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If investments can be attracted Through Concessions and Rebates (With Special Reference to Uttarakhand)

Abstract

We are living in modern era and in modern era industrialization in any country plays a vital role in providing facilities to fellow citizens. In agrarian society the focus was only on agriculture. India is a country of villages and its base is agriculture. But after 1991 the focus is shifting from agriculture to industrialization. Country on a whole and various states of it is thriving to attract investment. Investment plays a very crucial role in development of any place. Investment results in industrial development and industrial development results in growth of the human beings. In India there are 29 states and 7 union territories. These all states and union territories want to excel and try to give better living conditions to their citizens. For this they have to have investment. Now when all states try to attract investment, naturally competition will rise. States use a tool to attract investment and this tool is concessions and rebates. Some studies claim that concessions and rebates can't attract investments and some claim the contrary. In this study we have checked if concessions and rebates give an upper hand to the states or it is futile. Study reveals that it is a good tool to attract investors. Himachal Pradesh and Uttarakhand have taken advantage of it. Both states announced some packages for investors and lured them to invest in the state. Fixed capital has grown many folds due to these concessions and rebates.

Chitranjan Singh
Assistant Professor,
Deptt. of Commerce,
Govt. Degree College,
Raza Nagar, Swar, Rampur,
India

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Introduction

After independence the main challenge in front of country was how to grow and how to create a better place for its citizens. Agriculture growth was synonyms to country's growth. Country was trying one method or the other to develop agriculture. Not only after the era of independence but even today agriculture plays a great role. Its is also very true that India is a country of villages and if we want to grow India agriculture growth is a must. Gradually as the world economy changed Indian economy also started to face a change and challenge. After 1991 LPG era started. Indian economy also faced liberalization, privatization and globalization. The route was not easy but with the acumen and prudency of some great leaders it was made possible. Agriculture economies were shifting from agriculture to industrial economy. Now industrial growth was a symbol of country's growth. For industrial growth industry has to get setup and for this huge infrastructure and heavy investment was required. All countries started making strategies to lure the investors from own country and from foreign as well. This situation of competition with other countries was growing on outside the country and inside the country too competition started among various states. It is the responsibility of government to provide better living conditions to its citizens. Various states realized that if more investment comes in the state it will result in more growth of the state. More growth of the state will result in better living conditions and better facilities. States started offering investors various types of incentives, concessions and rebates. At some places it worked and some places result was not very encouraging. There were various contradictory opinions in the country so need was felt to study the concept. Study has incorporated performance with special reference to hilly states, their neighbors' performance also has been considered and overall data of the country for the same also has been considered in the study to see a better and clearer picture.

Review of Literature: When Uttarakhand was created on 9th November 2000, industrialization was lacking. When the than honorable prime minister Mr. Atal Bihari Vajapayee visited Nainital made a promise to give some special incentives and concession to Uttarakhand state for industrial growth.[1]

After that Uttarakhand government announced industrial policy 2003. Some of the objectives of the industrial policy were as follows:[2]

1. To create high quality world class infrastructure facilities in the State and enhance, in particular, connectivity to the National Capital Region (NCR) and other leading markets.
2. To provide single window facilitation in the State to expedite project clearances and provide an investor friendly climate.
3. To provide and facilitate expeditious land availability for setting Industrial ventures and Infrastructure projects.

In industrial policy 2008 main objectives of the government was to accelerate the pace of industrial development in the remote and backward hill regions of the State by providing infrastructure for the development of entrepreneurship, extending infrastructure facilities and fillip to market access and financial assistance to the entrepreneurs intending to set up industries.[3]

Some new rules and schemes were also introduced in industrial policy 2008. Some of those are given below.[4] Notification No 488-/Seven-II/123-Industry/08 dated 29 February, which came into operation on 1April 2008, has accommodated Exemptions from Value Added Tax on sale of self produced items by newly set up Manufacturing and production industries, Incentive Scheme for the New Industrial Enterprises for Reimbursement of Electricity Bill, Scheme for the Industrial Estate Infrastructure Facility Development Fund Rules and The Industrial Estate Infrastructure Facility Development Promotion State Assistance Rules etc .

Present study covers comparison among Uttarakhand, Uttar Pradesh, Himachal Pradesh, Punjab and overall India. Out of these four states two states are with concessional package and rebates and two states are their neighbours without concessional package and rebates. Overall representation has been included by taking India level data. The study has been divided into two periods viz. period before such concessional package and period after such concessional packages. For this purpose various books, reports, journals, newspapers etc. were consulted. Some of the excerpts and summaries can be mentioned as:

Industrialisation means change in the structure that backward countries experience while on their development path. It is explained as a shift from agriculture economy to industrial economy. It brings big changes in the society.[5]

In developing countries (like India) manufacturing sector is playing a crucial role and can be said engine of growth. In developed countries scenario is changing and manufacturing sector is not vital there anymore.[6]

The Ricardian theory measures economic development and growth through the aggregate output given by the economy. Economy transforms the inputs viz. Raw material, human resource and technology etc. into outputs. Together the amount of inputs and technology determine the level of output. Solow explained that increase in physical inputs determines only a small portion of changes and technology plays a vital role in increased output. Ricardian theory focuses on non- physical or technological changes and increased skills for the rapid growth.[7]

