

State Business Relations and Performance of Manufacturing Sector in Karnataka

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Abstract: *Industrialization is both a policy and a process. It is a policy in the sense that the business groups in a given society, based on its calculations of the market conditions, government regulations and societal conditions decide either in favor of or against such a move. It is a process in the sense that business groups, in its venture towards industrialization tend to constantly interact with various organizations, in fact, economy itself is embedded in civil society. The government and business groups are organizations functioning in an autonomous fashion - if one operates within the institutional framework of market the other is concerned with establishing the rules of the game through which differences would be managed and stability would be assured. It is against this background that it becomes highly essential to understand the nature and status of industrial development in the state of Karnataka with respect to the state's policy incentives or disincentives. Further, we intend to concentrate on the role of the government in initiating the processes of reinventing the industrial sector in general and the manufacturing sector in particular. The paper focuses on both secondary and primary data to look into the process of industrialization. The secondary data traces the development of the manufacturing sector since independence and the primary data aims to study the kind of relationship that exists between the state and the businesses.*

Key Words: *policy, economy manufacturing sector, industrialization ,services*

1. INTRODUCTION:

Industrialization is both a policy and a process. It is a policy in the sense that the Business groups in a given society, based on its calculations of the market conditions, government regulations and societal conditions decide either in favor of or against such a move. It is a process in the sense that business groups, in its venture towards industrialization tend to constantly interact with various organizations such as the government, trade unions, economic organizations and also the members of the civil society – in fact, economy itself is embedded in civil society (Moran, 2006). Broadly speaking, we can identify two major actors or players who play important roles in the industrialization processes of the state – the Government and the business community. We call them organizations as they are characterized by recognized principles of sovereignty, exclusiveness and command structures of their own (Leftwich, 2006). Nevertheless, they are controlled in their activities by the institutional framework, consisting of rules, norms and conviction, within which they are expected to operate. It is against this background that it becomes highly essential to understand the nature and status of industrial development in the state of Andhra Pradesh with respect to the state's policy incentives or disincentives. Further, we intend to concentrate on the role of the government in Karnataka, in initiating the processes of reinventing the industrial sector in general and the manufacturing sector in particular. The policy of re industrialization and re-emphasis on manufacturing assumed importance as the probable response to certain critical conditions – such as increasing inequality, massive poverty, rising unemployment and declining quality of life for a large number of people and so the crucial question: can the state in post-colonial societies play a significant role in the processes of economic development as it did historically in the development of the now advanced countries (Polyani, 1957; Gerschenkron, 1962), while simultaneously projecting its image as pro-people and pro-poor (Basu, 1991). Thus the obvious question is what is the role of the state in the dynamics of the manufacturing industries in Andhra Pradesh? This raises certain issues such as:

1. How does the change take place?
2. How does the state initiate a policy which appears to be pro-business?

Given these issues, the central objective of this paper is to enquire into the interrelationship between the government and business and how it affects manufacturing sector in the state of Karnataka.

2. DATA AND METHODOLOGY:

In order to capture the performance of the manufacturing sector in karnataka, we have to look mainly at two crucial variables relating to this sector such as employment and output. National Accounts Statistics (NAS) published

by the Central Statistical Organization (CSO) provide time series data for net state domestic product (NSDP) in terms of broad industrial classifications at the single digit level. From this source, it is easy to get the output figures at the state level. The total employment figures are available in the Economic Tables of the Decennial Census.

The period for analysis chosen for studying the output variable is 1980-81 to 20015-16. Currently, the data for state domestic product (SDP) are available in 1980-81 prices for the period 1980-81 to 1997-98. Another series is available from 1993-94 onwards till 2014-15 in 1993-94 prices. In order to get continuous data researchers have converted the data with 1980-81 as base to conform to 1993-94 prices (Bhattacharya *et al*2004). However, the definitions used in constructing the 1993-94 wholesale price index are considerably different from those used for the construction of the index numbers with 1980-81 as base. As this difference of definitions can influence the numerical values to a considerable extent, it was decided not to combine the two series (Chakravarty and Alivelu, 2009). Since our objective is to look into the performance of the manufacturing sector; we decide to narrow down our focus. The data set for the registered manufacturing sector is provided by the Annual Survey of Industries (ASI) published by the CSO. The wholesale price index numbers with 1981-82 as base for the first period were used for deflating the net value added and the emoluments. We have deflated the fixed capital figures by a composite index of electrical and non-electrical machinery. In order to calculate the trend growth rates we have fitted a semi-log equation. Apart from the secondary data, this paper also draws its evidence from exhaustive field work completed in four research sites in Karnataka (Sanathnagar, Jeedimetla, Gajularamaram and Nacharam). The data was collected in two visits during December 2008 and February 2009. This study relies on a detailed and exhaustive set of interviews with the entrepreneurs of the manufacturing sector.

