

A Critique of Industrial Policy of Uttarakhand

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Industrialization is a process of change in the economy by deepening and widening of capital. It involves strategic changes like mechanization, modernization of production processes, new product designing, extension of market and overhauling of the traditional structure of economic organization. It leads to higher capital output ratio, speeding up of capital formation and making of such infrastructure which promotes manufacturing and tertiary production for wider markets. It becomes the main engine of growth orientation in the farm sector by its products as well as by the promotion of demand that it initiates. Industrialization is related to innovative working for greater output. Industrial policy means the set of rules, regulations, principles, policies, procedure, incentives and motivations or obvious barriers, determined for controlling the industrial units and providing them guidance. Uttarakhand state is forging ahead with an aggressive policy to promote industrial and business growth together with a speedier growth in other sectors by weaving a suitable network of effective infra-structure. This paper attempts to evaluate and discuss the policy framework and incentive network towards rapid industrialization.

Keywords: Infrastructure, Service Generation, Industrialization, Quality Upgradation, Efficiency Orientation, Environmental Pollution, SIDCUL.

Introduction

'Industrial Development' is often treated as a sine qua non of a rapidly growing economy with high prospects of economic prosperity. This is also evident by experiences of Europe, U.S., Far East and of China. Indian experience also endorses this proposition. Infact this impression is based on the generalization that industry has considerably less dependence on vagaries of nature as compared to that in the farm sector. The law of diminishing returns applies to industry only after the exhaustion of capacity while it applies to the farm sector much earlier. Returns to scale go on increasing in industry. Development of the industrial sector also ensures greater growth in the farm sector and in the tertiary sector. It is the industry which ensures supplies of scientific inputs, equipment, tools, apparatus etc. to the growing farm sector. Tertiary sector provides the technical know-how, expertise, and technicians to industry as well as to the farm sector. Advanced industry ensures higher income generation creating demand for agro-supplies and services. This rise to income pushes up the wage levels and living standards. Good agriculture has to depend on growing industry and expanding the tertiary sector. Industrialization is a precondition for rapid economic growth.

Uttarakhand state was carved out from former U.P. in the year 2000 primarily because this tract could not find adequate pace of growth awaiting for several decades to reap its best of development potential. This region is believed to be abound with rich resources and a very dexterous manpower besides its climatic advantages and bio-diversity.

The state of Uttarakhand has two demarcable parts; the mountainous tract and the topographically plain region in the foot-hills popularly known as Terai and Bhabar. The former has ever been marked as a 'zero industry' area while the latter has several industrial units working successfully and several new units are flocking down in Tarai every year due to the plain topography, better transport, greater irrigation, finest fertile soil and warm climate. Economic backwardness, widespread rampant poverty and high degree of unemployment are the common features of all hilly tracts in Uttarakhand. The mountainous tracts are invariably inaccessible, remote and having far-flung habitations. Transport costs are prohibitive in hills. The area has only low income accruing from terraced agriculture and little of animal husbandry and dairying. Low income leads to low demand except for food and clothing.

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Any product meant for market has to cross through the distant rims of mountains and reach the prosperous areas for sale. Absence of roads, railways, ropeways or other means of transport makes the export of surplus products costly. For industry the strategic inputs are to be fetched from remote plains which involves enormous cost as well as damage.

Even the subsidy on marketing costs does not compensate for exorbitant costs. For even a small repair work, or purchase of a tool the interested party has to go a long way to urban centres of wider plains. The expertise and skilled personnel has to be called from remote markets which further adds to the costs. Product types and designs continue to be tradition trodden in hill areas as compared to those in developed areas. Therefore entrepreneurs shun remote hilly areas for making any industrial investments. Thus, a natural preference for Terai and Bhabar tracts for installing any industrial project emerges and hill areas remain without industry even today. The Government of Uttarakhand has extended liberal policy of subsidies, grants cost compensation, margin money, bank credits, marketing aids to the remote areas but these have not attracted adequate industrial ventures in hilly areas of Uttarakhand. Due to topographical disadvantages the mountainous tracts cannot offer large plain areas to new industrial projects which are easily available in the Terai and Bhabar areas. Big national industrial houses have shown considerable interest in installing modern industry units in the Terai region of Uttarakhand because of the easier transport linkages with the rest of the country and export centres. Another attraction is the allotment of quite sizeable industrial plots to the units in such areas where the water table is very close and the land is extra-ordinarily fertile. Projects worth Rs. 4000 crores have already made their presence by now and several others are under the process of clearance. Mahendra and Mahendra, Syntex, Vedeocon, Asai Glass, Samsung, Bio-tech and I.T. Farms etc. are the notable proposals. Nearly 2470 SSI units had been established by 2004, which rose to 3742 in 2008. Special provisions of making 'Margin Money' available has attracted 447 small units. Rural sector of Uttarakhand has also gained considerably by this process as seen in the diversion of cultivated land to commercial crops which yield much higher incomes. Fruits, vegetables, herbs, potato, Litchi, Asiatic Lilly, dairying, tea plantations, mushrooms, silk-worm etc. have gained popularity.

