiency to survive, while MNEs needed to invest in building local distribution networks. **Chandra and Sastry (1998)** report the results of a survey that found firms making significant attempts to upgrade manufacturing capability. More firms came to rely on imported technology, and a larger number of

firms embarked on export based growth paths. **Ghemawat and Kennedy (1998)** examine the market structure impact of sudden and simultaneous liberalization in Poland along many fronts - the “big bang” of 1 January, 1990, including foreign trade, FDI, prices, and regulations relating to entry, exit and factor markets.. They highlight the disequilibrium dynamics: the need to note distortions in pre-shock structure and the lags in adjustment to new equilibrium after the reforms.

Objectives of the study

There is no denying the fact that industrialization is of utmost importance to the developing economies like ours for solving the problems of economic backwardness. To achieve meaningful industrial development in the state, different governments right from the beginning have taken various initiatives from time to time. The question lies in how far these initiatives have succeeded in enabling the state to achieve the desired economic transformation on the lines of industrialized economies. This article attempts to answer this question by analyzing the industrial growth and development achieved by the state so far and to examine the pattern of the investment & export growth in Karnataka from an historical perspective and to identify the various challenges faced by the sector. Required data has been collected from economic survey of Karnataka.

The specific objectives of the study are:

1. To Review the Index of Industrial Production in Karnataka,
2. To study and analyse the Investment Flows into Karnataka and
3. To study and analyse the pattern of Exports from Karnataka.

Database and Methodology

The present study is based on the secondary sources of data which has been collected through the published source viz. Economic Survey of India and as well from various journals, periodicals, news papers, magazines and from different web sites.

Data Analysis and Interpretation

Investment is the creation of capital. It is an important determinant of national and State level economic growth. Consequently, promotion of domestic investment and attraction of foreign investment have occupied key elements of India's national and regional growth policies.

Following parameters have been identified to study and analyze the Investment and Export trends in Karnataka state.

1. Index of Industrial Production of Karnataka.
2. Selected Key indicators of Registered Factories: Karnataka & All-India
3. Important Indicators per Factory
4. Projects Approved by State Level Single Window Clearance Committee
5. Projects Approved by State High Level Clearance Committee
6. Foreign Collaborations in Karnataka
7. Export Performance of Karnataka State

Table-1

Index of Industrial Production of Karnataka Base Year: 1999-2000

Sector	Weight	2007-08	2008-09	2009-10
Mining	41.3609	224.60 (17.81)	241.22 (7.40)	332.76 (37.95)
Manufacturing	785.7083	158.71 (7.76)	167.45 (5.51)	181.63 (8.47)
Electricity	172.9308	146.22 (6.23)	146.33 (0.08)	169.43 (15.78)
General Index	1000.000	158.98 (7.35)	166.85 (4.72)	185.77 (11.34)

Source: Economic Survey of Karnataka 2010-11

A perusal of Table-1 reveals that the general Index of Industrial Production (IIP) of Karnataka covering mining, manufacturing and electricity sectors for 2009-10 stood at 185.77 (with base 1999-2000 =1000). The overall organized industrial sector of Karnataka registered an impressive double-digit growth of 11.34% in 2009-10 compared to the earlier two years: 7.35% in 2007-08 and 4.72% in 2008-09. Within the organized industry, mining sector registered the highest growth of 37.95% followed by electricity (15.78%) and manufacturing (8.47%). All the three sectors of organized industry have registered a higher growth in 2009-10 compared to 2007-08 and 2008-09. Further, though the mining sector has registered a very high growth of 37.95%, it accounts for a meager 4.1% weight in IIP whereas electricity sector with a weight of 17.3% grew by almost 16% and the manufacturing sector grew by just 8.47% but accounts for the highest weight of about 78.6%. Therefore, the overall industrial growth of the three sectors is moderated at 11.34% for 2009-10.