The sampling method adopted for the field work is as follows: We concentrate on the organized manufacturing only. The problem we have in hand is to (a) classify the sectors and then to (b) classify the firms.

a) ASI classifies the sectors under manufacturing at the two digit, three digit and in some cases even at the four digit level. We propose to take up the relatively broader classification following the two digit level. We first classified the sectors on the basis of labor capital ratio. For the sake of convenience we considered only the latest year. The sectors will be classified in terms of labor capital ratio as high (H) and low (L) taking the state manufacturing sector average labor capital ratio as the dividing bar. (b) Secondly the sectors were again classified by their levels of total factor productivity as high (H) and low (L) taking the manufacturing sector average for the state as a whole as the benchmark. This two way classification gives us a four fold classification of all the sectors such as HH, HL, LH and LL. From these four fold classifications we can possibly choose those sectors which constitute at least five per cent of the total manufacturing net value added of the state. This way of classifying the sectors is likely to ensure sufficient contrast for comparison. Finally we categorized the sectors based on TFP and labour capital ratio as High-High; High-Low; Low-High and Low-Low. Based on the percentage share of net value added and the above specified methodology the sectors that we selected in Karnataka are Manufacture of Food Products and Beverages (15); Manufacture of Machinery (29); Manufacture of Chemical and Chemical Products (24), Manufacture of Basic Metals (27); Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel (23) (c) The second task ahead of us was to decide the criteria of selecting firms within the selected sectors. This is a more difficult task as the details about the firms under each sector may not be readily available. However, this problem was sorted out by classifying the firms based on the size in terms of employment and age in terms of year of establishment.

The questionnaire administered to the entrepreneurs concentrated on broad issues like the performance of the firm, the kind of relationships that exists between the management and the workers, state and firm and finally the firm and the business associations. The interview information is complemented by macroeconomic data at the state level.

3. Interaction of institutions and organizations in determining Manufacturing activity

In the subsequent sections we make a longitudinal analysis of Karnataka's state business relationship with regard to the manufacturing sector and highlight the first phase (from independence to early seventies) where the state government has not paid much attention to the industry sector. In the second phase from early seventies to early eighties, the government focused on industries in the public sector. The third phase is from 1980-81 to 2015-16 which talks about the pre-industrial policy regime and postindustrial policy regime in the state of Karnataka. It is during this phase that the first industrial policy of the state was initiated in 1992.

3.1 Phase I (Period: From Independence to Early Seventies)

At the time of independence, in Karnataka, there were 60 large firms with an investment of Rs 143 crore, 1529 small firms with a total investment of Rs 10 crore and an employment in industry of 133,000 workers in the Karnataka state. The Karnataka State Industrial Development Corporation Ltd. (KSIDC) was set up in 1960 with the objective of promoting rapid industrialization in the state. The Karnataka Small Scale Industrial Development Corporation Ltd. (KSSIDC) was established in 1961 to promote the interests of small scale industry. The Karnataka industries Development Corporation Ltd. (KIDC) and the Karnataka Industrial Infrastructure Corporation Ltd. (KIIC) were set up in 1968 and 1973 respectively. The Karnataka State Financial Corporation (KSFC), started in 1951, is

another important body In the 1960s, the only industrialization that we see in Karnataka was largely due to the initiative of the central government. During this period, the central government made considerable investment in industry in the state and large public enterprises were set up. Despite the above initiatives pursued by the government of Karnataka, table 1 reveals the comparative manufacturing sector backwardness of Karnataka in 1964 in relation to some of the more important states in India.

