

**Political and economic analysis of State
Business Relations in Andhra Pradesh
Impact on the Performance of Manufacturing Sector**

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Foreword

The Centre for Economic and Social Studies (CESS) was established in 1980 to undertake research in the field of economic and social development in India. The Centre recognizes that a comprehensive study of economic and social development issues requires an interdisciplinary approach and tries to involve researchers from various disciplines. The centre's focus has been on policy relevant research through empirical investigation with sound methodology. In keeping with the interests of the faculty, CESS has made important contributions to social science research in several areas. Social science research needs to respond to the challenges posed by the shifts in the development paradigms like economic reforms and globalization as well as emerging issues such as optimal use of environmental and natural resources, role of new technology and inclusive growth.

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The present monograph by Drs. G. Alivelu, K. Srinivasulu, and M. Gopinath Reddy is an attempt to understand the State Business Relations (SBR) and how they affect the performance of the manufacturing sector in the state of Andhra Pradesh. This study is partly based on the findings of a larger research project on SBR in Andhra Pradesh, Orissa and West Bengal for Institute for Pro-Poor Growth, University of Manchester, funded by DFID. The SBRs in AP seen evolving through different political regimes and their impact on the performance of the manufacturing sector is captured through both qualitative and quantitative sources. The qualitative data is culled from the interviews with the key stakeholders of the state and also from the field survey of the sample firms in the manufacturing sector. The performance of the manufacturing sector in terms of output, employment, labour productivity, industrial entrepreneur memoranda, infrastructure etc. is analysed based on the qualitative data.

In Andhra Pradesh, SBRs have evolved gradually under different political regimes, from 'indifferent' SBR's during initial decades to 'active' and 'pro-active' phases subsequently. The shift in the political regimes' approach to the SBRs is positively correlated to the political economy of change in the post-green revolution period. Two critical factors in

this process are the emergence of a market savvy agrarian class and the emergence of a modern middle class as a result of the expansion of the modern education; the proclivity on their part to look for alternative avenues of investment played a key role in paving the way for industrialization in the state. On the other hand, the government's initiatives, both institutional and financial, seen since the 1960s corresponded to this scenario. This is reflected in the performance of the manufacturing sector over various decades.

The authors find that organized private sector and effective state business relations are helpful for strong industrial performance and state business relations have improved over time in the state. 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.

I sincerely hope that these findings contained in the monograph deliberating on the State Business Relations in Andhra Pradesh will be useful to the policy makers, entrepreneurs, business associations and larger research community who are trying to understand the complex nature of relationship between state and business and how they help in enhancing the industrial performance of the country.

Manoj Panda
Director, CESS

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1. Introduction

Industrialization is both a policy and a process. It is a policy in the sense that the business groups in a given society, based on its calculations of the market conditions, government regulations and societal conditions decide either in favour of or against such a move. It is a process in the sense that business groups, in its venture towards industrialization tend to constantly interact with various organizations such as the government, trade unions, economic organizations and also the members of the civil society – in fact, economy itself is embedded in civil society (Moran, 2006).

Given its expansion, the state's role in ensuring developmental success or failure deserves serious analytical attention (Sinha, 2005). In this context, effective state-business relations (SBRs) or public-private sector cooperation can play the role of important determinants of economic growth at macro level (Sen and te Velde, 2007). According to Hariss, good SBRs are based on benign collaboration between business and the state with positive mechanisms that enable transparency, accurate and reliable information flow between business and government; ensure the likelihood of reciprocity; increase credibility of the state among the capitalists, and establish high levels of trust between public and private agents. They provide a transparent way of sharing information, lead to a more appropriate allocation of resources, remove unnecessary obstacles to doing business and provide checks and balances on government intervention. Further, effective SBRs lead to a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles to investment (te Velde, 2007). Governments that engage in good SBRs are thought to have a higher likelihood of adopting appropriate policies and reforms, while enterprises participating in state-business discussions are more likely to support these initiatives (Bannock, 2005; Herzberg and Wright, 2005).

It is against this background that it becomes important to understand the nature and status of industrial development in the state of Andhra Pradesh with respect to the state's policy incentives or disincentives. Further, we intend to concentrate on the role of the government in the Southern state of Andhra Pradesh, in initiating the processes of reinventing the industrial sector in general and the manufacturing sector in particular. The policy of re-industrialisation and re-emphasis on manufacturing assumed importance

as the probable response to certain critical conditions – such as increasing inequality, massive poverty, rising unemployment and declining quality of life for a large number of people and so the crucial question: can the state in post-colonial societies play a significant role in the processes of economic development as it did historically in the development of the now-advanced countries (Polyani, 1957; Gerschenkron, 1962), while simultaneously projecting its image as pro-people and pro-poor (Basu, 1991).

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 Andhra Pradesh (AP).

2. Data and Methodology

The SBRs in AP seen evolving through different political regimes and their impact on the performance of manufacturing sector is captured through both qualitative and quantitative sources. The key informant interviews involving large number of stake holders associated with policy making such as ministers, bureaucrats (former and serving), who held positions like secretary, commissioner and managing director of industrial corporations (like APIDC, APIIC), members of the apex business associations (like FAPCCI, FAPSIA, ALEAP) form important source of qualitative information. The quantitative information dealing with the performance of manufacturing sector is drawn from data sources of National Accounts Statistics published by Central Statistical Organisation. Apart from the secondary data, this paper also draws its evidence from exhaustive field work completed in four research sites in Andhra Pradesh (Sanathnagar, Jeedimetla, Gajularamaram and Nacharam). The data was collected during December 2008 and February 2009. This study relies on a detailed and exhaustive set of interviews with the entrepreneurs of the manufacturing sector (for methodology on secondary data and sampling for primary survey see appendix 7).

The questionnaire administered to the entrepreneurs concentrated on broad issues like the performance of the firm, the kind of relations that exist between the management and the workers, the state and the firm and finally the firms and the business associations. The information collected through interviews is complemented by macroeconomic data at the state level.

3. Mapping the Politics of SBRS in AP and its impact on industrialization

Andhra Pradesh, formed in November 1956 by merging Telangana region consisting of nine Telugu-speaking districts of the erstwhile Hyderabad State with the eleven districts of the Andhra State, has been a strong bastion of the Congress party since its formation in 1956. It is only with the emergence and coming to power of the Telugu Desam Party

Total Factor Productivity			
		Higher than the State Average (H)	Lower than the State Average (L)
Labour/ Capital ratio	Higher Than the State Average (H)	Machine tools Percentage share in the NVA: 5.61 Number of firms selected: 1 Size: small	Food products Percentage share in the NVA: 14.61 Number of firms selected: 5 Size: small
Labour/ capital ratio	Lower than the State Average (L)	(a) Chemicals Percentage share in the NVA: 19.37 Number of firms:3 Size: One large, one medium, one small (b) Basic metals Percentage share in the NVA: 13.19 Number of firms:5 Size: two large, two medium, one small	Manufacture of refined coke etc. Percentage share in the NVA: 7.72. Firms in this sector could not be covered because of negative attitude of the firms

(TDP) in 1983 that the dominance of the Congress in the State was challenged. The Congress dominance in the State politics coincided with the Congress dominance at the centre as well except for the brief period of Janata rule (1977-80) in the post-Emergency period. This means that there was a long period of harmony between the centre and State at political party and governmental levels. It is therefore interesting to see what has been the impact of this on the process of industrialization in the State and how far the AP State could make use of this for the above purpose.

Three critical factors in shaping SBRs are: ruling political elite, bureaucracy and business classes. While the political class can play a crucial role in creating a positive environment for industrialization by making appropriate policies, creating and enhancing the capacities of institutions and by making crucial appointments, the bureaucracy through its proactive role can identify the potential actors and smoothen the process by evolving policies, formulating strategies and activating institutions and functionaries so that time and cost involved can be taken care of. The critical factor in forging crucial impulse for better SBRs is the internal business class. The presence of this can act as a pressure on the former and make them act positively.

In the history of SBRs in AP, there could be noticed certain degree of asymmetry between these factors. While for the first decade after the formation of the state the political leadership was not very enthusiastic towards industrialization partly because of its social roots and also because of the absence of 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 in India and abroad, which could look beyond agriculture for opportunities of investment and enrichment.

3.1 Neelam Sanjeeva Reddy (1956-60 and 1962-64)

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 agro-based industries like handloom industry. The Chief Ministers (CMs) 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. In fact, it emerges from the interviews with the administrators who happened to work with him that he considered industrialists to be greedy and corrupt, a reflection of the peasant outlook of the early generation of agrarian based political elite.¹ As a result, it is not an exaggeration to suggest that any industrialization that we see in AP was largely due to the initiative of the Central government and to some extent due to the continuation of the state government's support to the existing public sector industries. During this period, the central government made considerable investment in industry in the state and large public enterprises were set up.

Thus, a major part of the history of State was characterized by a system of patronage that essentially banked on contracts for works based on irrigation, rural development and PWD works². It is this contractor class which banked on the expansion of the state's developmental activities and led to the transition of the agrarian based landed classes to the urban economy. It is the nexus of the politician-contractor class that has been one of the key elements in the constitution of the ruling party support base. The absence of enthusiasm for industrial development in the State can easily be assessed. The most visible factor of course was the absence a strong business class which could act as a

¹ Interview with TL Shankar, IAS (Retd), during October 2008, Hyderabad.

² Interview with BPR Vittal, IAS (Retd), during August 2009, Hyderabad.

driving force and put pressure on the government. On the contrary, as suggested earlier, in AP we witnessed the rise and expansion of a parasitical class that banked on political patronage and enriched itself on the government civil contracts. This was in contrast to the experience of Gujarat and Tamil Nadu which had historically seen strong industrial class impulses. In addition, the mutual political and economic security implicit in such a cozy relationship between the political elite and the contractor class seems to have inhibited the latter from making any moves into business that could involve risks.³ Further, there was absence of initiatives on the part of the political elite in the first two decades, despite the political access to centre and visibility of opportunities to industrialize the State. In spite of similarities between AP and Gujarat in respect of centre-State relations, the contrast in terms of industrialization is striking because of the agrarian outlook of the political elite in AP. As a result, whatever industrialization we see in the State was largely the consequence of central government PSEs and State PSEs.

