

Role of Government in Industrial Development

– A study of Telangana State

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ABSTRACT

The role of the government in accelerating industrialization varies greatly according to ideology, political structures, administrative capacity and the level of development. The government has taken many steps to make India self-reliant, increase employment and speed up the pace of economic growth by developing industries in India. Industrialization will be the key strategy followed for economic growth and development for Telangana, the 29th state of the country. People of the new state have very high expectations from the Telangana State Government for creating jobs for the youth, promote development of backward areas, maximize growth opportunities by optimum utilization of the available resources, harness the talents and skills of the people, and usher prosperity in every household. Industrialization holds the potential for fulfilling all the dreams and aspirations of the people of Telangana. The vision for industrialization of Telangana is “Research to Innovation; Innovation to Industry; Industry to Prosperity”. The industrial policy framework will be driven by the slogan of “In Telangana Innovate, Incubate, Incorporate”. The policy framework intends to provide a business regulatory environment where doing business would be as easy as shaking hands. Innovation and technology will drive the industries of the Telangana State. This paper is based on secondary data collected from different sources like News Papers, Magazines, Journals and internet.

Keywords: Industrial Policy, Regulatory Framework, SMEs, Incentives,

Introduction

Industrialization is often essential for economic growth, and for long-run poverty reduction. The pattern of industrialization, however, impacts remarkably on how the poor benefit from growth. Pro-poor economic and industrial policies focus on increasing the economic returns to the productive factors that the poor possess, e.g. raising returns to unskilled labour, whereas policies promoting higher returns to capital and land tend to increase inequality, unless they also include changes in existing patterns of concentration of physical and human capital and of land ownership. Use of capital-intensive methods instead of labour-intensive ones tends to increase income disparities, as does the employment of skill-biased technologies, especially where the level of education is low and human capital concentrated. Also, the location of industrial facilities has an impact on overall poverty reduction and inequality.

The fundamental goal of economic development is to improve the welfare of the masses. Many governments have sought to use industry as an instrument to achieve this objective. The role of the government in accelerating industrialization varies greatly according to ideology, political structures, administrative capacity and the level of development. But despite this variation, governments have often been central to the industrialization process, whether as economic ringmaster in laissez-faire Britain of the past century or as

central planner and provider in today's Soviet Union. Most developing countries, have tended also to rely on the private sector and on markets in their effort to industrialize.

The role of government in promoting industrial development in developing countries is vital for the following reasons:

The government has to see the rules of the game, which define the use, ownership, and conditions of transfer of physical, financial and intellectual assets. Irrespective of the type of economy - whether it favours private enterprise or is a command - economy - these rules impinge on economic activity. The more they are certain, well defined, and well understood, the more smoothly the economy can work and the greater the chance of success of industrialization. The government must play a major role in education, including providing the basic skills of literacy and numeracy that are vital in modern industrial labour force. Lack of education, rather than physical assets, is the main bottle neck in industrialization.

The transition from a primarily agricultural and trading economy to an industrial economy requires, at least in the initial stages, an increase in the skills of the labour force. To use foreign technology effectively, producers must examine the choices available, make intelligent selections and adapt them to local conditions. All of this calls for education.

Also, the government can help, at least in the early period of industrialization, to promote industrial research and technological change, for example by setting up demonstration factories. Education spurs the process of industrialization by imparting skills, improving health, and allowing more women to enter the labour force. Education and investment in technological knowledge go hand in hand. Countries that neglect any one of these forms of investment may not be efficient in industrializing. China, Hong Kong, Korea and Singapore have all achieved a significant level of economic growth. All adapted a balanced investment strategy that included education along with increased physical capital and technological transfer.

The government may have to play an important role in advancing technology which is vital to the industrialization process. Often technological knowledge is a commodity that can be traded like many others, but it has some peculiarities which sometimes make trade difficult. These are frequently used to justify government intervention. Producers of technology often face high risks, since the outcome of innovation is uncertain and technologies can sometimes be easily copied. Purchasers of technology also face risks, because they often can not know just what they have bought until they acquired and used it. Thus firms may expend less technological effort than desirable if they are unable to reap the outcome for themselves.

Industrial Development in Telangana

The Government of Telangana State realizes that industrial development requires large-scale private sector participation, with the government playing the role of a facilitator and a catalyst. The government is committed to provide a graft-free, hassle-free environment in which the entrepreneurial spirit of local, domestic and international investors will thrive to take up their industrial units in the state of Telangana as the preferred investment destination. The new Industrial Policy will be the instrument through which the vision of the Telangana State Government will be translated into action.