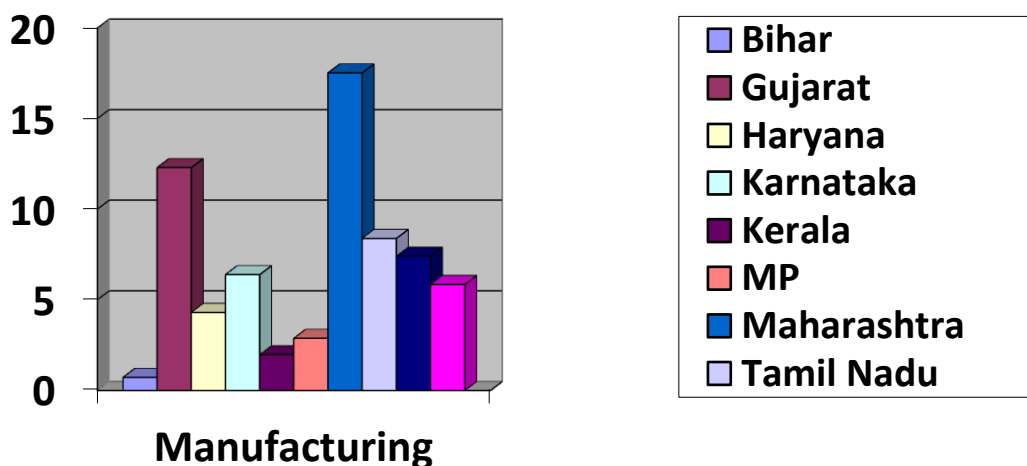
Table 1: Productive capital, employment, gross output and value added in select few states in 1964 (percentage

State	Gross Productive capital	Employment	output	Value added
Maharashtra	17.29	19.83	24.11	25.62
West Bengal	19.65	22.00	21.77	22.29
Madras	7.74	8.39	8.18	8.51
Gujarat	6.47	8.63	8.30	7.97
Bihar	6.98	5.58	6.70	6.98
Uttar Pradesh	7.25	7.33	6.92	5.89
Karnataka	4.00	5.00	3.50	3.00
Total for seven states	69.38	76.76	79.48	80.26

Source: Karnataka statistical dept - GOK -1968

Karnataka stands last amongst the seven states in terms of percentage share of productive capital, employment, gross output and value added. This slow growth in

industries till mid-sixties can be attributed to the industrialization in Karnataka primarily confining itself to agro-processing industries. But, thereafter, shifts have been taking place towards foot-loose type products based on imported inputs from other regions producing for national markets (Rosen, 1988; Reddy, 1989). Further, from mid-1960s onwards, some of the wealthier inhabitants of the state have been turning from agriculture to industry. It so happened that these larger entrepreneurs are also well connected politically with various groups in the state (Rosen, 1988). A scheme of incentives for setting up of industrial units was first introduced in the state in 1966. The scheme was made more attractive in 1969. The Central Investment Subsidy Scheme introduced in 1970 covered 14 districts.



3.2 Phase II – Early Seventies to Early Eighties

As can be seen from the above analysis, it is the Central Investment Subsidy Scheme introduced in 1970 that paved the way for industrialization in the state of

Karnataka. After a review of the state incentive scheme, it was revised in 1976. This led to the structural diversification within the manufacturing sector during the seventies. As Surrender (1990) argues, though a few traditional agro-based industries such as food products, tobacco and tobacco products etc. still dominate the industrial economy of the state, their relative importance, however, has declined significantly since the mid seventies in favor of modern high-tech industries such as chemical and chemical products, electrical machinery, basic metal and alloy industries, cement etc. The growth was not only capital intensive, but also there was an increase in the capital intensity of individual industries, because of technological development and the mechanization of production processes within them. The capital intensive growth was the result of the massive investments made in the centrally owned public sector undertakings in the state.

The changes in the sectoral income shares over a period of time are indicative of above structural changes taking place in the state of Karnataka (Table 2).

Table 2: Sectoral income shares in AP economy: 1970-71 and 1982-83 at 1970-71 prices.

Sector	1970-71	1982-83
Primary	56.38	49.26
Manufacturing	8.77	10.56
Registered manufacturing	4.12	5.46
Unregistered manufacturing	4.66	5.10
Secondary	13.43	16.23
Tertiary	29.40	34.51