3.2 First Critical Juncture: Shaping SBRs under Kasu Brahmananda Reddy government (1964-71)

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). It was during the 1960s, partly due to central initiatives; institutions meant to support and build up industrial base in the State were set up and activated. An attempt to compare and contrast AP's industrial performance with States like Tamil Nadu and Gujarat were made and the reasons for trailing behind them were understood to be due to the absence of initiatives to attract private capital to the State.⁴

The AP Industrial Development Corporation Ltd. (APIDC) was set up in 1960 with the objective of promoting rapid industrialization in the state. The role of the APIDC in the industrialization in AP in the 1960s and 70s was significant. It had three roles: i) to provide industrial license to entrepreneurs through some sort of single window clearances; ii) to provide financing; and iii) promotions through road shows. Some of the industries like the Satyam which started off through the assistance from APIDC have in the later period grown into large industries.⁵

³ Interviews with most of the civil servants who served these regimes thus opined. Interviews with BPR Vittal, TL Shankar and BV Rama Rao.

⁴ Interview with TL Shankar, IAS (Retd), October 2008, Hyderabad.

⁵ In today's context the APIDC has exhausted its relevance. Since in the context of liberalization no more licenses are required its first role is no longer relevant. The second role has also become obsolete as a lot of banks are forthcoming to provide loans to the industry. Also, as big industries need huge funds and it makes no sense that APIDC take loans from the bank and re-forward it

The AP Small Scale Industrial Development Corporation Ltd. (APSSIDC) was established in 1961 to promote the interests of small scale industry. The AP Agro industries Development Corporation Ltd. (APIDC) and the AP Industrial Infrastructure Corporation Ltd. (APIIC) were set up in 1968 and 1973 respectively. The AP State Financial Corporation (APSFC), started in 1951, is another important body (Krishna, 1989).

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 environment, he entrusted the task of interacting with the business elite to positively inclined officials and also made a special financial provision to take 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, we see many industrialists coming forward to set up industries in the State.

3.3 Pro-Active SBRs: Jalagam Vegal Rao (1973-78)

Jalagam Vegal 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 is the notorious red-tapism in the functioning of governmental organizations. To overcome this, he identified and entrusted the task to trusted and dynamic bureaucrats⁶ who are seen as committed to this objective. One step forward in this direction is 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 were introduced. Vengal Rao was also instrumental in strengthening AP State Finance Corporation, Infrastructural Corporation and Small Scale Industrial Corporation. These initiatives resulted in significant changes in the industrial scenario of the State.⁷ As a result, for instance, a number of forest-based

to industry at a higher interest rate. So today, the only function that APIDC is performing is to recover the past loans to the extent possible. Interview with Vinod Kumar Agrawal, IAS, Chairman and M D, APIDC, Hyderabad, October 2008.

⁶ Interview with Prof R K Mishra, Director, IPE, Hyderabad, during October 2008.

⁷ As part of this exercise and also to ensure transparency a committee, comprising of both ruling and opposition leaders was constituted to make recommendations. Interview with TL Shankar, IAS (Retd), October 2008, Hyderabad.

industries like paper mills came up in the private sector in the place of a small 10 ton capacity paper mill in the public sector in Rajahmundry.

At this juncture, we will focus on the most debatable subject in the phase of industrialization in an economy: the existence of a very strong industrial licensing. Two committees, the Hazari (1967) and Dutta (1969), which examined the industrial licensing in detail, argued of its abuse by large, private, industrial groups. It also highlighted the possible failure of the bureaucracy to perform its duty in this regard (Raychaudari et al, 2007). Does this hold good in the state of AP? AP occupied the last but one position in terms of industrial licences issued to different states during late sixties, but after 1970, AP occupied reasonably better position with regard to the issue of ILs (see appendix 1). This shows that AP could attract sufficient new investments into the industries during 1970s due to the proactive decisions taken by the state government and leaders like Jalagam Vengal Rao as mentioned above. But, did this trend continue in the later years also? For this we need to look at the letters of intent (LOI)⁸, Industrial Entrepreneur Memorandum (IEM)⁹ and investment proposals (see appendix 2). Along with the industrially developed states of Maharashtra and Gujarat, AP also attracted industrialists most. At this point, we may refer to the discussion in Rodrick and Subramanian (2004) that the pro-business shift of the central government in India in 1980s was reflected in those states where the political party in power was aligned with the central government. As a consequence of this, states aligned with the central government benefited the most and AP is one such state.

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. Frequent change of CMs (four CMs in a period of five years), continuous intervention of the Congress High Command, and encouragement to the factional fights rendered this period the most unstable period of the Congress rule in the State. As a result of the political uncertainty, which is the making of the Congress leadership, the SBRs suffered

⁸ LOI is the response to the application that the prospective entrepreneur has to make to the Secretariat of Industrial Approvals (SIA) to enable the entrepreneur to apply for other clearances such as land, power and capital goods or an import license (if applicable). After receiving various clearances, the entrepreneur applies for what is known as the Conversion of an LOI to an industrial license (CIL or IL), (Sinha, 2006).

⁹ Industrial investment is registered separately for the de-licensed and licensed sectors. Investment intentions in the former sector are registered in the form of Industrial Entrepreneurs' Memorandum.

serious setback. The conspicuous absence of political direction, as a commentator put it, pushed the SBRs into 'a state of coma'. We will now analyze the performance of the manufacturing sector in the backdrop of the above mentioned critical junctures.

Appendix 3 reveals the comparative manufacturing sector backwardness of AP in 1964 in relation to some of the more important states in India. Andhra Pradesh stands last amongst the seven states in terms of percentage share of productive capital, employment, gross output and value added. This slow growth in industries till mid-sixties can be attributed to the narrow focus merely on agro-processing industries. But, thereafter, shifts have been taking place towards foot-loose type products based on imported inputs from other regions producing for national markets (Rosen, 1988; Reddy, 1989). Further, from mid- 1960s onwards, some of the wealthier inhabitants of the state have been turning from agriculture to industry. It so happened that these larger entrepreneurs are also well connected politically with various groups in the state (Rosen, 1988). A scheme of incentives for setting up of industrial units was first introduced in the state in 1966. The scheme was made more attractive in 1969. The Central Investment Subsidy Scheme introduced in 1970 covered 14 districts. Thus, this led to the initiation of industrialization in AP.

Further, the revision of the Central Investment Subsidy Scheme in 1976 resulted in structural diversification within the manufacturing sector during the seventies. As Surender (1990) argues, though a few traditional agro-based industries such as food products, tobacco and tobacco products etc. still dominate the industrial economy of the state, their relative importance, however, has declined significantly since the mid-seventies in favour of modern high-tech industries such as chemical and chemical products, electrical machinery, basic metal and alloy industries, cement etc. There was an increase in the capital intensity of individual industries because of technological development and the mechanization of production processes. The increase in capital intensity was the result of the massive investments made in the centrally owned public sector undertakings in the state. The changes in the sectoral income shares over a period of time are indicative of above structural changes taking place in the state of AP (Table 1).

To sum up, being predominantly agricultural, the state has been experiencing industrial growth only since mid-sixties. The significant industrial development that occurred during the seventies is due to the entry of rich peasants into the industry along with the flow of agricultural surpluses. Further, the financial incentives provided by the state government and the growth of the joint sector added to the industrial performance in AP.

Table 1: Sectoral income shares in AP economy: 1970-71 and 1982-83 at 1970-71 prices

Sector	1970-71	1982-83
Primary	56.38	49.26
Manufacturing	8.77	10.56
Registered manufacturing	4.12	5.46
Unregistered manufacturing	4.66	5.10
Secondary	13.43	16.23
Tertiary	29.40	34.51

Source: AP Statistical Abstract, GoAP, Hyderabad

3.4 NTR Regime (1983-1989): Neglect of SBRs

In this section, we make an attempt to look into the various efforts put forward by the state government under the leadership of different chief ministers to set up the various business activities. We have seen earlier that Jalagam Vengal Rao's tenure as CM (1973-78) is considered to be an important landmark in the history of SBRs in AP. But, the emergence of Telugu Desam party (TDP) under the leadership of NT Rama Rao ushered in an era of negative SBRs in AP. NT Rama Rao (NTR) after coming to power in 1983, signaled two important shifts in AP politics: one, rise of anti-Congress and anti-Centre rhetoric; two, the regionalist populism. The TDP, as its rise is counter posed to the politics of the Congress party, took a vehemently anti-Congress stance and which as a consequence translated into anti-Centre rhetoric as the centre was under the Congress rule. By widening the scope of anti-Congressism, the TDP along with the other non-Congress parties and governments in the country sought to play a key role in the national politics by demanding a democratic rearticulation of the centre- State relations.

The second important aspect signalled by NTR's political ascendancy was anchored to the Telugu cultural and identity politics. Thus, his first tenure in power (1983-89) was dominated by the rhetoric of cultural populist politics. In tune with this populist thrust, policies/ schemes comprising of Rs 2 a kilo rice, subsidies to farmers, housing for the poor were emphasized. To sustain these schemes, when in the later years the expenditure on these schemes increased many fold, the regime sought to find a solution by boosting up the liquor sales.¹⁰

During NTR's tenure, the anti-centre politics and populist policies and uneven thrust on agriculture in their combined effect led to the neglect of the industry. Despite this, it

¹⁰ For an assessment of the impact of rice subsidy scheme on state government's indebtedness, Olsen (1989).

may be observed that the handloom industry which is a major employer in the state after agriculture was paid adequate attention essentially as a source of rural employment through Janata cloth scheme (Srinivasulu: 1994, 1996). However, the handloom sector continued to provide livelihood but did not see any skill up-gradation and quality improvement. It is sad to note that not only industrial development saw a setback but even cinema industry, to which he owed his popularity, was pushed into a crisis with the introduction of the 'slab' system.¹¹

Quite paradoxically, the neo-rich agrarian class of the coastal Andhra region that emerged as a result of the political economy of Green revolution and constituted the principal social constituency of the TDP found the lack of enthusiasm on the part of NTR to be slowing down its transition to the non-farm sectors. For it was during the 1970s and 1980s that we observe a major shift of the agrarian families of the coastal Andhra to agro-processing, hotel, and film industry along with service sector. This potential with a proper political and policy direction could have been the basis of an energetic expansion of the industrial base of the State, unfortunately it were not to be. As seen in **table 8**, the growth rates of the industry sector as a whole and the manufacturing sector in particular were lower than the all India average during the period 1980-81 to 1992-93. What could instead be noticed was the response of the regime to a limited group of local industrialists and professional NRIs who could benefit from its patronage to expand into education, hospital, pharmaceutical, media and service sectors.