The new Telangana State Industrial Policy will be rooted in certain core values, as follows:

- The Government regulatory framework shall facilitate industrial growth Entrepreneurs will thrive in a peaceful, secure and progressive business regulatory environment
- Industrial development will lead to massive creation of jobs benefitting local youth
- Industrialization shall be inclusive and facilitate social equality Benefits of industrialization should reach marginal and socially disadvantaged sections of the State

- Environment will be protected and any potential impacts shall be mitigated

Review of all Laws Impacting Industry

It is common knowledge that a number of laws and rules that impact industry and industrialization are outdated. For example, the Indian Boilers Act is of 1923 and the Indian Boilers Rules is from the year 1950. The Indian Factories Act is from the year 1948. The Electrical Inspector implements the provisions of the Indian Electricity Rules 1956. The Government of India has also announced its intention to review all legislation and either remove from the books or completely revise these archaic laws. The Telangana State Government also review the laws and rules on its books and either remove or completely revise these archaic laws that are within the competence of the Telangana State Government.

The new Telangana State Industrial Policy will strive to provide a framework which will not only stabilize and make existing industries more competitive, but also attract and realize new international and national investments in the industrial sector. The focus will be on core manufacturing sectors, with the creation of employment for urban and rural youth and adding value to existing skills emphasised at all stages. It is expected that the most significant outcome of this approach will be the production of high quality goods at the most competitive price, which establishes “Made in Telangana-Made in India” as a brand with high global recognition.

Objectives of the Study

The main objective of the study is to the role of government in industrial development in Telangana State and following are other objectives

- The focus on core manufacturing sectors, with the creation of employment for urban and rural youth.
- To Study the classification of Projects in Telangana State and Special focus on SMEs/Small Industries
- Government provide incentives for industrial development in Telangana State

Methodology of the Study

The study is based on secondary data collected from different sources like News Papers, Magazines, Journals and internet. The study is based on descriptive method only.

The cornerstone of the policy would be zero graft and zero tolerance to corruption. The decision-making in all Telangana State Departments will be transparent and the departmental heads will held responsible for all acts of omission and commission by departmental staff. An online and help-desk grievance redressal system will be put in place where entrepreneur will be encouraged to report instances of corruption or any delays in performing timely tasks by Telangana State Government departments. Timely and strict disciplinary action will be taken against those employees who violate the parameters of the Industrial Policy Framework.

The Industrial Policy Framework has the following mandate for departments that have any responsibility in the industrialization of the State—Minimum Inspection and Maximum Facilitation. Minimum inspection would encompass a system of no random inspections without cause. Subject to statutory requirements, the departments will develop a system where each industrial unit is inspected only once in 3/4 years and the cycle of inspections to be fixed in advance.

Effective Single Window Mechanism

The Government of Telangana State is determined to create an ecosystem in which the ease of doing business in the state matches and even exceeds the best global standards. Telangana State Government is aware that offering a hassle-free system is considered to be of the highest priority by the industrialists, and accordingly the government will implement a very effective industrial clearance system that will go beyond the traditional single window system. This system, called the Telangana State Industrial Project Approval and Self-certification System (TS-iPASS), will be strengthened by way of legislation. A Right to Single Window

Clearance, on the lines of the Right to Information, will be bestowed for all applicants. Penal action will be imposed on the concerned officers who delay the applications.

This will be at three levels—one for Mega Projects, one for other Large industries, and one for SMEs. The state government will bring out a comprehensive legislation enshrining the above principles for according permissions and clearances for both Mega Projects as well as industrial applications in other categories.

Classification of Projects

The classification of projects into large, medium, small and micro sectors will be based on the Government of India MSME Ministry definitions as amended from time to time. The definition of a mega project is a Telangana State determined one. Government of India has proposed to raise the investment limits under each category and the classification for now is as follows.

Mega Projects: Those having investment of above Rs. 200 crores in plant and machinery or providing employment to more than 1000 persons

- Other Large Projects: Those having investment between Rs 10 to 200 crores in plant and machinery.
- Medium Industries: Those having investment between Rs 5 and 10 crores in plant and machinery
- Small Industries: Those having investment between Rs 25 lakhs to Rs 5 crores in plant and machinery
- Micro Enterprises: Those having investment of less than Rs 25 lakhs in plant and machinery

Special Focus on SMEs/Micro Industries

The SMEs and Micro-industries are expected to play a significant role in the new state of Telangana, both in terms of value addition and also in creating employment opportunities. The new Telangana State Industrial Policy will make special provisions for the SME and Micro sectors, as follows:

Adequate number of smaller plots in Industrial parks for SMEs; developed sheds for Micro units