Source: Karnataka Statistical Abstract, Gok Bangalore

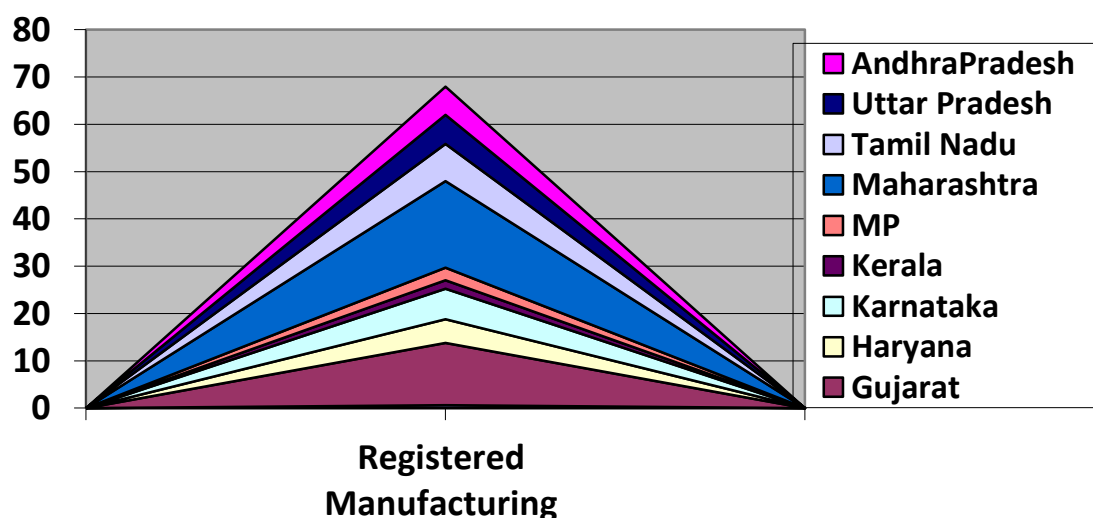
3.3 Phase III: Early Eighties to Mid 2000

Did the industrial growth sustain itself in the eighties too? To answer this question, we consider phase III. In this phase, we make an attempt to look into the performance of manufacturing sector and the role of industrial policy in the process of economic development of the state. To understand the kind of state business relations that exist in the state, we consider the initiation of industrial policies as the major step towards this direction. In Karnataka, the first industrial policy was brought out in 1992, the second one for the period 2001-2005 and the third one for the period 2005-2010. The entire phase will be divided into two periods, first period from 1980-81 to 1992-93 (pre-industrial policy regime) and the second period from 1993-94 to 2004-05 (post-industrial policy regime). Before 1992, though there was no formal industrial policy, the government issued a large number of Government Orders (GOs) based on central industrial policies to facilitate the process of industrialization in the state.

3.3.1 Patterns of Output in the Manufacturing Sector

In order to examine the progress of manufacturing sector in the state, let us look into the percentage share of manufacturing SDP (registered and unregistered) in Comparison to other states (table 3). Karnataka's share in registered manufacturing stands at sixth position in terms of its percentage share in manufacturing output in the country in 2004-05. The rank is the same for both registered and unregistered sectors as well.

States	Manufacturing	Registered Manufacturing	Unregistered Manufacturing
Bihar	0.72	0.62	0.93
Gujarat	12.29	13.16	10.56
Haryana	4.30	5.01	2.89
Karnataka	6.38	6.45	6.24
Kerala	1.97	1.79	2.33
MP	2.87	2.66	3.29
Maharashtra	17.52	18.29	15.98
Tamil Nadu	8.38	7.87	9.39
Uttar Pradesh	7.40	6.14	9.90
Andhra Pradesh	5.84	5.96	5.59



4. CONCLUSIONS:

In this study, we deal with the aspect of institutional quality – the effectiveness of the relation between the state and the business sector, and how this plays an influential role on the manufacturing sector in Karnataka. For this argument, we made an analysis of both the secondary and primary data. Our secondary data analysis reveals that while there is a clear increase in the percentage share of SDP from registered manufacturing sector, the rate of growth in manufacturing as well as services is low when compared to all India during the period 1980-81 to 1992-93. However, the gap between the rate of growth of services in the state of Karnataka and all India is less when compared to the other sectors indicating the possibility that in Karnataka economy, the tertiary rather than the secondary sector has become the engine of growth. One of the major sources of the high growth of services in SDP has been the recent emergence of the IT sector in Bangalore urban district. The rate of growth of unregistered manufacturing registered an increase in the post-industrial policy regime shows the favorable attitude of the government towards this sector. Our primary survey analysis shows that out of the various services provided by the business association, providing information on government regulations is the most useful for the firm. Incidentally, we find that joining a business association is particularly useful for the large and medium scale firms. The survey clearly brings out the fact that the apex business organization, With respect to the firm's perceptions about the various facilities, such as roadways, power, water and telecommunications provided by the government, majority of the firms are satisfied with the facilities provided by the government. Both the secondary and primary data reiterate that there exist cordial relation between the management and the labor leading to the conclusion that there is no industrial unrest in the state. Overall, our findings support the view that organized private sector and effective state business relations are helpful for firm performance. Thus, to conclude, SBRs have assumed more significance in the state of AP playing a positive role. The SBRs in the state will become more meaningful if the small firms are also promoted on par with the large and medium scale firms.

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