



Revival of Industrial Sector in Karnataka during Covid-19 – A Doing Business Approach

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Background

Karnataka was the first state to introduce a state specific Industrial policy from the year 1983, the first to formulate a state level export promotion policy (Pradhan et al, 2012), and being the aerospace hub; it was also the first state to come out with a ten year specific Aerospace Policy for the years 2013-2023, a Pharmaceutical Policy for the year 2012, and one of the first to release a Start-up policy for the year 2015-2020. Karnataka has been recognised as one of the states with the highest number of start-ups; 14.6 percent of all recognised start-ups in India came from Karnataka, second after Maharashtra (18.9 percent) (Economic Survey 2019-20). Karnataka state's industrial policies over the years have aimed at diversifying the state's industrial sector through incentives and setting up institutions for the development of sectors including textiles and garments, automobiles, bio-technology, mining and so on, which led to the state attracting as much as 65 percent of total investment in India's aerospace in 2018, made it India's 4th largest automobile manufacturer, 5th biggest exporter of pharmaceuticals and contribute to a third of biotechnology exports (Govt. of Karnataka, 2018). Karnataka is also the garment capital of India contributing to nearly one-fifth of the country's total output in this sector.

Despite such a strong policy in place, the industrial sector of the state lag far behind. Out of the top five industrialised states, Karnataka increased its contribution to India's industrial GVA from 4.8 to 6.3 percent over 28 years, but it is less than half of Maharashtra (Table 1). With respect to industrial sector contribution to the respective states' total GDP, Gujarat's industrial sector contributed to 44 percent of the state's total GDP for 2016-17, followed by Tamil Nadu (33), Maharashtra (30), Uttar Pradesh (27) and Karnataka (25). Data over 28 years show that the industrial sector has generally contributed

less than 30 percent of Karnataka's GDP (Figure 1), peaking at 31.6 percent in 2006-07, while that of the service sector has been increasing, in part due to the over emphasis of incentives towards the development of the IT sector, given that Karnataka ranks first in IT exports and Bengaluru, the capital has the 4th largest technology cluster in the world (Govt. of Karnataka, 2018). Further, despite the state industrial policy proposing to increase the number of industrial areas and industrial parks, industrial development in the state is concentrated in few districts; in 2013-14, 81 percent of the total income from manufacturing was generated from just nine of the total 30 districts. 59.6 percent of manufacturing income was generated only from the Bangalore urban and rural districts (Karnataka Economic Survey, 2013-14). thereby indicating how industrial development and exports remain unbalanced and concentrated around certain regions. To push the economy back on the wheel during the pandemic (Covid-19), different states, including Karnataka, are attempting to bring out new wave of reform across different sectors.

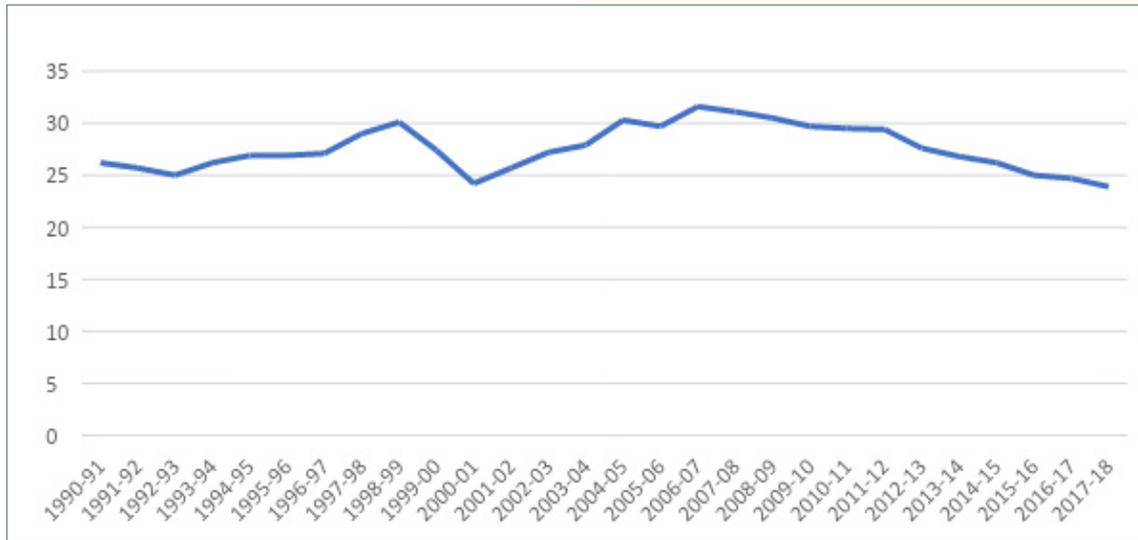
In this context, this policy brief through the lenses of doing business attempt to provide the ways of the revival of state industrial sector and arena of reform required in the post Covid-19 world, where Gol (along with Karnataka) aiming to tap the crowding out of investment from China and emerge as one of the manufacturing hub of Asia.