- Special fund for addressing Incipient Sickness
- Special fund for IP registrations assistance
- Special fund for anti-pirating assistance
- Special fund for technology transfer and modernization to MSME sector Reimbursement of land conversion charges for units in own land, subject to an upper limit
- Marketing assistance to participate in national and international trade shows and buyer-seller meets
- Consultant panel to respond to MSME entrepreneur needs Separate State Level Bankers Committee (SLBC) for industries, particularly SMEs

Decentralized procedure for issue of licences and permissions to Micro enterprises at the level of Industrial Promotion Officers (IPOs)

Infrastructure Development

The development of industrial and related infrastructure will be the responsibility of the Telangana State Industrial Infrastructure Corporation (TSIIC). The financial base of the TSIIC will be strengthened and it will be made to function as an effective organization. All lands in the State identified as fit for industrial use will be transferred to the TSIIC. This land asset base will be leveraged to raise finances from the market so that the TSIIC can become independent of Government over a period of time as far as budgetary support is concerned.

The TSIIC will develop all required infrastructure for the sector specific parks like approach roads, water supply, industrial power, and common effluent treatment facilities. TSIIC will raise market loans with Government guarantee and also get initial minimal budgetary support for the creation of the infrastructure in these new industrial parks. It will be ensured that at the time of allotment to industries, all infrastructure facilities are available in the industrial park, and the investor can begin the construction of his unit right from day 1.

Connectivity

Approach roads of suitable dimension, keeping in mind the nature of industrial activity likely to happen within the park, will be developed to provide connectivity to the nearest national/state highway, railway station and airport. Based on requirement, provision of a railway siding will also be considered.

Industrial water

To support industrialization, the Government of Telangana will earmark 10% of water from all existing and new irrigation sources for industrial use. Water pipelines will be laid as a part of infrastructure creation for each industrial park by TSIIC. The TSIIC will coordinate with the appropriate department that is responsible for the creation of the Telangana Water Grid so that industrial water for local MSMEs is made available through the Grid.

Industrial Power

The Government of Telangana State recognizes that quality power and uninterrupted power supply are keys to the growth of the industrial sector. The State has a clear short-, medium-, and long-term plans to first overcome the power shortage and eventually become a power surplus state. Accordingly, uninterrupted power supply will be arranged in each industrial park. The government will also explore the possibility of creating a separate DISCOM exclusively for the industrial parks. Further, “open access” power restrictions will be removed as far as possible to enable all types of industries, including MSMEs to be able to access the power exchange.

The Telangana State Government will encourage usage of non-conventional energy for industrial purposes. Both the user industry and the non-conventional energy suppliers will be provided appropriate incentives to encourage investments in non-conventional energy projects, especially solar power.

In large industrial parks, the Government will facilitate setting up of Private Merchant Power Plants. These 300-500 MW power plants will be —interest from Chinese and Singapore based investors dedicated to group of industrial parks and the tariff could be negotiated between industry users and the producer. The Telangana State TRANSCO will facilitate wheeling and transmission.

Statutory Clearances for the Industrial Parks

It will be the responsibility of TSIIC to obtain all basic statutory clearances for these Industrial Parks from the appropriate authorities like Land Conversion, Land Use, Layout approval and Environmental Clearance from Ministry of Environment & Forests, Government of India so that the industrial units need not obtain individual clearances.

Land Allotment Process

Details of all land parcels that form part of the industrial land bank of the state will be made available on the website of TSIIC and the Department of Industries and Commerce. All required information like distance of the industrial park from nearest highway/railway station/airport/town, size of individual plots, photographs of the lands, Google maps, etc, will be displayed.

Industrial Development on Private Lands

Industry will be encouraged in private lands designated for industrial use in spatial planning of HMDA and other urban development authorities in Telangana. Private industrial park developers will be encouraged to pool their lands so that good quality infrastructure can be developed in the TSIIC standards. In case an industry has to be set up in private lands other than that zoned as industrial, Government of Telangana will do its best to change the land use pattern if such conversion is not prohibited by the spatial planning of the area.

Industrial Townships

As part of the master plan for the sector specific industrial parks to be developed by TSIIC, provision for mini-industrial townships will be made. The townships will contain executive housing, workers housing, social infrastructure and other amenities. This township development can be initiated by the TSIIC in partnership with established industry groups who have the competence in this field and also other reputed real estate companies. Further, in the vicinity of industrial parks, lands will be zoned as Residential, to enable the private sector to also develop housing for the industrial employees. Separate norms and incentives for the township development will be released as a part of state's urban development policy.

Industrial Incentives

The Telangana State Government is committed to encourage the process of industrialization by making various kinds of incentives available to the entrepreneurs. The Telangana State Government also assures an entrepreneur-friendly and graft-free regime of disbursing the incentives. The Telangana State Government guarantees that the incentives will be released on time, and direct to the bank account. There will be a transparent on-line application system, with minimum human interface.