Objective of The Study

This paper attempts to assess the impact of the industrial ecosystem of Uttarakhand. Apart from spatial distribution of industrial investment and observation of migratory trends, the scrutiny of employment promotion and the potential of traditional small scale industries has also been the purpose of the study.

Industrial Potential & Constraints

It is widely claimed that this new state of Uttarakhand has numerous special advantages for industrialization inherent in its Geographical composition, its topography, its climate, its locations and linkages with larger industrial areas and markets, and access to resources and skills. Supreme advantage relates to the supply potential of power. Uttarakhand has abundant potential for development of hydro-electricity which is already mapped and measured by scientific assessments and surveys. Exploration process of the future possibilities is continuing. The bio-diversity and varying climatic zones offer wider possibilities of floriculture, horticulture, herbal culture, tourism of various kinds, education and manpower technical training on a variety of modernized skills. Pilgrim centres of Uttarakhand are indeed a great attraction for tourism and religious devotees. So far the motor transport is the only major link but in near future the entire track shall be linked by Rope-ways and air-strips. This is bound to attract the foreign tourists on a very large scale. The costs of climbing the tedious heights are so far a great barrier but railway lines through the valley areas shall make the costs fall and well-knit connectivity in mountainous tracts shall push up industries even in the hilly region. Better care and planning of forest wealth can make Uttarakhand a very beautiful tract and very prosperous human habitation. Power development efforts are being done in full swing and soon this state shall be able to sell power to neighbouring states and to the national capital. Agro-food processing area, herbal cultivation, handloom and weaving, mineral processing, software development, dairying etc. have immense possibilities of development in Uttarakhand. It is a fact that this area has been a capital hungry region and development requires huge investments. Gradually the investors are taking interest in projects of industrialization and resource development in Uttarakhand.

New Vision of Development

Uttarakhand was born under lucky stars to have found a visionary like N.D.Tiwari who had very extensive experience and personal influence so that this state got a good beginning in power sector growth and industrialization. It helped this state in finding a proper growth path. The state intends to create a high quality world-class infra-structure facilities for industry and well woven connectivity with the capital region. It seeks to develop direct links with prominent markets. The state has invited investor class to the state to submit projects wherein the state could offer the best terms and package of supports. Best efforts are laid to minimize the bureaucratic red tapism and dilatory tactics in according a clearance to the projects submitted by the investors. 'Single Window Clearance' was arranged. Similarly the land allotment process was made much easier and expeditious. Consultations with the investor class representatives were arranged to seek proper insight into the nature

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of infra-structure to be developed for rapid industrialization. The industrial Estates, training centres, Growth poles, Special zones, Parks and resorts, helipads, air strips, roads and inter connections for accessibility, transmission, power grids, bio-tech centres, dairy centres, experimental farms etc. did enthuse the potential investors. Even the labour laws were fine tuned in favour of higher productivity and efficiency orientation. The technological upgradation and modernization has been felt necessary in the traditionally working industrial units of small scale by suggesting them new product designs and helping them by adequate market supports. A better co-ordination between financiers and sick-units is essential for restructuring and rehabilitation. Some of the sick-units have already taken steps for revitalization. Industrial growth is subject to prosperity in the farm sector, growing agro surplus, forest development, better horticulture, advance in floriculture and the increase in processing activities in agri-products. Overall activation of the rural sector is necessary for activating demand for industrial products. Mineral resources of Uttarakhand are to be exploited for growth of industries. Due caution however has to be ensured against environmental pollution and ecological disaster. Maximum value addition should be done in mineral exploits within the state.