Table 1: India's top Industrial States as of 2015-16

State	Contribution to India's Industrial GVA (2015-16)	Contribution to India's Industrial GVA (1990-91)
Maharashtra	15.6	19.6
Gujarat	11.9	8.4
Tamil Nadu	9.6	8.8
Uttar Pradesh	7.2	10.09
Karnataka	6.3	4.8

Source: RBI Handbook of Statistics.

Figure 1: Karnataka's Industrial Sector Contribution to Total GDP (1990-2018)



Source: RBI Handbook of Statistics

Doing Business and Karnataka

Though Karnataka has taken several strides in improving the health of its industrial sector, it lags significantly behind the other industrialised states including Maharashtra, Gujarat and Tamil Nadu (Table 2). In terms of doing business as well, Karnataka has slipped in nationwide rankings. Over the three-consecutive years, Karnataka's ranking amongst 21 states has slipped from 6th to 9th position. (Table 4) When one looks at the individual pillars, Karnataka's highest ranks are when it comes to the labour pillar, which is not surprising given the state's reputation for having several of the country's most prestigious universities and training institutions in several fields including engineering, law, statistics and other social sciences. Bangalore also hosts the country's only MSME training institute and is known for producing skilled labour. Karnataka has improved its ranking in three other pillars; the infrastructure pillar which can be attributed to the development of cargo handling facilities at the various airports in the country and the growth in the rail and road network, the economic climate pillar which is mainly due to the state's high service sector contribution to its GSDP, and the governance pillar which is due to the state's top ranking in terms of almost negligible number extremist and insurgency cases, and administration through e-services such as the single window clearance system. Two pillars where Karnataka is at the bottom are the land and perceptions pillar.

On comparison with other industrial states (Table 5) it is seen that Karnataka lags significantly when it comes to land reforms, though it is nearly at par when it comes to labour, infrastructure and economic climate. With its neighbouring south Indian state Tamil Nadu, Karnataka has a lower ranking in all pillars except for economic climate. With its other neighbour Maharashtra, Karnataka is more politically stable and has better quality labour.

However, on the whole the NCAER has put Karnataka amongst the states that have the potential to improve their investment ranking given its policies to ensure easy investment in industries including aerospace, energy, bio-technology and automobiles, as well the supply of skilled labour. The BRAP 2016 report outlined that Karnataka needed to make improvements in their single window system, land registration and enforcement of contracts through judicial reforms and provision of electronic courts.

In this context, field-based study conducted by Tantri (2016), in a few select SEZs in the states indicate the widespread issues in doing business, which perhaps explain the less turnout of exporting units within such enclaves. For instance, in the case of Suzlon SEZ located in Karnataka for engineering Products, which is spread across 641 Acre hardly has only three exporting units (Tantri 2016). Similarly, KIADB Textile Hassan, Karnataka spread across 641 acres, but it also has about seven exporting units (ibid). Apparently there has not been any attempt by the government to understand the factors and explain the phenomena and then introduce course corrections. The same study also highlight, this among other due to lack of builders will to adhere their responsibilities within SEZs and lack of government commitment in providing world class infrastructure facilities outside SEZs, which apparently adding significantly to the transaction costs of doing business. Further distance to Development Commissioner office (DC), which is located in Cochin adds significantly to their problem in solving day-today issues. Issues reported varied across SEZs. Besides, as per the latest available data, out of 62 formally approved SEZs in the states only 26 are exporting. This also explain why Karnataka state has huge difference in projected and actual investment (57.3 percent) and employment from SEZs (CAG, 2014).

Table 2: India's top Industrial States as of 2015-16

State	Contribution to India's Industrial GVA (2015-16)	Contribution to India's Industrial GVA (1990-91)
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Source: RBI Handbook of Statistics.

Table 3: The six pillars under the SIPI ranking

Pillar	Constitution
Land	Availability of land for industrial purpose and industrial parks such as SEZs, spread of digitised land registration.
Labour	Labour force participation, % of vocationally trained persons, average wages, labour turnover, seating capacity in Industrial Training Institutes (ITIs).
Infrastructure	Rail and road density, number of airports and sea-ports, average electricity tariff, cargo handled per day, ground water availability.
Economic Climate	Sector specific gross domestic products, proximity of state border to metro city, average GSDP growth, share of state in fuel and non-fuel production.
Governance and Political Stability	Police strength, cases pending investigation from previous years, insurgency rates, political leaders with serious criminal charges, e-Governance index.
Perceptions	Responsiveness towards the suitability of investment when answering questions about the other five pillars.

