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State-Business Relations and Performance of the Manufacturing Sector in Andhra Pradesh A Case Study

Introduction

The developmentalist role of the post-independent state has been a major factor in the industrialisation of India. The conscious government policy effort with public investment and the establishment of the public sector enterprises, and of economic infrastructure projects, have an obvious influence upon the industrial scenario in the States. Industrial development thus is a product of conscious government policy effort with public investment playing the crucial role. However, with the recent major change in the industrial policy regime, the importance of private investment has increased enormously. This raises the question why despite 'uniform' central policy framework some States perform better than other States in terms of industrialisation? Is it due to the policy interventions undertaken by the state government or is it because of the relationship that exists between the state government and the business environment?

Given these issues, the central objective of this paper is to enquire into the politics of the government and business relation and how it affected the industrial development in general and expansion of manufacturing sector in particular in AP.

Mapping the Politics of SBRS in AP and its impact on industrialisation

For the first decade after the State formation the political leadership was not very enthusiastic towards industrialisation partly because of its social roots and also because of the absence of an enterprising capitalist class as a catalytic factor exercising pressure on the regime. It is only since the mid-1960s that pro-business initiatives could be seen taking shape, though agriculture still constituted the focus of the economic policy making. It is only in the decade following the Green revolution we witness an aggressive rural rich, along with an educated elite emerging from the rural landed classes with wider exposure to technology, management and industry within India and abroad, which could look beyond agriculture for opportunities of investment and enrichment. The Congress regime in the early decades of the State formation focused on agrarian sector and rural development. The series of land and tenancy reforms and the launching of the panchayat raj system and rural development programmes during the 1950s and 1960s point to the priorities of the regime. What in fact got a boost as a result of this were the agriculture and allied sectors like handloom industry. The Chief Ministers (CM) like Neelam Sanjeeva Reddy (1956-60 and 1962-64) were known not to be very pro-active towards the growth of the industry, especially with respect to the involvement of private

industrialists. The credit for giving a positive turn to the state- business relations in the AP State goes to the Brahmananda Reddy's government (1964-71).

For positive SBRs, Brahmananda Reddy emphasised that the role of bureaucracy in terms of formulation of policies and creation of interactive administrative culture is crucial. To realise the enhancement of such an environment, he entrusted the task of interacting with the business elite to positively inclined officials and also made a special financial provision to take care of the cost of such interaction. It was during this period that provisions for financial assistance, concessions and subsidies, providing valuable land at cheap price were made. As a result, it was observed that many industrialists came to set up industries in the State.

Jalagam Vengal Rao's tenure as CM (1973-78) is considered to be an important landmark in the history of SBRs in AP. While taking forward the initiatives during Brahmananda Reddy tenure, he displayed the recognition of the importance of leadership and decision making styles in forging good SBRs. The major obstacle for it was the notorious red-tapism in the functioning of governmental organisations. To overcome this, he identified and entrusted the task to trusted and dynamic bureaucrats who are seen as committed to this objective. One step forward in this direction was to give freedom to them from any form of interference. Initiatives like the Backward Areas Development Programme that aimed at the development of backward areas by identifying their industrial potential and providing them with appropriate incentives and linkages. Vengal Rao was also instrumental in strengthening institutions like APSFC, APIIC and APSSIC. During his tenure, AP could attract sufficient new investments during 1970s due to the proactive decisions taken by the State government. The subsequent CMs, especially during 1978- 1983, were not known for any significant contribution to the SBRs in the State. It was a period in the history of the State, that despite a clear electoral mandate, the Congress party could not ensure a stable government.

The emergence of Telugu Desam party (TDP) under the leadership of NT Rama Rao in 1983 ushered in an era of negative SBRs in AP. He signaled two important shifts in AP politics: one, rise of anti-Congress and anti-Centre rhetoric; two, the regionalist populism. During his tenure, the anti-centre politics and populist policies and uneven thrust on agriculture in their combined effect led to the neglect of the industry. The absence of a proper perspective on the SBRs has not only led to the loss of an opportunity to expand the industrial base of the State but also paved the way to its counter-point that is fast-track reforms by the subsequent regimes that pushed large sections of agrarian and artisanal sections and working people into a serious economic and social distress as evident in the large scale occurrence of starvation deaths and suicides in the State.