Table-2**Selected Key indicators of Registered Factories: Karnataka & All-India**

Particular	2006-07			2007-08		
	Karnataka	India	% Share	Karnataka	India	% Share
Industries(No)	7,602	1,44,710	5.25	8,089	1,46,406	5.53
Fixed Capital	49,754	7,15,092	6.96	59,967	8,44,995	7.10
Working Capital	9,284	2,82,238	3.29	12,392	3,17,345	3.90
Total Output	1,62,746	24,07,658	6.76	1,84,258	27,72,656	6.65
Total Input	1,26,864	19,48,332	6.51	1,44,720	22,25,509	6.50
Gross Value Added	35,882	4,59,326	7.81	39,537	5,47,147	7.23
Net Value Added	31,295	3,94,871	7.93	34,658	4,75,928	7.28
Profits	19,770	2,40,570	8.22	21,079	2,91,913	7.22

Source: Economic Survey of Karnataka 2010-11

Table-2 reveals that Karnataka accounted for 5.53% of the total registered factories in 2007-08 in the country. The contribution of registered factories of Karnataka stood at 7.10% of total fixed capital, 6.65% of total output, and more than 7% of Gross Value Added in the same year. The share of Karnataka in total registered factories and total investment (fixed capital as well as working capital) has gone up in 2007-08 compared to 2006-07. However, the relative contribution of Karnataka's registered factories to industrial performance (of All-India) in terms of total output, gross and net value added and profits has declined marginally during the same period.

Table-3 gives an idea of important indicator per factory for the year 2006-07 and 2007-08. Karnataka compares favorably with All-India in terms of all the indicators – per factory - investment, employment, output and gross value added. Though registered factories of Karnataka, on an average, are more capital intensive than that of All-India, they are at the same time, more employment intensive and generated more value added as well as output.

Table-3**Important Indicators per Factory**

Indicator	Units	2006-07		2007-08	
		Karnataka	India	Karnataka	India
Investment in Fixed Capital	Rs. Lakh	654.50	494.20	741.30	577.20
Employment	No's	93	54	89	56
Value of Output	Rs. Lakh	2140.80	1663.80	2277.90	1893.80
Gross Value Added	Rs. Lakh	472	317.40	488	373.70

Source: Economic Survey of Karnataka 2010-11

Table-4**Projects Approved by State Level Single Window Clearance Committee**

Year	Approved Projects	Investment (Rs. Crores)	Employment (In lakh)
2000-01	292	4557.88	138204
2001-02	103	2042.92	46007
2002-03	95	1832.97	32072
2003-04	164	3893.47	111405
2004-05	202	4527.76	109028
2005-06	297	6786.57	292309
2006-07	881	11923.65	731750
2007-08	728	10309.92	349665
2008-09	310	5181.63	135623
2009-10	363	7836.74	116839
2010-11 (Up to Dec 2010)	378	6087.37	102606
Total	3813	64967.88	2165508

Source: Economic Survey of Karnataka 2010-11, Karnataka Udyog Mitra, Bangalore

Table-5**Projects Approved by State High Level Clearance Committee**

Year	No. of Projects	Investment (Rs. Crores)	Employment (In lakh)
2000-01	88	38345.82	109863
2001-02	21	5975.40	30702
2002-03	07	1130.82	9302
2003-04	26	10263.61	99613
2004-05	29	31718.05	130642
2005-06	55	43993.19	588259
2006-07	65	90255.84	772966
2007-08	108	160522.82	1996504
2008-09	50	105266.20	410842
2009-10	110	288548.57	28434
2010-11 (Up to Dec 2010)	130	146566.89	462896
Total	689	922587.21	4896223

Source: Economic Survey of Karnataka 2010-11, Karnataka Udyog Mitra, Bangalore

Table-4 and Table-5 reveals that, for the current year, up to December 2010, the State Level Single Window Clearance Committee (SLSWCC) has approved 378 projects with an investment of Rs.6087.37 crores, generating employment potential of 1.03 lakhs. Further the State High Level Clearance Committee (SHLCC) has cleared 130 projects with an investment of Rs.146566.89 crores, generating employment potential of 4.63 lakhs persons

Table-6**Foreign Collaborations in Karnataka**

Sl No	Particulars	2008-09	2009-10
1	No. of Cases	194	179
2	FDI involved	9143	4852

Source: Economic Survey of Karnataka 2010-11, Karnataka Udyog Mitra, Bangalore.