Source: NCAER

Table 4: Karnataka's SIPI ranking over three years

Pillar	2016	2017	2018
Overall	6	9	9
Land	N/A	16	16
Labour	3	5	3
Infrastructure	11	7	7
Economic Climate	7	7	5
Political Stability and Governance	6	7	6
Perceptions	13	15	19

Source: NCAER

Note: The land pillar was introduced into the SIPI from 2017.

Table 5: Karnataka's SIPI ranking in 2018 compared to top industrialised states

Pillar	Karnataka	Maharashtra	Gujarat	Tamil Nadu
Overall	9	5	3	2
Land	16	6	8	3
Labour	3	6	8	1
Infrastructure	7	3	8	6
Economic Climate	5	4	3	9
Political Stability and Governance	6	10	4	1
Perceptions	19	21	1	10

Source: NCAER

Policy Suggestions

Since in the post Covid-19 world, the government is aiming to capture Chinese trade spots in the global economy, the existing industrial clusters (including SEZs) may provide suitable material and for that government needs to attend more on institutions and infrastructure side of it than focusing on incentives. In this context a few policy suggestions are as follows:

Prioritizing institution and infrastructure over incentives

Perhaps Covid-19 may prove as an opportunity to introduce a new set of institutional reform in the country in general and Karnataka in particular. While doing so, the sectoral approach needs to be followed than one size fits all. For instances, IT/ITes demand of infrastructure will be entirely different than manufacturing hub. To begin with government may think of developing sector specific revival policy (based on comparative advantage) after undertaking due survey of the same. While doing so, institutions and infrastructure should be prioritised over incentives, as the former improve the competitiveness in international trade, whereas the latter may attract investment but may fail to provide competitive edge. As identified in the literature this may costs heavily exchequer, whereas investment in infrastructure push the growth of supporting sub sectors and thereby promote better employment opportunities, which is the need of the hour.

Measures for Balanced growth

One of the strong criticisms of Karnataka's industrial sector is related to regional bias in its expansion. Thus, one of the priorities in the Post Covid-19 policy response should be directed to overcome the regional imbalance in industrial expansion. This also necessitate government to undertake a quick study of key industrial hub of the state and understand their problems in doing business with states.

Strengthen Coordination and cooperation between departments

Though government propose many incentive to lure investors attention, but earlier study have shown practical problem involved in availing many such benefits largely due to turf or lack of coordination between department and ministries, which results into increasing the hassle of doing business. To avoid the same, the government should introduce higher level of governance across vertical and horizontal levels so that commitment and aspiration are met in real term.

Taking Clues from the other states

In the pursuit of attracting investment from within India and elsewhere, perhaps it may be better choice to look at some of the best success stories elsewhere. One of the pillar that affected Karnataka's position is related to land. In this context, Investor Facilitation Portal, introduced by the state of Gujarat, is worth to examine. The Portal developed by the state has a dedicated land bank section which provides GIS maps and data on land availability in various estates including those in SEZs. Applications are reviewed online within 30 days. To reduce corruption, the same inspector is not permitted to inspect the same establishment consecutively. With the help of e-governance Department that Karnataka has, government may think of having Land mapping to provide future entrepreneurs information about government sanctioned land to start an industry, without the concern of constructing on illegal land. Ensuring that inspections are carried in a systematic manner by different people will reduce corruption through time wasted in unnecessary inspections and bribing. Similarly setting up of exclusive e-portal for MSME, in line with Tamil Nadu to facilitate smooth functioning and operation of MSME in the state and setting up of a single window portal through enactment of Act to facilitate doing business like Uttarakhand is worth to emulate.

Mapping Demand for and Supply of Labour

The industrial expansion requires meticulous mapping of demand for and supply of labour. In this endeavour taking clues from Chinese SEZs is worth, wherein before setting up of SEZ they carefully chalked out the plan for number and type of labour (skilled / semi / unskilled) required across sectors. subsequently based on their mapping government facilitated smooth transition of migration from rural to urban areas with appropriate incentives. Beside contributing the much-needed labour, the systematic migration to a great extent facilitated in easing the chaos associated with it. Karnataka can facilitate the same with the help of existing institutions in place, like Apprenticeship cell. While doing so, the policy approach beside boosting the growth of the economy, should protect the labour interest from any form of exploitation and thereby never get into the trap of race to bottom,

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