Three principal social forces that exhibited a strong potential to expand the industrial base of the State were: i) the market oriented rich peasant class in the Green revolution areas of coastal Andhra region that has grown into a matured class eager to expand into trade and business; ii) the artisanal skill base, especially in the handloom and power loom sectors, could have been used to make the sectors competitive and export-oriented; iii) the enthusiastic entrepreneurial Non-Resident Telugus, the bulk of whom consist of Kammas (the core social constituency of NTR's political base), if properly encouraged could have played a significant role in the industrial growth of the State.

In addition, the very political and policy discourse of the TDP proved to be detrimental to a proper growth enhancing SBRs. Firstly, the TDP's emergence is premised on anti-Congressism and once in power the TDP regime not only continued its anti-Congress stance but further expanded it by pursuing anti-centre (as NTR famously said "centre is a myth) politics in a vigorous manner thus displaying his national political ambition. Secondly, the social coalition the regime forged was defined essentially in caste-cultural

¹¹ Interview with Prof RK Mishra, October 2008.

terms (Other Backward Castes (OBCs), women and minorities) which failed to take cognizance of the long term economic interests of coalition partners and implications of such a populist policy dispensation. Thirdly, the populist welfarist policy dispensation became such an obsession that the regime literally became blind to the developmental implications of populist policies.

Thus 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.

3.5 Second Critical Juncture: Chandrababu Naidu Regime (1995-2004)

NTR came to power in the 1994 assembly elections with a huge popular mandate which was attributed to his populist agenda of subsidized 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. An analysis of the drama seen in the proper context and in relation to the subsequent developments clearly shows that it was not a simple event of change of guard of the TDP but a contestation that involved different social classes, especially the entrepreneurial class which successfully directed the crisis to a finale; one of the *dramatis persona* being the owner of *Eenadu* newspaper. (The role of *Eenadu* is worth noting). In other words, the leadership crisis in the TDP was effectively used by the disgruntled capitalist class which was restless with the populist policies and obsessive self-image driven governance of NTR.

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 (see table 8 second period). Naidu as CM 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.

What is important to note in this context is the shift brought about by the economic reform process in India and the launching of the second generation of economic reforms, involving reduction of subsidies, downsizing of public employment and privatization of PSEs, in which the States are crucial actors.

In this context, we can observe that capital formation assumes overriding significance in the milieu of the policy making by the state and central governments. It divulges the potentiality of the investments in the public as well as the private sectors and gives net addition of the assets created during the year. During the eighties, the industrial sector as a whole had a share of 27.8 percent of the capital formation (Rao et al., 2006).

Table 2: Gross Fixed Capital Formation by Type of Institutions (Rs Crore)

Year	AP		All India	
	Public	Private	Public	Private
1995-96	5967 (34.82)	11172 (65.18)	91595 (29.31)	220904 (70.69)
1999-00	9853 (32.82)	20167 (67.18)	129286 (28.33)	327130 (71.67)
2000-01	11063 (33.16)	21856 (66.39)	135699 (28.40)	342119 (71.60)
2001-02	13183 (37.11)	22338 (62.89)	147709 (27.45)	390470 (72.55)
2002-03	11522 (31.38)	25192 (68.62)	154213 (26.40)	430029 (73.60)
2003-04	12889 (29.98)	30097 (70.02)	177736 (25.87)	509280 (74.13)
2004-05	14934 (29.73)	35302 (70.27)	201912 (22.57)	692762 (77.43)
2005-06	19889 (32.38)	41539 (67.62)	251507 (22.68)	857653 (77.32)

Source: Directorate of Economics and Statistics, AP and CSO New Delhi

When we take into consideration, decade starting from 1995, as is evident from table 2, it is found that creation of assets is more in the private sector as compared to the public sector both at the state level and All India level. This signals the pro-business attitude of the state government encouraging the private entrepreneurs to invest in the industrial sector. On the other hand, capital formation in the state of AP in the formal sector was highest during the period 1994-95 as against the other two periods (table 2). Further, in the informal sector, AP registered a continuous increase across the three periods (Table 3). It can also be seen that though the share of the private sector in the gross fixed capital hovers around 65-70 percent, it is lower than the national average in all the years, indicating the need for further push.

Table 3: Real Fixed Assets Per worker by States (Rs)

State	Formal (capital formation)			Informal without DME			Informal with DME		
	1989-90	1994-95	2000-01	1989-90	1994-95	2000-01	89-90	1994-95	2000-01
Andhra Pradesh	154316	254548	235606	4089	5243	10281	-	5970	11501
Gujarat	243629	443014	889661	15867	20156	31311	-	19859	32146
Karnata-ka	186539	260346	500914	5622	7611	13696	-	8345	16247
Mahara-shtra	300772	417278	564624	10982	18932	29033	-	28445	35614
Orissa	590072	761582	790651	1916	1751	3372	-	2073	3729
Tamil Nadu	178805	273528	276399	5403	4509	18619	-	6906	23618
West Bengal	181678	335965	258653	2912	3227	6353	-	3820	7894
All India	240626	185054	441981	6828	6739	15043	-	16592	18964

Source: ASI and NSS 5

Crucial to the discourse on the necessity of reforms is the appalling state of AP State's fiscal position. One of the early documents which signaled the gravity of the fiscal scenario was the white paper by the Government of Andhra Pradesh, published in June 1996, on the state of AP economy entitled, 'State Finances: The Factual Position' [Government of Andhra Pradesh, (1996a)]¹². Avoiding engaging in the political policy specifics, it stated:

“State Finance has been under strain for well over a decade with the deterioration becoming more pronounced and acute each successive year. The present financial stress is not due to the *action or inaction of anyone person or the result of any single scheme or policy* of the Government but a cumulative result of decisions of different Governments in the last decade and more”.

In September 1996, the World Bank came out with its first ever document on a state economy which diagnosed the fiscal crisis in AP [World Bank: 1996, p. 2] as follows:

On the fiscal side, AP placed poverty alleviation high on its policy agenda and developed a complex anti-poverty strategy which involved massive public expenditure on broad-based subsidy and welfare programs. *Among Indian states, AP now has the highest proportion of its non-interest expenditure allocated to such programs.* This strategy has diverted scarce public resources away from productive uses in economic and social infrastructure... Given its poor growth performance, AP has failed to expand its revenue base needed to finance its subsidy and welfare programs. As a result, the

government has been increasingly forced to divert further funds away from productive uses of resort to high cost borrowing to meet its commitment to expensive subsidy schemes.

Further it stated,

State's fiscal position has been aggravated in the past two years with the re-introduction of state 2-rupees rice scheme and implementation of full prohibition on the sale of alcoholic drinks in the state. These programs together put an additional burden of about 3 percent of GSDP on the budget which has led the state into an acute fiscal crisis in 1995-96, unprecedented in its history.

The committee under the chairmanship of Subramaniam constituted by the NTR government to go into the question of crisis of public sector enterprises (PSEs) in AP came in handy to Naidu. The committee in its report submitted in June 1995 recommended far-reaching changes: closure of 9 PSEs; Partial disinvestment in 10 PSEs; Privatization of 2 PSEs; Restructuring 7 PSEs.

The international institutions like the World Bank and DFID needed a State and persona to be projected as the role model. Naidu with his enthusiasm was found to be a much needed poster boy. The national and international attention from the donors, western media and pro-reform political and policy elite catapulted Naidu into the global circuit.

The strong presence of Telugus among the NRIs added strength to this image. It may be recollected that NTR in the 1980s built up linkages with the Non-Resident Telugu associations, especially in the USA. But he used them basically as spring board for his cultural politics of Telugu pride. These networks were not channelised, at least in a concerted manner, for furthering business investment during NTR's tenure. Naidu with a focused direction appealed to the Non-Resident Telugus to invest in AP (see table 4).

It may be noted that the Telugus who went to the US in the 1960s and 70s were mostly educated professionals. Some of them, especially in the medical and software sectors, graduated to be entrepreneurs and venture capitalists. Naidu aimed at tapping this potential by emphasizing on the importance of knowledge economy and the ability of AP to tap the opportunities in this sector. Thus the regime found strong sources of ideological legitimacy in its attempt at policy reorientation in the international institutions

¹² Also see, Govt. of Andhra Pradesh (1996b), 'Pattern of Expenditure on The Welfare Sector', June.

and media, NRIs and internally in the domestic entrepreneurs, local media and the educated middle classes.

Table 4: FDI Proposals State-wise (August 1991- May 2002)

State	Number of approvals	Amount of FDI approved (Rs. in millions)	Percent (share in all India)
Andhra Pradesh	1010	130687	4.66
Tamil Nadu	2152	232360	8.29
Gujarat	1049	184533	6.58
Maharashtra	3959	486602	17.35
Orissa	136	82290	2.93
West Bengal	591	88024	3.14
All India	21926	2804421	100

Source: Indian Investment Centre, <http://iic.nic.in> (percentages calculated based on the data)

What also turned out to be in favour of Naidu was the non- Congress governments at the Centre since 1996, earlier the United Front Governments and later the NDA government, both being supported by the TDP. This gave Naidu an access to the federal government which was not available to NTR. In fact, Naidu regime saw an entirely new phase of centre-State relations in the history of the TDP, with it participating as an active actor in shaping them. Thus, with friendly governments at the Centre, Naidu government could pursue its policies with the support, resources and absence of conflict threatening to divert its political attention and energy.