A study of Madhya Pradesh revealed that fiscal incentives had almost no impact on any kind of investment in Madhya Pradesh. Contrary to this it revealed that ample electricity was a crucial factor and a point of attraction for the investment to come.[8]

Instead of enhancing and accelerating real economic growth financial incentives sometimes give a fierce competition between two places or among various places.[9]

Carlton expressed that various tax concessions given have very low level of impact on the adoption of a particular place.[10]

Research Methodology

Detail of Research methodology of the present study can be given as:

Hypothesis of the Study

Heavy investment, which is required for industrial development, can be attracted by concessions and rebates.

Collection of Data

Present study is based on secondary data. Data have been collected from various secondary sources. Data from 1998-99 to 2009-10 has been utilized for the purpose. There are two reasons to use data for the mentioned period firstly it serves the purpose and secondly data was available for this period only.

Analysis of data

Analysis of the data collected has done through ratio analysis, pie charts and graphs etc.

Objectives of the study

To check if Heavy investment, which is required for industrial development, can be attracted by concessions and rebates and to suggest different measures for industrialization in other regions of Uttarakhand.

Hypothesis Testing

Hypothesis formed in the study is related to investment. The hypothesis is “Heavy investment, which is required for industrial development, can be attracted by concessions and rebates.”

Now this hypothesis can be tested and verified, whether this hypothesis gets rejected or we fail to reject this hypothesis.

Before analysis for the same takes place first definition of investment must be known. Other term used for investment is capital. There are two types of capital, fixed capital and working capital. Fixed capital is required when a new unit has to established or expanded. Working capital on other hand is required to smoothly run the business. Working capital is required to meet day to day expenses of the business. Here investments mean fixed capital.

So it becomes very lucid that for our purpose we must take fixed capital into consideration and analyses the situation.

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To analyse the situation we consider two periods in the study. First period immediate before the concessional package and second period just after the concessional package.

Before announcement of concessional package for special category state, Year wise numbers of amount of fixed capital has been given in the table 1.01 Data has been taken for four states viz. Uttarakhand, Himachal Pradesh, Uttar Pradesh and Punjab. Uttarakhand and Himachal Pradesh are two states those got the status of special category states. Concessional Package has been announced for these states. Other two states taken for the purpose are Uttar Pradesh and Punjab. Uttar Pradesh has been incorporated because it is the parent state of Uttarakhand. Punjab has been incorporated because it is the parent state of Himachal Pradesh. To see an overall picture data at All India level too has been incorporated in the study.

Table-1.01
Amount of fixed capital, Pre Package Period (amount in lakh)

Year	Uttarakhand	Himachal Pradesh	Uttar Pradesh	Punjab	All India
1998-99	159168	287,331	5192156	842,513	39115145
1999-00	135860	321,001	37772531	1,007,595	40186473
2000-01	188394	340,581	3477513	849,312	39960422
2001-02	196584	411,358	3021410	841,874	43196013
2002-03	204586	358,278	2847631	1,119,761	44475938
Annual Growth (1998-2003)	6	5	-9	7	3

Source : An excerpt from, A study on impact evaluation of package of special category states (Uttarakhand, Himachal Pradesh and Jammu & Kashmir), submitted to the socio economic research division planning commission, government of India by Stellar Society (Trivenee school of excellence - research institute) Paonta Sahib, district Sirmour. Page 53, Table4.2

After announcement of concessional package by central government, Year wise numbers of amount of fixed capital has been given in the table 1.02 As data for four states and India level hves been taken in the table 1.01. For analysis again data of four states viz. Uttarakhand, Himachal Pradesh, Uttar Pradesh and Punjab and overall data at All India level also have been taken.

Table-1.02
Amount of fixed capital, Post Package Period (amount in lakh)

Year	Uttarakhand	Himachal Pradesh	Uttar Pradesh	Punjab	All India
2003-04	218176	571,383	2992605	925,642	47333140
2004-05	287679	594,781	3152999	1,071,349	51306925
2005-06	419984	829,821	3763086	1,392,579	60694028
2006-07	949313	828,197	4499515	1,836,524	71513139
2007-08	1297142	2,000,292	5845002	2,178,348	84513209
2008-09	2189841	2,189,156	6267696	2,648,036	105596614
Annual Growth (2003-2009)	162	85	20	23	23

Source : An excerpt from, A study on impact evaluation of package of special category states (Uttarakhand, Himachal Pradesh and Jammu & Kashmir), submitted to the socio economic research division planning commission, government of India by Stellar Society (Trivenee school of excellence - research institute) Paonta Sahib, district Sirmour. Page 53, Table4.2

Now summary of the growth rate (Pre concession package and Post concession package) of all four states and all India level has been given. Table 1.03 shows the growth rate of four states and growth rate at all India level.