NTR came to power in the 1994 assembly elections with a huge popular mandate which was attributed to his populist agenda of subsidised rice scheme, power subsidy to the agrarian sector and total prohibition in the State among other promises. He was soon displaced by his son-in-law Chandrababu Naidu in the 1995 August coup which is often interpreted as an internal affair of the NTR's family and party. Chandrababu Naidu's regime, in tune with the desire of this social class which was instrumental in bringing him to power, played a pro-active role in building an image of AP being an industry-friendly and pro-business State. Naidu brought about a remarkable shift in the style of functioning of the office of CM. Unlike the earlier CMs, Naidu was forthcoming with a direct and almost one-to-one dialogue with the

industrialists thereby conveying the message that his government was business-friendly.

Naidu's pro-SBR strategy consisted of two aspects: one, creating a pro-business discourse and two, initiating strategic and institutional changes. This is reflected in the investment proposals granted to the State of AP during his regime continuing well beyond into the Congress regime. The Naidu government specifically tried to showcase the HITEC city as a demonstration of its pro-business dispensation.

The Congress came to power in 2004 by articulating the agrarian and rural crisis. In tune with its electoral promises, agriculture was high on the Congress agenda. As a consequence, agricultural development and irrigation attracted huge attention. But this has not resulted in the neglect of the industry

Performance of the Manufacturing Sector

Examination of the secondary data reveals the dominance of registered manufacturing in the total manufacturing output of the State. However, the growth in the output did not contribute to increase in the employment in this sector. The growth rates of employment in the manufacturing sector increased in the second period (1991-2001) over the first period (1981-1991), however, this increase is contributed by the unorganised sector. From the employment viewpoint, there is no harm, if unregistered sector employment increased, as long as the wage differential between the two sectors is not significant. Our data on GDCF shows that during nineties and early 2000, creation of assets is more in the private sector as compared to the public sector. This signals the pro-business attitude of the state government. The situation of investment is also improving considerably. The Socioeconomic survey of 2008-09 reports: 'after introduction of industrial policy in 1991, up to 31st March, 2009, the state has received IEM 6,630 proposals with an investment of Rs 4,16,304 crores providing employment to 11,08,607 persons. Out of the above proposals, 2,883 have already gone into production. The state has received Rs12017 crores of FDI inflows as equity from January 2005 to September 2008.'

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 organisation, FAPCCI, does not do much with regard to lobbying the government. However, the efforts of ALEAP in this direction are laudable. But, owing to its limited women membership, it is not able to cater to the needs of large section of the manufacturers. In this context, it becomes highly essential, on the part of FAPCCI to lobby with the government apart from dissemination of information to its members hence becomes cheaper on the part of the firms. 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 labour leading to the conclusion that there is no industrial unrest in the state. However, our interactions with the trade union leaders indicate that the rigid laws associated with the formation of trade unions and the contractualisation of labour may be the reason behind the absence of industrial unrest in the state.

Overall, our findings support the view that the organised private sector and effective state business relations are helpful for firm performance and state business relations have improved over time in AP. The political environment of the state provides a market friendly atmosphere and signals the pro-business attitude. 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 and if the following policy implications are made.

To step up the pace of state business relations, the government should take steps to provide world class infrastructural facilities to make the state the manufacturing hub for national and international companies. Since the majority of the investment projects in the state are remaining at an announcement stage, there arises the need to set up a special nodal agency with powers to settle issues affecting the investment projects in the state. For small and mega industries, government should make the allocation of funds towards incentives for industrial investment promotion policy, provide rebate on power tariff, set up exclusive industrial parks in those sectors which provide employment opportunities, allocate at least 15-20 per cent of land for Micro, Small and Medium Enterprises (MSME) sector and help in reviving sick SSI units. For the uplifting of the workers, the minimum wage revision period should be made once in two years rather than once in five years and also provide employment security to the workers.

G Alivelu, Centre for Economic and Social Studies, Hyderabad, India

K Srinivasulu, Osmania University, Hyderabad, India

M Gopinath Reddy, Centre for Economic and Social Studies, Hyderabad, India

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