Potential entrepreneurs need to be enlightened on the major modern trends in processes and product designs in advanced industrial centres of the country. Exposure to entrepreneurs can go a long way in preparation for better projects. Sun-rise industries have an extended future and awareness about the most modern production techniques has to be promoted. The great potential in bio-technology applications is still in process of exploration. Uttarakhand is likely to proceed rapidly towards Bio-tech and Information technology parks. The workforce needs to be prepared for handling the future technology needs which make the youth employable. The world of industries demands the most skilled manpower of specific type, therefore, technological training has to be strengthened in the state, so as to equip the youth with an edge over the inadequately trained youths. Uttarakhand is likely to develop at a very rapid rate in the sphere of Tourism which demands infrastructure specially is road development, air transport, development of tourist sites, equipping the sites with modern amenities and well trained personnel. Expansion in tourist accommodation, roads, air strips, rope-ways, extension of railway to remote areas and service network seems urgently needed. This state has to make use of its bio-diversity for growth of industrial activity. Aromatic and medicinal plants offer a great scope for industries at small scale. There is an urgent need for proper quality control and standardization of products which is necessary to protect the rapport and faith in the quality of products. The excellence in quality alone can help the producers to compete well

in the global market. Power development is certainly the basic requirement for industrial growth. Uttarakhand has already embarked an ambitious plan for hydroelectric generation and the pace of growth and cost effectiveness are well ensured. The quality of governance and enforcement of law and order in the state is the foremost challenge today. Special provisions like financing the projects through 'Consortium of Banks and Finance institutions are likely to be very helpful for the investors.

Financial Incentives Woven In The Policy Frame

The industrial policy of Uttarakhand offers very lucrative incentives to the potential investors to come forward with pragmatic projects of manufacturing and service generation. The new industrial units in this state shall enjoy an exemption from Central Excise for a duration of a decade. Another major incentive offered to the new investors in this state is 100 percent exemption from Income Tax for a period of five years and 30 percent exemption for next five years for companies. It is only 25% for other than the companies. A liberal Capital Investment subsidy of 15 percent of total capital investment of the firm is allowed to the maximum of Rs. 30 lakhs. It is for the new units only. General Transport Subsidy is also granted to new units. Till 2007 hundreds of firms had benefited from this provision. Exemption from 'Entry Tax' for bringing Plants and Machinery for being installed in these new units. In any substantial expansion and modernization such machinery has to be imported. Firms are reaping the benefits of this provision. Land-use conversion and development charges of the state are highly rationalized now for new industrial units. For Parks of Information Technology and for Commodity Park, there is a provision of 'Stamp Duty' concession in land transfers. The small scale industries enjoy the advantage of 'Concession in Interest' to the extent of 3 percent to maximum of Rs. 2 lakhs per annum per unit in loans for expansion and modernization drawn from Banks and credit institutions of the state. It is also provided that if the Units are installed in remote areas of Uttarakhand, the incentive in interest concession may extend to 5 percent, a maximum of Rs. 3 lakhs, if the unit is the Thrust Industry category. Policy treats those investments as expansion where at least 25 percent of existing capital is added to the invested capital.

Amusement Parks and Rope-ways and Multiplex projects enjoy special incentive of exemption from Entertainment Tax to 100 percent for a duration of 5 years. The Government of Uttarakhand ensures that each unit obtaining 'Quality Marks' like ISO series, and get a certificate thereof, it can avail 75 percent refund of all expenditure in this context to the maximum of Rs. 2 Lakhs. This promotes quality production. In order to ensure that industrial units do not pollute the environment, the Government offers a liberal grant of Rs. 1 Lakh for installing pollution control measures in the industry. The units are encouraged to register their 'Patents' for

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which 75 percent of their incurred cost is refunded to them to the maximum of Rs. 2 lakhs. The amount is reimbursed to the unit by the Government.

Young potential entrepreneurs, especially those who are well educated and have adequate exposure in business and industry have been encouraged in Uttarakhand to start their own industry or service centre or business by investing a small capital of less than 1 lakh Rs. These new starters are entitled to a capital assistance of Rs. 15000 from PMRY schemes. Age limit for such entitlement has been extended to 40 years. The small scale industry units are encouraged by the Government by placing orders for their products in preference. Even in the purchase of inputs such units enjoy price preference. Several new small-scale industries have come up and are functioning well under these schemes. Another important support provision relates to 'Matching State Subsidy' on approved projects of NHB, APEDA, NMPB etc. which constitutes a lucrative incentive for entrepreneurs. The maximum subsidy on this account can extend to 50 percent of the project cost with a ceiling of Rs. 20 Lakhs per unit of big industry projects. The potential entrepreneurs can get all relevant data information, proformas and detailed particulars from the SIDCUL which is the apex body working as the secretariat of industrialization programme.