Table 1.03
Growth rate in Fixed Capital Formation (Pre and Post Package Period)

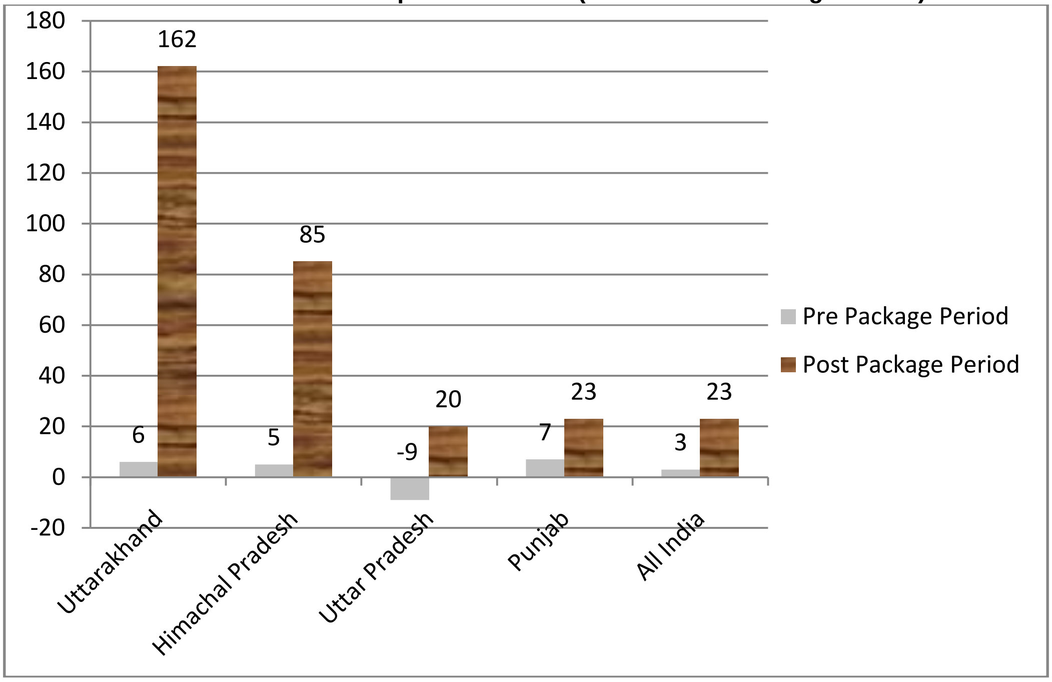
Name of State/Country	Growth rate (Pre- Package Period) in %	Growth rate (Post-Package Period) in %
Uttarakhand	6	162
Himachal Pradesh	5	85
Uttar Pradesh	-9	20
Punjab	7	23
All India	3	23

Source: Data taken from table 1.01 and table 1.02.

Now if data being presented in graph form the table 1.03 situation will become clearer. The figure 1.0 represents the data in table 1.03 in graph form.

Figure 1.0

Growth rate in Fixed Capital Formation (Pre and Post Package Period)



Source: Calculated from table 1.03.

Now from the table it is very clear that before announcement of special package growth rate in all four states and all India level is less than 10%. Now when data observed for post package period a great disparity in growth rate is found. Now if number of times the growth rate with the base rate calculated, the summary can be presented in tabular form as given in table 1.04. Here base rate means the growth rate before announcement of concessional package from central government. Number of times the growth rate with the base rate have been calculated with the simple formula-

Number of times the growth rate of fixed capital is defined as when Post package period growth rate of fixed capital is divided by Pre package period growth rate of fixed capital.

Table 1.04

Growth rate of fixed capital (Number of times)

Name of State/Country	**Number of times the Growth rate**
Uttarakhand	27
Himachal Pradesh	17
Uttar Pradesh	3
Punjab	3
All India	8

Source: calculated from table 1.03.

Conclusion

Now it is very obvious that Uttarakhand registered 27 times the growth rate increase. Himachal Pradesh has registered 17 times increase in its growth rate. Uttar Pradesh and Punjab both states registered the growth rate 3 times. All India level the growth rate has increased 8 times.

It is self evident that the states with the concessional package has manage to attract fixed capital in a very fast pace and states without concessional package has slow growth rate. So we fail to reject our hypothesis that through concessions and incentives investments can be attracted. Definitely concession and rebates can be used to lure investors and growth rate can be increased.

But if all states start giving concession and rebates than because of stiff competition, only investors will be the winners and not the states. So the tool should be used very cautiously.

End Notes

1. *Ten thousand crore, Sanjeev Chopra, book world, Dehradun, page no. Xii.*
2. *Industrial Policy 2003, Official documents of Uttarakhand government, Page 2.*
3. *An excerpt from Notification Industrial Development section-2 No: 488/VII-II/08/08 Dehradun Dated 28 February, 2008.*
4. *Notification No 488-/Seven-II/123-Industry/08 dated 29 February,2008.*
5. *(Kuznets, 1973).*
6. *(Fagerberg and Verspagen, 1999)*
7. *(Robert M. Solow, 1957).*
8. *Rajaraman et al (1999)*
9. *(Wasylenko, 1988).*
10. *Carlton (1983, p. 447)*