Table 7
Export Performance of Karnataka State

Sl.No.	Commodity	Value of Exports (Rs. in crores at current prices)		
		2007-08	2008-09	2009-10
1	Electronics, Computer Software & BT	69517.5	82153	90734.6
2	Readymade Garments	4125	5395	5125
3	Petroleum & Petroleum Products	11232	11642	110414
4	Engineering Products	8301	6185.99	4386.57
5	Iron Ore & Minerals (incl. Granite)	10197	7274.77	4692.97
6	Silk Products	91212	896.87	701.56
7	Coffee Products	1307.6	1579.05	1423.1
8	Basic Chemicals, Pharma and Cosmetics	2069.76	2530.64	2760.91
9	Agriculture and Processed Food Products	415.51	712.34	662.57
10	Gem and Jewellery	9749	10892.7	17409.3
11	Cashew and Cashew Kernals	527.05	638.48	644.18
12	Handicrafts	428.36	42.93	257.27
13	Leather Products	201.28	213.9	193.97
14	Chemicals and Allied Products	399.28	456.87	311.25
15	Marine Products	153.46	236.21	412.27
16	Plastic Goods	215.25	265.77	327.09
17	Spices	245.15	479.25	381.73
18	Wool & Woollen Products	147.59	153.25	144.39
19	Miscellaneous and Others	2559.52	2120.39	1261.29
	Total	122703	134255	142871.41
	Karnataka's share in all India exports	15	12.77	13.33
	Karnataka's degree of openness to export trade (%)	45.3	44.3	42.55
	India's degree of openness to export trade (%)	18.01	20.11	18.51

Source: Visveswarayya Industrial Trade Centre, Government of Karnataka,

A perusal of Table-6 states that the Foreign Direct Investments (FDI) inflows to Karnataka stood 3rd in India after Maharashtra and Gujarat. Karnataka continues to be a favorite destination for foreign direct investment (FDI) in the country. State attracted Rs. 9143 crores, during 2008-09 and further attracted Rs.4852 crores during 2009-10.

Economic Survey of Karnataka 2010-11,

Table-7 reveals that the Karnataka's contribution to total exports of India has varied between 13 percent and 15 percent. Further, Karnataka's share in India's total exports of information and communication technology products has remained higher than 25 percent since 2005-06. Higher export performance is an important determinant of increasing degree of openness to export trade. Degree of openness is measured by the ratio of value of exports to GDP at national level and by the ratio of value of exports to GSDP at State level. Karnataka's degree of openness to export trade has been about 44 percent during 2007-08 to 2009-10. This is remarkably higher than at all India level (about 19 percent). Increasing degree of openness to trade is an indicator of economic globalization. From this viewpoint, levels of Karnataka's economic globalization have been higher than at all India level. Karnataka's exports amounted to about Rs.142871.41 crores which constituted about 13.3 percent of the country's exports. Karnataka enjoys a unique position in India in exports of Electronics and Computer Software. In 2009-10, the exports of Electronics and Computer Software from the State accounted for as much as 40 percent of the India's total exports. Other commodities from the State accounted for 6 percent of the exports at all India level.

Conclusion

India is an emerging economy which has witnessed unprecedented levels of economic

expansion, alongside China, Russia, Mexico and Brazil. India is a cost effective and labor intensive economy, and has benefited immensely from outsourcing of work from developed countries, and has a strong manufacturing and export oriented industrial framework. The key global trends that are changing the global competitive context and therefore the possibilities for developing countries include: increasing speed in the creation and dissemination of knowledge; trade liberalization, globalization, and physical disintegration of production; increased importance of integrated value chains; increased role of MNCs in production and distribution and changing elements of competition. The increased importance of new technology can be seen in the increasing variety of goods and services produced. This can be appreciated in the increasing importance of manufactured products and services in trade. The challenge for developing countries is therefore to determine how best to be open to international competition while at the same time nurturing the development of their own production capabilities. If they liberalize too early, they run the risk of having their domestic industries

As per India economic review, Indian economy has been among one of leading performers in global economic scenario. However, there have been a couple of problems like inflation that have offset progress of Indian economy in recent times. Karnataka state has been experiencing high growth rates in recent decades in the GSDP. Karnataka is one of India's fast growing State's with a vast and diversified base. Apart from nurturing the globally recognized Silicon Valley of India-Bangalore-the State has emerged as a reputed investment destination for investors worldwide. In the Report of the World Bank on, 'Investment Climate across 16 states Karnataka has been ranked No.1 in investment climate. The State was the first to bring the industrial facilitation act to investors. Karnataka has a single window which acts as a one stop shop for investments in the State.

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