A continuous follow up of the step to step progress of industrial projects and their pace of growth is done by monitoring committee, State Industrial and Investment Board, State Industrial Development Corporation so that the entrepreneurs do not face a blockade for dearth of support in clearance of projects and their smooth working. Final decisions are not left in the hands of petty officials but handled by the top level officers and the Chief Minister. The Boards also follow-up the cases of the investment projects in seeking clearance from the Central Government when necessary. In each district the District Magistrate is given the responsibility to help out the entrepreneurs in official clearance of projects. The 'Problem Redressal Committee' are not as effective as these are deemed to be and the top level officers are not free and available for listening to the grievances. These Boards also include the representatives of Banks, industry and the Financial Institutions so that the projects are cleared expeditiously. The Government has engaged UDEE Uttarakhand Infrastructure Development Company as advisory body of Government. The State Electricity Regulation Commission determines the rates of tariff on power. All areas above 3000 ft. above sea level are treated as remote areas. Khadi, village industries, handicrafts etc. have lucrative incentive schemes for design upgradation and product refinement. Training of artisans, research in new designs, application of new techniques, sale promotion by Emporiums, Exhibitions, Publicity, Shilp Grams, Fairs, show-rooms, Display Centres, etc. are managed through District Industries Centres.

Industrial Policy provides for disbursing subsidies to units of food processing, post crop management, medicinal plant orchards, floriculture, Tea gardens, forest produce based industrial products which do not use timber but use by products and minor forest products. Centres of excellence are proposed to be installed in main urban centres for 'Biotech and IT Tech Parks'. State offers lucrative incentives to projects on this score.

The 'Thrust Industries' for Uttarakhand are floriculture, herbal Parks, horticulture, honey, food processing, sugar and by products, silk, wool, fabrics, sport goods, paper, pharmaceuticals, I.T., Mineral water, eco-tourism, handicrafts, non-timber forest product processing and mineral processing of nonpolluting nature.

Creation of favorable investment climate and environs is perhaps the first precondition for rapid industrialization. Uttarakhand state is well aware of the facilities which investors demand to settle down in Uttarakhand. The framework of infra-structure and incentives prepared so far is indeed so encouraging. But the main drawback of the industrial drive is that these new units are being installed in the best fertile land appropriate for cultivation of commercial crops. A lot of the fertile land has already been diverted to industrial purposes in the last five years. While the hilly tracts of Uttaranchal are still without any worthwhile industry. The reasons are already explained as to why the industrial units avoid investing in mountainous tracts. If the infra structural build up proceeds fast, the costs of operating from hilly areas shall tend to dwindle. State is extra enthusiastic in welcoming the large business houses for investment in Uttarakhand while the actual pace of new investment is only slow. While employment of local educated and unskilled labour has gone up considerably in the last 7 years and people from other states have also gained livelihood in this drive for industrialization much remains to be achieved in the sphere of training labour for the sophisticated manufacturing sector. The recession has affected the employment levels and exports from this state in the recent two years. Poor performance of public sector units installed 2 decades ago in this area has been a sobering experience. Proper labour laws and regulations of labour Unions are also essential while wages need to be linked with the physical productivity of labour. Uttarakhand has a bright future ahead if it maintains stability of political power and proper standards of governance.

Conclusion

Uttarakhand was carved in 2000 due to the sustained pressure from the hills of U.P. The region was characterised by extreme poverty, unemployment, Government apathy and lack of industrialization. To some extent the topographical problems too contributed to the general apathy from the Government as part of U.P.

After creation of Uttarakhand a sense of urgency has dawned in the political establishment and

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administrative set up to transform Uttarakhand by ushering in industrialization. This has resulted in a slew of economic policies which have been christened to attract entrepreneurs and industrialists. Policy of subsidy, grants, compensation, margin money and bank credits have been initiated by the Government to attract investors.

As a result of Govt. sops certain agro-based industries such as mushrooms, honey, tea plantation, silkworm and dairying have gained popularity. In the plain areas of Uttarakhand ancillary industries along with Food Processing, Timber and Auto industries have found favour with the entrepreneurs. Tourism industry too found favour and offers employment opportunities which has the capacity to check the migration to some extent.

Alert governance with liberal financial packages combined with infrastructure backup undertaken by Government holds great promise to transform the industrial map of Uttarakhand. Hilly tract though which harbours traditional micro industrial units mostly could not reap much benefits of concessions and incentives provided because of exorbitant transportation cost. Government is keen to make Uttarakhand an investor friendly state by creating various bodies for clearance and assistance to the industries. All these steps hold great promise to eradicate the general backwardness of the state by sustaining higher GDP and employment opportunities.

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