With the 1999 assembly and national elections establishing him as the undisputed leader of the TDP, Naidu speeded up the reform process, launched earlier. What is to be noted here is that the reforms here were not merely aimed at improving SBRs through institutional and organizational changes but in fact advertised as a major revamping of the governance structure through IT ES to ensure SMART (Simple, Moral, Accountable, Responsive and Transparent) governance.

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 (Table 5).

Table 5: Some Selected State wise Granted Industrial Licenses and Investment, Employment Proposals in India during August 1991-February 2004

State	No.s Granted	Proposed Investment (Rs. In crores)	Proposed Employment (Numbers)
AP	411 (11.74)	13710 (11.56)	74395 (9.63)
Orissa	27 (0.85)	4444 (4.2)	10882 (1.28)
WB	97 (2.32)	3155 (3.21)	19706 (2.23)
Maharashtra	486 (13.47)	17748 (14.48)	122898 (14.31)
Gujarat	365 (10.69)	22385 (18.06)	65630 (8.14)
Tamil Nadu	749 (19.54)	12723 (10.6)	139108 (16.06)
Karnataka	170 (6.21)	9502 (8.11)	65861 (8.17)

Source: *Indiastat.com*

Note 1: *figures refer to the Letter of Intent and Direct Industrial Licenses*

2. *Percentages are given in the parenthesis*

It is possible to infer the level of investment in a state from government data on investment proposals. The pattern of industrial licenses granted during the period 1991-2004 shows that the share of industrial licenses granted is highest in the state of Tamilnadu as compared to the other states (Table 5). As far as AP is concerned, it stands third in terms of the share in number of industrial licenses granted, but, its share of investment is higher than that of Tamilnadu and the share of proposed employment is just around 10 percent much lower than that of Tamilnadu. The formal institutional changes attempted included creation of single-window clearance¹³ that sought to avoid the bureaucratic delay; simplification of approval of projects; institutionalizing wide range of incentives like tax

¹³ Quite to the contrary, the single window system did not seem to have worked the way it was intended on the ground. This comes out very clearly from the interviews not only with business association leaders but also with some bureaucrats and academics. Interviews with B. G. Sastri, Former President of FAAPCCI, B V Rama Rao, IAS (Retd.) October 2008, Hyderabad and Prof R K Mishra, Director, IPE, Hyderabad.

holidays and exemptions, creation of infrastructural facilities, provision of subsidies for land, water, power, transport, etc; relaxation of labour and contract laws (exemptions from labour inspections, permission for three shifts, etc). The determination to pursue reforms are made amply evident through the reversal of the populist thrust of the earlier regime and the initiation of unpopular measures like the unbundling of the Andhra Pradesh State Electricity Board (APSEB) recommended by the AP Electricity Regulation Commission set up in 1999 to review the working of SEB

Andhra Pradesh: Vision 2020 (Government of A P: 1999), a document prepared by international management consultancy firm McKinsey in 1998, was presented as the official statement of the long-term policy direction of the regime.¹⁴ Identifying nineteen growth engines across different sectors of the economy, it promised to move the State economy from agriculture to a diversified economic growth path. It also saw governance reforms that ensure efficiency, transparency, accountability and speed as essential ingredients of the vision. It is necessary to note that the document found favour with the educated middle classes as much with the corporate world thereby generated a positive public response and provided ideological legitimacy to its reforms.

Naidu regime brought about a perceptive informality, hitherto unknown, in its relation with the business houses, associations and leaders. Frequent interactions of the CM and his officials with the businessmen in the Secretariat, in social gatherings and business association meetings and the Confederation of Indian Industries (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI) conferences were to find regular reporting in the media. Media was used to send the message of new dispensation of the regime. Media, given its corporate connections, willingly participated in this discourse by giving prominent to this dimension of the regime.

Organizational changes in the government-business relations include the rise in the prominence of the APIIC as the nodal agency for facilitating the project preparation, land acquisition, providing infrastructural facilities, etc. Officials with pro-corporate aptitude and dispensation are identified and assigned the responsibilities and made duly accountable. Their job was to produce the results. Further, two industrial policies were announced during this period offering more concessions, incentives, waiver of taxes and offer of land at cheaper prices. Memoranda of Understanding (MoUs) were signed and pompous announcements were made. However, all these efforts failed to yield any result for the setting up of industries in AP (Rao, et al 2010). The reason for this is that the government jumped to the service sector straight from the agriculture sector.

¹⁴ For critical analyses, see D N Reddy (ed), 1999.

The developments pertaining to the promotion of the Information Technology (IT) sector highlight the changes in the discursive, institutional and organizational style during Naidu's regime. The construction of the HITEC City, consisting of Cyber Towers and Cyber Gateway, which began in 1995 as Public Private Partnership (PPP), soon after Naidu's coming to power, for the promotion of the IT sector, became the symbol of regime change in the State and Cyberabad (as distinct from the twin cities of Hyderabad and Secunderabad) as its locale. Soon reputed Information Technology (IT) giants like Infosys, Wipro, Satyam, Microsoft, Oracle got gravitated to it. The establishment of the Microsoft School for Software Technology (MSST), the first R&D centre by the Microsoft outside the US along with the Indian Institute of Information Technology (IIIT) in Hyderabad is considered to be major achievement of the Naidu government. The Naidu government specifically tried to showcase the HITEC city as a demonstration of its pro-business dispensation.

What is worth noting here is the point that IT is not just seen as a sector capable of generating employment and incomes but also as a mechanism to put in place a system of good and transparent governance. Governance reforms and IT as an instrument of improving governance to "smoothen the interface citizens and business has with the government, by making the latter more responsive" but also to "improve internal efficiencies, integrate services..." [Naidu: 2000, p. 83]

Behind this showcasing of the IT and so-called Cyberabad as the face of AP shining, there was a gross neglect of the rural economy and the manufacturing artisanal and modern industrial sector. The projected development could not assuage the grievances of the majority of the population dependent on agriculture and allied occupations. Their anger caused him an electoral defeat in 2004 [Srinivasulu: 2004.]. It was during this period that the agricultural performance was poor due to bad weather conditions and this had its impact on the industrial sector especially the agro-based industries.

3.6 Congress Regime (2004 -)

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 (table 6).

The performance of AP in terms of investment proposals implemented stands fourth, next to Gujarat, Maharashtra and West Bengal. Though AP's performance is satisfactory, the government has to think seriously about how to attract more investors into the economy. Research on the investment climate in a comparative frame shows that

agglomeration economies promote path dependency in regional industrial development (World Bank, 2004). The World Bank report also presents the evidence that in case of private investment, firms take into consideration specific aspects of the local investment climate when choosing locations. These include the relative costs of business regulation, the cost of corruption, the cost and reliability of power supply, how intrusively industrial regulations are enforced and so on. The possible role of adverse economic geography in the growth of industry in certain regions can thus be lessened to a certain extent by reforms that improve the policy driven component of the investment climate (Glaeser et al., 1992). Is it true in the case of AP? For this we will look at the firm's perception of obtaining licenses, availability of infrastructure, industrial regulations etc., for setting up the unit in the state of AP in the next section which focuses on the primary survey.

Table 6: State wise status of Industrial Entrepreneurs Memorandum (IEM) System Implemented in India August 1991 – October 2006 (In Rs. Crores)

States	IEM implemented		IEM proposed	
	No.	Investment amount	No.	Investment amount
Andhra Pradesh	507	14525	4734	199113
Tamil Nadu	438	9638	5798	139930
Gujarat	1121	68810	8242	352601
Maharashtra	961	29106	12451	290855
Orissa	52	1843	1026	166877
West Bengal	475	28963	3844	85968

Source: *Indiastat.com*

What was initiated by the Naidu regime remains to be attended to but does not get the kind of verbal and visual prominence it was given earlier. In fact one could see a marked difference in the styles of governance.

One significant initiative by the Congress regime that has a direct bearing on the SBRs is its pro-Special Economic Zone (SEZ) initiatives. With 57 notified and 99 formally approved SEZs Andhra Pradesh has acquired a dubious distinction of being one of the leading States in terms of the number of SEZs. The pro-active role of the government could be gauged from the fact that of these 30 SEZs have been developed by the state's industrial infrastructural corporation (APIIC) and couple of them by other government agencies. While as many as 95 SEZs are related to the IT and IT-enabled services sector, the number of multi-purpose SEZs is just eight. Most of these IT/ITES SEZs instead of attracting new companies have only resulted in the relocation of the old ones for availing

tax incentives. With serious doubts raised about their role in advancing industrialization, they assumed notoriety as land acquisition gave rise to allegations of land scams and large scale displacement of rural population in these areas resulting in local protest movements.

4. Interaction of institutions and organizations in determining manufacturing activity

In this section, we focus on the performance of the manufacturing sector in the state during the period 1980-81 to 2005-06. With the launching of the economic reforms in 1991 by the union government headed by PV Narasimha Rao, and the populist policies proving to be a huge burden on the State exchequer, the State government went back on its election promises. With the change of Chief Minister in the State in December 1990 a policy shift became possible. The new CM, Janardhan Reddy is credited with initiating economic reforms in AP. Apart from pruning/ withdrawing populist schemes and subsidies of various kinds, he was also instrumental in initiating steps for privatization of the Public Sector Enterprises (PSEs) in AP. But this process was disrupted with his displacement and the compulsion of elections in 1994. Hence, the entire phase will be divided into two periods, first period from 1980-81 to 1992-93 (pre-economic reforms) and the second period from 1993-94 to 2004-05 (post-economic reforms). Further, in 1992 the first industrial policy was initiated by the state government signaling the emergence of a strong industrial base for the state. Before 1992, though there was no formal industrial policy, the government issued a large number of Government Orders (GOs) based on central industrial policies to facilitate the process of industrialization in the state.

4.1 Patterns of Output in the Manufacturing Sector

In order to examine the progress of manufacturing sector in the state, let us look into the percentage share of manufacturing SDP (registered and unregistered) in comparison to other states (table 7).