There will be enhanced incentive packages for Scheduled Castes, Scheduled tribes, Physically Handicapped, and women entrepreneurs. Mega Projects with an investment of over Rs. 200 crores in plant and machinery or employment above 1000 persons will receive tailor-made incentives in addition to standard largecategory industry incentives.

The Telangana State Government will consider providing incentives to the entrepreneurs in the following areas under its T-IDEA (Telangana State Industrial Development and Entrepreneur Advancement) incentive scheme:

- a. Stamp duty reimbursement
- b. Land cost rebate
- c. Land conversion cost
- d. Power cost reimbursement
- e. Investment subsidy
- f. VAT reimbursement
- g. Interest subsidy
- h. Seed capital for 1st generation entrepreneur
- i. Training and skill development cost reimbursement
- j. Quality/patent support
- k. Clean production measures

Rationalization of Taxes

A sound industrial policy has to ensure that the state taxation structure is conducive to industrial growth and state financial resource augmentation. Distortions in the tax structure leads to evasion of taxes and clandestine transport of industrial inputs and outputs to neighbouring states, which may have advantageous tax rates. To address this problem, inter-state tax rationalization on industrial inputs and outputs with neighbouring states like Karnataka, Maharashtra, Gujarat and Tamil Nadu will be brought out within a short span of time.

Central Government Incentives

As per Section 94 (1) of the Andhra Pradesh Reorganization Act 2014, the Central Government shall take appropriate fiscal measures, including offer of tax incentives, to the successor States, to promote industrialisation and economic growth in both the States.

- 100% central excise benefit for 5 (or more) years
- 100% income tax benefit for 5 years; 30% for the next 5 years

- Other investment subsidy benefits

The government will pass on these benefits to the entrepreneurs once they get notified by the Government of India.

Industrial Corridors

The presence of important national and state highways, coupled with the availability of resources and opportunities, provides a great potential for development of industrial corridors in the state along these roadways. The corridors will be modelled after Special Investment Zones like the DMIC or the PCPIR. While the available government lands will be utilised to spark industrial activities in the corridor, the privately held lands will also be regulated through special zoning regulations so that the desired growth of industries and support facilities can materialize.

The Industrial Corridors that will be developed initially will be:

- 1) Hyderabad-Warangal Industrial Corridor
- 2) Hyderabad-Nagpur Industrial Corridor
- 3) Hyderabad-Bengaluru Industrial Corridor

In the second phase, the following industrial corridors will be developed.

- 1) Hyderabad-Mancherial Industrial Corridor
- 2) Hyderabad-Nalgonda Industrial Corridor
- 3) Hyderabad-Khammam Industrial Corridor

The Telangana State Government will take up the development of industrial corridors on roadways linking Hyderabad to Warangal on a priority basis. Subsequently, other corridors will also be identified on similar lines and detailed studies will be conducted to prepare the Master Plan for each corridor. Ultimately, each district headquarters of the State will be connected by high speed rail and road network.

The intention would be to create at least two core sector specific industrial parks for each sector. This will ensure that the benefits of industrialization will reach every district of the State, which will have 2 or more industrial parks. In addition, district wise industry potential plans at the MSME level will be prepared, utilizing the natural resources available in each district. These sector specific industrial parks will be located in the influence areas of the industrial corridors.

Specific Initiatives for 2014-15

During the year 2014-15, in addition to the others mandates of the Policy Framework, the following specific initiatives will be implemented.

- New Pharma-City and Chemical City with well-developed infrastructure including waste management
- Development of the Hyderabad Warangal Industrial Corridor
- Development of Warangal as the textile hub of Telangana
- Food Processing and Seed Production Initiatives
- Mini-industrial townships along with industrial parks
- Direct loan facilitation to Dalit entrepreneurs
- Creation of a Venture Capital/Angel Fund
- Inter-state VAT rationalization on industrial inputs and outputs
- Review and Reform of all age old industry sector regulations, including labour laws

Conclusion

The new Industrial Policy brought out by the Government of Telangana promises to revolutionise the way industrial sector has been viewed by successive governments in this country. A day is not far when the new Industrial Policy of Telangana will shine as an exemplar among the best in the world. “Innovate in Telangana, Invest in Telangana, Incorporate in Telangana” will become the motto of industrialization in the new state. It is

strongly believed that with the new Industrial Policy in place, a growth rate of 4-5% greater than the national growth rate in the Manufacturing Sector can be achieved.

The Telangana State Government welcomes industrialists, investors and entrepreneurs to this new state and promises to fulfill their expectations both in letter and in spirit as espoused in the new Industrial Policy.

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