Table 7: Percentage shares of SDP by registered and unregistered sectors in manufacturing SDP in for select few years (1993-94 prices)

Year	Registered	Unregistered
1980-81	61.34	38.66
1985-86	67.60	32.40
1990-91	70.97	29.03
1995-96	69.91	30.09
2000-01	67.91	32.09
2005-06	69.86	30.14
2008-09	70.29	29.71

Source: State Domestic Product, AP, various issues

The increase in the share of registered manufacturing sector during eighties can be attributed to the increase in the number of units in the medium and large scale sector. The number of units in the medium and large scale sector increased by 35 percent, investment increased by nearly 42 percent in 1985 over 1980 (Naidu, 1988). Further, measures like provision of investment subsidy, allotment of developed industrial lands and sheds at subsidized prices, concessions on water and power have all contributed to the increase in the percentage share of SDP by the registered manufacturing sector. However, the percentage share of SDP by the registered manufacturing sector declined significantly in 2000-01 compared to early nineties. This may be due to the importance given to small-scale sector in the Industrial Policy of 1992 which would have encouraged the manufacturing activities of the unregistered sector more than that of the registered sector.

While there is a clear increase in the percentage share of SDP from registered manufacturing sector, what story do the growth rates tell us?

Table 8: Trend Growth Rates of SDP from manufacturing, registered and unregistered sectors in AP during 1981-82 through 2007-08 (1999-2000 prices) (percent per annum)

Sector	1981-82 to 1992-93	1993-94-2007-08
Total Manufacturing	8.3* (0.006)	5.4* (0.003)
Registered	9.2* (0.006)	5.3* (0.003)
Unregistered	6.4* (0.006)	5.6* (0.002)

*Note: Figures in the parenthesis indicate standard errors; * indicates 5% level of significance*
Source: National Account Statistics

The higher trend rate of growth of SDP from the registered manufacturing sector during first period as compared to the second (Table 8) in the state of Andhra Pradesh can be attributed to the structural diversification that has taken place in the manufacturing sector over the period. However, this trend could not be sustained and registered a decline in the second period over the first. This decline can be attributed to the growing sickness of certain categories of small scale industries. Apparent reasons for the high occurrence of sickness among the small scale units are due to lack of sufficient familiarity, defective financial planning, imperfect planning, obsolete technology, power and energy shortage and also the problems related to the supply of raw materials. Our primary

survey analysis talks about the hassles faced by the small scale enterprises in carrying on their business activities.

As Rao (2006) argues during 1985-90, the then Prime Minister Rajiv Gandhi took the first step for import of foreign capital on the ground that the Indian industry needed exposure to competition. Industry in AP was not able to deal with this sudden policy change; its pace of development slowed down causing a dislocation. It was during this period that farmers were encouraged to install pump sets on a large scale, leading to power shortage in the industrial sector; this led to declining enthusiasm to set up industries in the state. Heavier power tariff on industries to cross subsidize agriculture was another reason. What are the other reasons behind this slow growth rate of SDP from manufacturing sector in the second period? The overall recession that took place in the manufacturing sector as a whole at the All India level is also observed at the state level too. The early nineties attained a high growth due to an import-led boom. A credit policy based more on changes in interest rates would have been more responsive to market conditions. Instead, credit squeeze choked funds to industry and perhaps resulted in the prolonged recession in late nineties. Chandrasekhar and Ghosh (2002) commenting on the recession in the late nineties, observed that "liberalization per se is not enough to ensure high rates of growth of investment and productive activity and that other strategies may be necessary to encourage". Vaidyanathan (1995) also pointed out that though the policy regime changed under reforms, which deregulated and got rid of bureaucratic controls, the responsibility for the necessary reform was left to the states. The requirements for the licenses, permits and inspections at the state and local level continued to be onerous as the enterprises faced difficulty in procuring land, electricity and water connection. Secondly, there was a credit squeeze in 1996, based on the quality of credit, which also seemed to have dissuaded industrial producers from plans to expand their production and import technology.

4.2 Employment in the Manufacturing Sector

Industrialization is supposed to change the relative importance of the manufacturing sector in the economy. While the share of output of registered sector showed dominance in the state, what is the situation as far as employment is concerned?

When we take into consideration total employment in the manufacturing sector, manufacture of tobacco and tobacco products generate the highest share of employment in 2001 when compared to the other sectors (Table 9). This is also the sector which registered an increase of nearly five percentage points in 2001 over 1981. The dominance of beedi-making activity has resulted in more employment generation by this sector. However, when we look at the manufacture of cotton textiles, manufacture of wood and

wood products and the manufacture of non-metallic mineral products, the percentage share of employment generated decreased in 2001 over 1981 with the decrease being more in the non-metallic mineral products sector.

Table 9: Total Employment in 1981, 2001

Industrial Classification	Sectors	1981	2001
22	manufacture of tobacco and tobacco products	14.83	19.80
23+24+25	manufacture of cotton textiles, jute, hemp, wool, silk, synthetics fiber textiles	17.78	16.10
26	manufacture of textile products(including wearing apparel other than footwear)	11.04	12.60
27	manufacture of wood and wood products, furniture and fixtures	12.98	12.66
32	manufacture of non-metallic mineral products	8.89	5.27

Source: Census of AP, 1981, 2001

Table 10: Compound growth rates of manufacturing employment: organized and unorganized (in percent per annum)

States	1981-82 to 1991-92		1991-92 to 2001-02
AP	Manufacturing	1.03	2.69
	Organized	1.89	0.89
	Unorganized	0.62	3.51

Source: Population Census and Annual Survey of Industries

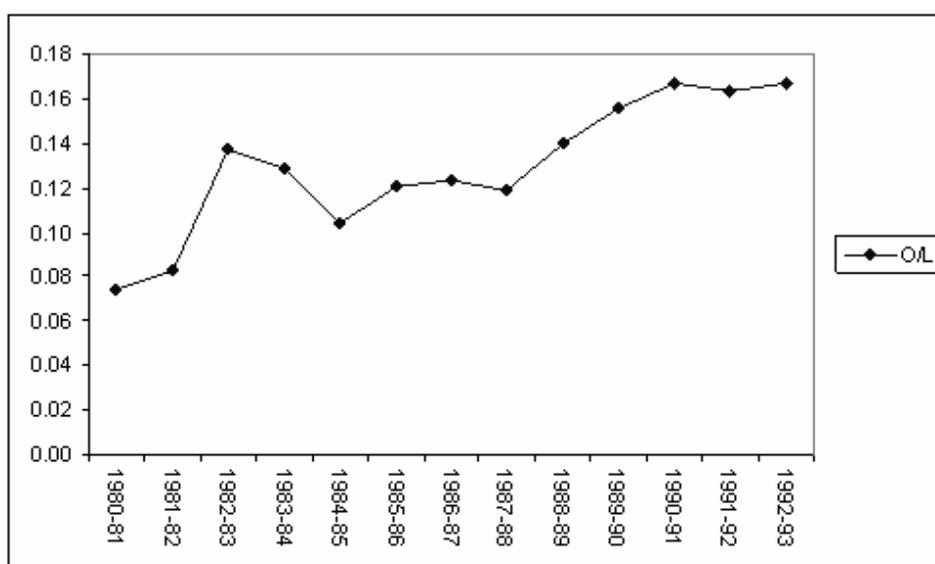
Rate of growth of employment of the manufacturing sector as a whole increased in the second period over the first in the state (Table 10). However, it is the unorganized sector which has actually contributed to the increase in the rate of growth of employment. The rate of growth of employment in the organized manufacturing shows a decline in the second period over the first in AP. Here, we can argue that reforms could not accelerate employment growth. It is possible that economic opportunities have not increased in the post-reform period in spite of higher growth. Further, the lower growth in organized employment can be attributed to the slow down in the employment in the public sector enterprises. The closure of many sick units could have resulted in the decline in the

growth of employment in the organized sector. The increase in the unorganized sector employment is due to the expansion in construction activity and the beedi industry in the state.

4.3 Labour Productivity and Annual Gross Value Added Per Worker

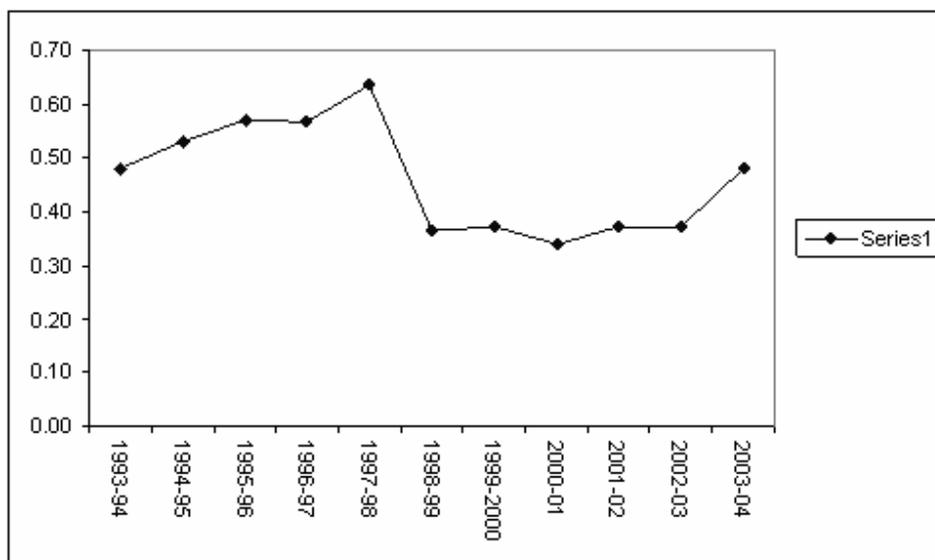
In response to the question that we raised in the earlier section, whether the output growth translates itself into high labour productivity, we look at the labour productivity in both the organized and unorganized manufacturing sector. Labour Productivity (O/L) in the registered manufacturing sector in the first period shows an increase continuously for the period 1987-88 to 1992-93 (Figure 1). This trend continued till 1996-97 and thereafter registered a steep decline in 1998-99. Then O/L started fluctuating and then registered an increase in 2003-04 (Figure 2).

Figure 1: Labour Productivity in AP during 1980-81 to 1992-93 in Registered Manufacturing



Source: Calculations based on the data from ASI, Govt. of AP, Various Issues

Figure 2: Labour Productivity in AP (1993-94 – 2003-04) in Registered Manufacturing



Source: Calculations based on the data from ASI, Govt. of AP, Various Issues

What about the labour productivity in the unorganized sector in AP vis-à-vis the other states? (Table 11)

Table 11: Annual Gross Value Added per Worker (In Rs.) by States/UTs (Product Approach), 2001

State	GVA (in Rs. Per worker)	
	Rural	Urban
Andhra Pradesh	9324	18637
Gujarat	16987	34643
Karnataka	10403	21055
Kerala	16484	28422
Orissa	4814	15138
Maharashtra	15128	33025
Uttar Pradesh	10083	18923
West Bengal	10216	19539
Tamil Nadu	11979	22740
India	11120	25598

Annual gross value added per worker in unorganized sector in rural areas is the highest in Gujarat (Rs. 16987) as compared to other major states. Each rural worker of the state of AP in the unorganized sector contributes Rs 9324 gross value added per annum, while in urban areas, the annual gross value added per annum is Rs. 18637. When we compare the state of AP vis-à-vis the other states, we observe that the GVA per annum both by rural and urban workers is low in the state of Andhra Pradesh.

4.3 Registered Manufacturing Sector

Considering the importance of manufacturing sector within the industrial sector in general and registered manufacturing in particular, we decide to narrow down our focus. We now take stock of the situation concentrating only on the latest year¹⁵ (2004-05) for which the ASI data are available at the state level. It is important to mention here that throughout this section, we have considered net value added figures for output, total persons engaged for labour and the value of fixed capital for capital.

Table 12: Relative Shares of selected industries of factory sector - Number of Factories, NVA, Fixed Capital and Employees (2-Digit Classification) 2003-04 (Percent)

Industry	No. of Factories	Net Value Added	Fixed Capital	No. of employees
food products and beverages (15)	44.50	14.61	17.52	18.12
tobacco (16)	2.97	7.41	1.07	13.08
manufacture of coke, refined petroleum products (23)	0.28	7.72	6.36	0.19
chemical products (24)	5.83	19.37	15.21	6.10
non-metallic mineral products (26)	17.39	8.30	14.42	20.97
basic metals (27)	2.91	13.19	20.95	3.24
machinery (31)	1.74	5.61	2.08	2.50

Source: ASI, Government of AP, 2004-05

Share of Net Value Added (NVA) and the productive capital of chemical, food products and basic metals are more or less the same and constitute around 47 percent of the total manufacturing in 2003-04 (Table 12). Between food products and beverages and the

¹⁵ We have considered the industrial categories having shares of five percent and above.

manufacture of tobacco, though the share of net value added of tobacco is low when compared to that of the food and beverages sector, it generates employment almost double its share of net value added. Further, non-metallic mineral products generate the highest share of employment as compared to the other sectors.

4.4 SBR and Infrastructure

Variations in risk and infrastructural conditions explain a good deal of difference between the levels of domestic and foreign investment taking place in the economy. We know that infrastructure plays an important role in attracting industrial investment into the economy. Secondary data in this section makes an attempt towards this direction.

Physical and social infrastructures are important for economic growth and higher human development. Economic infrastructure like transport, communication and power facilitates and accelerates the growth of economic activities and contributes to national or state GDP (Dev and Ravi, 2009). In AP, the contribution of the transport and communication sector to total GSDP at current prices was 6.31 percent in 1960-61 and it increased to 7.94 percent in 2004-05¹⁶.

The road length per 100 sq.km of area for select states in India, we observe that in the state of AP, the road length registered a continuous increase over the period of study. The total road length in AP in 1956-57 was 17086 kms; on an average, this was 6.21 kms per 100 sq. kms and 0.55 kms per 1000 population (Dev and Ravi, 2009). The total road length increased to about 71.32 per 100 sq.kms of geographical area as on 31st March, 2003 (Appendix 4). This is again due to the policy initiatives adopted in the State Industrial Policy 2000-05¹⁷. Did these incentives of infrastructure benefit the entrepreneurs? We will discuss this in the primary survey analysis.

With regard to post offices and telephone connections, in AP, there were 16190 post offices and 32.64 lakh telephone connections as on March 2005. In other words, around 21 post offices and 4121 telephone connections per lakh population. Despite improvement in infrastructure in the state, the infrastructure index presented in the report of the Tenth and Eleventh Finance Commission for major Indian states shows

¹⁶ Directorate of Economics and Statistics, Government of AP, 2005

¹⁷ Infrastructure facilities such as roads, electricity, water, drainage etc., to be provided at the door step of the proposed industry in the areas identified by the State Government as industrial areas. Government also facilitates creation of allied infrastructure such as telecommunication facilities including internet connectivity and information kiosks, transportation links from industrial areas to towns (bus service), Housing complexes nearer to industries, container depots and exhibition halls by promoting private participation.

that the index value for AP for 1995 was almost close to all India (i.e.100) and it was ranked 10 among the fifteen major states. In 2000, the index value and rank of the state had improved marginally to 103 and 9 respectively. However, Punjab, Kerala, Tamil Nadu, Haryana and Gujarat had much higher levels of infrastructure than AP in 2000 (Dev and Ravi, 2009)

4.5 Industrial Unrest

Yet another important measure of the existence of good SBR is the absence of industrial unrest. Appendix 5 and appendix 6 show that there is no industrial unrest in the state of AP. This is further complemented by the primary survey analysis.

Secondary data on manufacturing sector provided the macro picture and reflected the pro-business attitude of the state government. What do the firms have to say in this context? We will probe into this matter in the next section.

5. Primary Survey Analysis – Firm's Perspective on State Business Relations

We conducted primary survey to assess the state business relations in Andhra Pradesh and its impact on the manufacturing sector. te Velde (2006) identifies the organization of the private and public sectors as the main elements of healthy SBRs. Weiss (1998) indicates that the more firms are involved in business associations the easier it makes to coordinate policy between the government and business. Hisahiro (2005) argues that business associations play a significant role in facilitating the formulation, implementation and monitoring of economic policies and provision of feed back to the government. In general, business associations help firms because they can provide a more coherent and consistent case and have a greater impact on the government. Also, their presence eliminates duplicate lobbying efforts and hence is cheaper for firms. To assess the impact of an organized private sector, we take into consideration if the firm is a member of a business association.

Some would argue that there is no business case for firms to organize themselves, as they could lobby government directly. Indeed, large natural resources firms might go directly to the government to negotiate new terms or address barriers in customs. However, for some other firms it might simply indicate a waste of resources (Qureshi, te Velde, 2007).

Box 1: Business associations and firms

Firm analysis at the field level shows that all the firms (large, medium and small) are members of business associations. Majority of them are members of Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI). This observation contradicts the argument that there is no

business case for large firms to join business associations (BA) as they could lobby government directly. Though the large firms have more access to the government and bureaucrats and can approach the government directly, they take membership in the BAs. This membership keeps them informed about the various initiatives and policies undertaken by the government. The large firms, in fact, by being members of BAs cater to the needs of the small firms by giving them guidance on policy matters, helping the BA in organizing the workshops and sharing their work experiences with the other firms in the association. The women entrepreneurs have membership in Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP).

In terms of the services provided by business associations, providing information on government regulations is the most significant service provided by business associations to the firms covered in the sample. This view was echoed by all the firms in the sample. Most of the firms accorded 4 and 5 on a scale of 1-5 where 1 (very inefficient) and 5 (very efficient). The members are also happy with regard to the performance of FAPCCI in terms of conducting workshops, training programmes etc., to enhance the capabilities of the members. They publish their newsletter regularly and the information is uploaded on the website for the benefit of the members. The issues deliberated with the government are informed to all its members on a continuous basis. The meetings are conducted regularly and as and when a particular issue arises, a separate meeting is again convened. Our findings also reveal that providing information on government regulations appears to be the most effective service of the FAPCCI. But, when it comes to the issue of lobbying the government, while the large and medium firms are happy with FAPCCI in this regard, the small firms, on the other hand, feel that that the service provided by the association in this regard is not satisfactory. On a scale of 1-5, the firms accord 2 in this regard. When we pondered over this issue with the FAPCCI committee members, they said that they try their best to help the members.

Box 2: ALEAP and Firms

ALEAP was established in 1993 with an aim to bring together first generation women entrepreneurs trying to help each other and work in collaboration for welfare maximisation. ALEAP developed the First Women Entrepreneurs Industrial Estate in India at Gajularamaram, Ranga Reddy district of AP. It is a state level organization with an objective of upliftment of women and empowerment through establishing small and medium

enterprises. Their Centre for Entrepreneurs Development (CED) provides entrepreneurship abilities to the women and contributes to state's economy. ALEAP members have been recognized by large scale industries as their strategic vendors in manufacturing their products. It provides financial assistance to its members in the form of ALEAP Credit Guarantee Association (ACGA). Members of the association will be provided financial assistance from Andhra Bank without collateral security.

Yet another association that caters to the needs of the small firms is the Federation of Andhra Pradesh Small Industries Association (FAPSIA). This was established in 1992 and disseminates information in the form of annual reports, monthly newsletters, training courses and seminars. The association claims that it plays a major role in influencing the budget and government spending plans. The President of FAPSIA strongly feels that the present Congress government compared to the previous TDP regime is very supportive and is thriving to do much for the small scale industries. He says that the incentives provided by the present government are much more than those provided by the previous regime. These incentives take the form of discounts, subsidies on power, tax refund, reimbursement of local taxes, special incentives to women entrepreneurs etc. Despite these initiatives, why is it that the small entrepreneurs feel neglected. Is it that the benefits are not reaching the entire small scale entrepreneurs or is it that the incentives have been started recently; it is taking time to reach the small entrepreneurs? This is one area which needs to be probed further.

To conclude, the effect of SBR works primarily through provision of information on government regulations and lobbying government. FAPCCI which has a large membership in comparison to ALEAP is successful in provision of information on various aspects to its members and does not play much role in lobbying the government. ALEAP, though successful on both the parameters, owing to its limited membership confined to lady entrepreneurs, indicates that the main activity of these associations is dissemination of information. As discussed above, the presence of business associations eliminates duplicate lobbying efforts and hence is cheaper for firms. Thus, if the business associations like FAPCCI, ALEAP, FAPSIA etc., play an active role in lobbying the government, then the SBRs become more meaningful.

How efficiently government is organized is as crucial as the organization of the private sector for SBRs. To measure the role of government in state-business relations, we consider firm's perceptions about the efficiency of government in delivering services (for example, availability of road and railways, availability of warehouses, availability of industrial estates) on a scale of 1 (= very inefficient) to 5 (= very efficient). Apart from this, the provision

of telecommunication facilities, supply of electricity, supply of water etc., also become crucial in the judgment of SBRs.

Box 3 : Firm and Government

In this context, majority of the entrepreneurs rate the performance of the government in delivering services like roadways as satisfactory (3 on a scale of 1-5). They also felt that there is improvement in the service delivery of roadways over the last five years. On a scale of 1-5, the performance of roadways was rated as 2 five years ago, now, it is 3. However, few small entrepreneurs do not agree to the above opinion and rate the service delivery of roadways as inefficient (2 on a scale of 1-5) now and also five years back. This is true especially for the small exporters. They judge the performance of roadways based on the costs incurred in moving the products from one place to the other. They find it extremely difficult to export their commodities as they have to incur huge expenditure in transporting their commodities. One small entrepreneur expressed extreme difficulty in this aspect. She said that as she had to bring her product of edible oil from Vijayawada to Hyderabad and then export it, she had to face huge transportation costs in moving her product from Vijayawada to Hyderabad.

With respect to the availability of industrial estates, members of ALEAP are happy in spite of not having proper telecommunication facilities within the estate. However, one entrepreneur belonging to the medium firm doing (chemical sector) business from industrial estate within the city (Sanathnagar) states that he is forced to relocate his firm as the government feels that the firm produces hazardous substances. Yet another problem faced by the firms is the stringent rules of pollution. Most of the firms which do the business from the industrial estates within the city like Sanathnagar, Nacharam etc are asked to either shut their business or relocate as the firm releases effluents which cause pollution hazards. One small entrepreneur cited the harsh rules associated with pollution as an example of bad SBR. The other firms on an average gave 4 on the scale of 1-5 for the availability of industrial estates.

Only one firm gave 3 on a scale of 1-5 for the availability of warehouses.

Power, Water and Telecommunication Facilities

Almost all the firms depend on the state electricity board for power supply and are of the opinion that their production gets affected badly in summer when there are unscheduled power cuts

With regard to supply of water, in the industrial estates of Jeedimetla and Sanathnagar, the firms have formed into a society and society provides water to various firms. In Gajularamaram, where ALEAP has its industrial estate, there is no water connection and the entrepreneurs procure water through water tankers.

With regard to telephone connections, large and medium sized firms do not face any difficulty. They say that now they get the connection immediately after applying while it would take two to three months five years before. About 10 years back, to get a telephone connection the firms had to wait for more than a year. On the contrary, the small firms feel that getting a telephone connection is a Herculean task even now. One small entrepreneur was not able to get the telephone connection for her firm as the department asked for submission of too many papers. To avoid the cumbersome procedure involved to get the telephone connection, she got the telephone connection in the name of the larger business group of which she is a part. Despite the mobile revolution, getting a telephone connection from the state telephone department is a difficult task for the small entrepreneurs.

In response to the question that we raised in the previous section that the setting up of manufacturing units is dependent on the kind of industrial regulations, infrastructure etc, our interactions with the firms reveal that the service delivery in terms of roadways, accessibility to industrial estates, water, power and telecommunications by the government is efficient. Does this mean that there are good State Business Relations in the state of Andhra Pradesh? We cannot judge whether the state has good or bad SBR based solely on service delivery. There are other issues that need to be dealt with to assess the state business relationship. Theoretically speaking, effective SBRs result in a decline in ambiguity surrounding the firms, positively influencing its performance. In this regard, another measure that we can include is a firm's opinion about getting a clearance for a proposed initiative such as (time required for setting up a new firm; for setting up a new production unit; to get necessary permission for exporting). The higher the problem of uncertainty, the lower would be the effectiveness of SBR. Further, we also make an attempt to include the percentage of senior management's time spent on addressing government regulations/officials/and paper work. Good SBRs are expected to lower the administrative constraints faced by the firms (Qureshi and te Velde, 2007). Is this true for our firm level analysis?

Box 5: Setting up of Industries

Our firm level analysis shows that for already established firms, be it large or medium, getting permission for setting up a new production unit, or expanding the existing one, or getting permission for exporting is not a problem. It involves the normal official procedure and there are no hassles in getting clearance for the proposed initiative. However, the small and the medium firms which are into business for a short period of time face lot of procedural hassles with respect to setting up a new production unit or expanding the existing one. Some of the entrepreneurs have quoted that it takes more than a year to get permission for setting up a new production unit or to get clearance for any of the proposed initiative.

To quote an instance, when a small entrepreneur who is in manufacture of fast food items, started a food retail outlet in a building which they were told that is a commercial complex by investing huge amount of money. After few months, they were told that it is a residential area, and their trade license was cancelled. After the entrepreneur put lot of efforts, trade license was given for a period of one year, but again was withdrawn after the completion of one year. So they had to shut down the outlet despite investing huge amount of money.

With regard to the senior management's time spent on addressing government regulations/officials/ and paper work, large and medium, on an average, spend 30 to 40 percent of their time on the above issues. Most of them deal with this issue of dealing with the government by having their own consultants from within the office cadre. No outside consultant is appointed and so no additional expenditure is incurred in this aspect. The consultant sometimes is the managing director himself or nominates one of his senior colleagues to look after these matters.

For the small firms, there emerges a different picture. On an average they spend nearly 60 to 80 percent of their time on governmental procedures. Sometimes they appoint a consultant from within the organization. Most of the time, it is the entrepreneur who takes care of this issue. To quote one of the small firm entrepreneur "Had I not appointed a consultant, I would have spent 100 percent time on addressing government regulations/officials/and paper work".

To sum up, good SBRs are expected to lower the administrative constraints faced by the firms. But, this appears to be true only in the case of large and medium firms and not in the case of small firms.

Transaction costs associated with regulations, bureaucracy and poor institutions reflect resources diverted from production and may have significant implications for a firm’s performance (World Bank, 2004; de Groot et al. 2004). In this context, we make an attempt to capture these external factors by considering the total number of inspections during the year and measures for corruption.

Government inspections are important mechanisms for enforcing regulations, but there is corruption involved in them. Almost all the firms except one large and one medium (with a niche for themselves) have said that they have to pay bribes for the inspections to take place. At the same time, they do agree saying that there is no harassment from the government inspectors. To quote “It’s a part of the system and we have to accept it” are the words uttered by majority of them. To the question whether the number of visits come down once the payments are made, the reply is that the visits do not come down and the mandatory visits do take place even after payment. Only hassle that they face is that some of the inspectors may delay the process of giving final decision after the inspection visits if the bribes are not paid on time. In fact, one of the small entrepreneurs said that the entrepreneur makes it a point to visit the officials on the occasion of festivals and give them bouquets or sweet boxes or even greeting cards to keep them in good humour.

Table 13 reiterates the above aspect.

Table 13: Unofficial payments

Firm	Unofficial payments	Does the number of visits reduce?
A	No comment	_____
B	Yes	No
C	No comment	_____
D	Yes	No
E	Yes	No
F	Yes	No
G	Yes	No
H	No comment	_____
I	None	No
J	None	No
K	Yes	No
L	Yes	No
M	Yes	No
N	Yes	No

Source: *Field survey*

Thus, though exists the practice of unofficial payments to the officials who carry on with the mandatory inspections visits, almost all the firms' feel that there is no harassment from the officials.

Yet another measure of SBR is the kind of relationship that exists between the management and the workers.

Box 6: Management and Workeres

In the state of AP, all the firms said that there exist cordial relations between the management and the workers. Trade unions do exist, employees are members of the trade unions, but, whatever problem arises, they are sorted at the firm level itself. No firm has cited a major problem associated with labour. This is in tune with our secondary data analysis on industrial unrest.

In our questionnaire, we have also asked the firms whether they have a website of their own and how regularly they update it. Table 14 provides details on this.

Table 14: Presence and updation of website

Firm	Is there a website?	How frequently it is updated?
A	Yes	once in two months
B	Yes	once in three years
C	Yes	once in two months
D	Yes	once in three months
E	No	—
F	No	—
G	Yes	once in three years (they are in the process of relocation, once they settle down, they will update website frequently)
H	Yes	as required, no fixed time period
I	Yes	frequently
J	Yes	frequently
K	No	—
L	No	—
M	Yes	Once in six months
N	No	—

Source: Field Survey

The table clearly indicates that majority of the firm details are available on the website and their frequent updation keeps the customers well informed about the firm activities.

6. Conclusions

In AP, SBR's have evolved gradually under different political regimes – from 'indifferent' SBR's during initial decades (Sanjeeva Reddy period), passing through critical junctures (during K. Brahmananda Reddy and Vengal Rao tenures) in the form of 'active' and 'pro-active' phases. The shift in the political regimes' approach to the SBRs is positively correlated to the political economy of change in the post-green revolution period. Two critical factors in this process are the emergence of a market savvy agrarian class and the emergence of a modern middle class as a result of the expansion of the modern education; the proclivity on their part to look for alternative avenues of investment played a key role. The government's initiatives, both institutional and financial, seen since the 1960s corresponded to this scenario.

Thus from the lens of historical and institutional perspective, we attempted to examine the performance of the manufacture sector which in turn affected economic growth. 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 unorganized 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 organizations play important role in dissemination of information. With respect

to the firm's perceptions about the various facilities, such as roadways, water and telecommunications provided by the government, majority of firms are of the opinion that the government can provide better infrastructural facilities. Power is one area which requires more attention. 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 organized 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.

7. Way Forward

To step up the pace of state business relations, the government should take steps to provide better infrastructural facilities to make the State the manufacturing hub for national and international companies. Since 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 upliftment of the workers, the minimum wage revision period should be made once in two years rather than once in five years and also to provide employment security to the workers.

Appendix 1: Industrial Licenses issued to different states in India 1965-76

Year→ State ↓	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
AP	24	19	11	4	6	13	37	30	29	61	61	51
Gujarat	39	33	29	23	16	39	66	57	78	89	97	83
Tamil Nadu	59	29	18	7	12	36	51	36	64	99	141	61
Maharashtra	134	109	100	66	80	112	162	131	183	265	255	143
Punjab	24	31	16	14	7	39	45	52	44	107	109	52
West Bengal	64	42	48	34	62	46	81	54	47	107	74	56
Bihar	61	53	23	12	7	22	24	18	9	24	15	17
Orissa	5	8	2	2	3	4	7	4	0	12	10	7

Source: Reproduced from Raychaudari, 2007

Appendix 2: Letters of Intent and Industrial Licenses (IL) issued to different states in India, 1983-1991

Year → State ↓	1983		1986		1989		1991	
	LOI	IL	LOI	IL	LOI	IL	LOI	IL
AP	79	63	111	40	103	37	58	12
Gujarat	115	115	105	86	133	49	101	34
Tamil Nadu	68	76	104	61	119	44	68	28
Maharashtra	155	171	173	96	198	72	173	54
Punjab & Haryana	113	228	104	73	119	29	64	21
West Bengal	45	71	42	21	33	14	28	3
Bihar	30	9	18	9	15	5	7	5
Orissa	25	14	17	12	24	4	12	6

Source: *Indiastat.com*

Appendix 3: Productive capital, employment, gross output and value added in select few states in 1964 (percentage)

State	Productive capital	Employment	Gross output	Value added
Maharashtra	17.29	19.83	24.11	25.62
West Bengal	19.65	22.00	21.77	22.29
Madras	7.74	8.39	8.18	8.51
Gujarat	6.47	8.63	8.30	7.97
Bihar	6.98	5.58	6.70	6.98
Uttar Pradesh	7.25	7.33	6.92	5.89
Andhra Pradesh	4.00	5.00	3.50	3.00
Total for seven states	69.38	76.76	79.48	80.26

Source: Naidu, 1965

Appendix 4: Road Length per 100 sq. km of area for select states of India

Year	1980-81	1989-90	1990-91	1995-96	As on 31 st March, 1999	As on 31 st March, 2003
AP	45.73 (13)	53.7 (14)	54.2 (14)	62.77 (15)	65.2 (14)	71.32 (14)
Gujarat	29.63 (16)	50.6 (15)	53.0 (15)	68.28 (13)	47.6 (18)	70.20 (15)
Karnataka	57.25 (9)	65.0 (11)	66.0 (12)	74.43 (12)	79.2 (12)	79.57 (13)
Maharashtra	57.58 (8)	70.3 (9)	72.0 (9)	116.76 (6)	124.1 (6)	86.92 (11)
Orissa	76.51 (6)	125.6 (5)	125.8 (5)	135.02 (5)	168.6 (3)	152.23 (5)
Tamil Nadu	95.31 (2)	149.9 (3)	151.2 (3)	158.16 (3)	117.7 (8)	127.68 (6)
West Bengal	63.85 (7)	69.2 (10)	69.3 (10)	87.41 (8)	89.3 (11)	103.69 (10)
All India	46	64.1	65.2	73.03	76.8	74.73

Source: Statistical Abstract of AP, Directorate of Economics and Statistics, Govt. Of AP, Various Issues

Appendix 5: Number of Strikes normalized by the number of factories for some selected states in India

Year	1980-81		1988-89		1995-96		2000-01		2004-05	
	Factories	Strikes (0.03)	Factories	Strikes (0.02)	Factories	Strikes (0.01)	Factories	Strikes (0.00)	Factories	Strikes (0.00)
AP	11155	357 (0.03)	14292	238 (0.02)	18500	120 (0.01)	14029	27 (0.00)	15572	20 (0.00)
Gujarat	11208	241 (0.02)	11103	169 (0.02)	13770	105 (0.01)	14090	67 (0.00)	13603	29 (0.00)
Karnataka	5381	44 (0.01)	5649	52 (0.01)	6701	18 (0.00)	7010	33 (0.00)	7596	4 (0.00)
Maharashtra	15576	267 (0.02)	15127	108 (0.01)	20536	89 (0.00)	18528	26 (0.00)	18912	7 (0.00)
Orissa	1563	116 (0.07)	1430	50 (0.03)	1790	42 (0.03)	1665	21 (0.01)	1749	3 (0.00)
Tamil Nadu	10292	277 (0.03)	13099	194 (0.01)	19895	120 (0.01)	20601	109 (0.01)	21053	59 (0.00)
West Bengal	6359	185 (0.03)	5419	42 (0.01)	6482	12 (0.00)	6091	22 (0.00)	6105	20 (0.00)

Source: (1) Indian Labour Year Book, Govt. Of India, Ministry of Labour and Employment, Labour Bureau, Several Years

(2) Annual Survey of Industries, CSO, Several years

Appendix 6: Number of Lock Outs normalized by the number of factories for some selected states in India

Year	1980-81		1988-89		1995-96		2000-01		2004-05	
	Factories	Lock outs (0.00)	Factories	Lock outs (0.01)	Factories	Lock outs (0.01)	Factories	Lock outs (0.00)	Factories	Lock outs (0.00)
AP	11155	3 (0.00)	14292	92 (0.01)	18500	139 (0.01)	14029	46 (0.00)	15572	4 (0.00)
Gujarat	11208	17 (0.00)	11103	19 (0.00)	13770	16 (0.00)	14090	8 (0.00)	13603	7 (0.00)
Karnataka	5381	7 (0.00)	5649	13 (0.00)	6701	11 (0.00)	7010	10 (0.00)	7596	2 (0.00)
Maharashtra	15576	23 (0.00)	15127	69 (0.00)	20536	23 (0.00)	18528	6 (0.00)	18912	2 (0.00)
Orissa	1563	10 (0.00)	1430	7 (0.00)	1790	3 (0.00)	1665	5 (0.00)	1749	3 (0.00)
Tamil Nadu	10292	34 (0.00)	13099	20 (0.00)	19895	18 (0.00)	20601	40 (0.00)	21053	15 (0.00)
West Bengal	6359	146 (0.02)	5419	138 (0.03)	6482	45 (0.01)	6091	155 (0.03)	6105	185 (0.03)

Source: (1) Indian Labour Year Book, Govt. Of India, Ministry of Labour and Employment, Labour Bureau, Several Years
(2) Annual Survey of Industries, CSO, Several years

Appendix – 7

Data and Methodology for Secondary and Primary Data

In order to capture the performance of the manufacturing sector in AP, we have to look mainly at two crucial variables relating to this sector such as employment and output. National Accounts Statistics (NAS) published by the Central Statistical Organization (CSO) provide time series data for net state domestic product (NSDP) in terms of broad industrial classifications at the single digit level. From this source, it is easy to get the output figures at the state level. The total employment figures are available in the Economic Tables of the Decennial Census.

The period for analysis chosen for studying the output variable is 1980-81 to 2005-06. Currently, the data for state domestic product (SDP) are available in 1980-81 prices for the period 1980-81 to 1997-98. Another series is available from 1993-94 onwards till 2004-05 in 1993-94 prices. In order to get continuous data researchers have converted the data with 1980-81 as base to conform to 1993-94 prices (Bhattacharya *et al* 2004). However, the definitions used in constructing the 1993-94 wholesale price index are considerably different from those used for the construction of the index numbers with 1980-81 as base. As this difference of definitions can influence the numerical values to a considerable extent, it was decided not to combine the two series (Chakravarty and Alivelu, 2009). Since our objective is to look into the performance of the manufacturing sector, we decide to narrow down our focus. The data set for the registered manufacturing sector is provided by the Annual Survey of Industries (ASI) published by the CSO. The wholesale price index numbers with 1981-82 as base for the first period were used for deflating the net value added and the emoluments. We have deflated the fixed capital figures by an index of machine tools. In order to calculate the trend growth rates we have fitted a semi-log equation.

The sampling method adopted for the field work is as follows: We concentrate on the organized manufacturing only. The problem we have in hand is to (a) classify the sectors and then to (b) classify the firms.

- (a) *ASI classifies the sectors under manufacturing at the two digit, three digit and in some cases even at the four digit level. We propose to take up the relatively broader classification following the two digit level. We first classified the sectors on the basis of labour capital ratio. For the sake of convenience we considered only the latest year. The sectors will be classified in terms of labour capital ratio as high (H) and low (L) taking the state manufacturing sector average labour capital ratio as the dividing bar.*

- (b) *Secondly the sectors were again classified by their levels of total factor productivity as high (H) and low (L) taking the manufacturing sector average for the state as a whole as the benchmark. This two way classification gives us a four fold classification of all the sectors such as HH, HL, LH and LL. From these four fold classifications we can possibly choose those sectors which constitute at least five per cent of the total manufacturing net value added of the state. This way of classifying the sectors is likely to ensure sufficient contrast for comparison.*

Finally we categorized the sectors based on TFP and labour capital ratio as High-High; High-Low; Low-High and Low-Low. Based on the percentage share of net value added and the above specified methodology the sectors that we selected in AP are Manufacture of Food Products and Beverages (15); Manufacture of Machinery (29); Manufacture of Chemical and Chemical Products (24), Manufacture of Basic Metals (27); Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel (23)

- (c) The second task ahead of us was to decide the criteria of selecting firms within the selected sectors. This is a more difficult task as the details about the firms under each sector may not be readily available. However, this problem was sorted out by classifying the firms based on the size in terms of employment and age in terms of year of establishment.

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