NEW ECONOMIC POLICY, FOREIGN CAPITAL AND THE POLITICS OF INDUSTRIALIZATION IN ORISSA

Dissertation submitted to Jawaharlal Nehru University in partial fulfillment of the requirements for the award of the Degree of

MASTER OF PHILOSOPHY

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DECLARATION

I hereby declare that the Dissertation entitled **"New Economic Policy, Foreign Capital and the Politics of Industrialization in Orissa"** submitted by me, **Taberez Ahmed Neyazi**, Centre for Political Studies, Jawaharlal Nehru University, New Delhi, India for the award of the degree of **Master of Philosophy** is my original work and has not been submitted in part or in full for any other degree or diploma in any other university.

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This may be placed before the examiners for evaluation for the award of the degree of Master of Philosophy.

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TO

MY GRANDFATHER

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New Delhi **Taberez A.Neyazi**
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List of Abbreviations

CESCO	Central Electricity Supply Company of Orissa Limited
CPPs	Captive Power Plants
DFID	Department for International Development
DIC	District Industries Centre
DLEC	District Level Empowered Committee
FCU	Fertilizer Corporation of India
FDI	Foreign Direct Investment
FERA	Foreign Exchange and Regulation Act
FIPB	Foreign Investment Promotion Board
GDP	Gross Domestic Product
GoO	Government of Orissa
GRIDCO	Grid Corporation of Orissa
GSDP	Gross State Domestic product
IDC	Industrial Development Corporation
IDCO	Orissa Industrial Infrastructure Development Corporation
IDICOL	Industrial Development Corporation of Orissa Limited
IMF	International Monetary Fund
IPA	Investment Promotion Agencies
IPICOL	Industrial Promotion and Investment Corporation of Orissa Limited
ISPS	Internet Service Providers
LDCs	Less Developed Countries
MRTP	Monopolies and Restrictive Trade Practices
NALCO	National Aluminium Company
NEP	New Economic Policy
NESCO	North-Eastern Electricity Supply Company of Orissa Ltd
NIP	New Industrial Policy
NRIs	Nonresident Indians
NTPC	National Thermal Power Corporation
OECD	Organization for Economic Cooperation and Development
OERC	Orissa Electricity Regulatory Commission
OHPC	Hydro Power Corporation
OPGC	Orissa Power Generation Corporation
OSEB	Orissa State Electricity Board
OSEDC	Orissa State Electronics Development Corporation
OSFC	Orissa State Financial Corporation
OSIC	Orissa Small Scale Industries Corporation
PIP	Panchayat Industries Programme
RIP	Rural Industrial Programme
Rs.	Rupees
SAP	Structural Adjustment Programme
SEZs	Special Economic Zones
SFC	State Financial Corporation
SLEC	State Level Empowered Committee
SOUTHCO	Southern Electricity Supply Company of Orissa Limited
SSI	Small Scale Industries
SSIDC	Small Scale Industries Development Corporation
SWC	Single Window Clearance
TNCs	Transnational Corporations
UNIDO	United Nations industrial Development Organization
WESCO	Western Electricity Supply Company of Orissa Limited

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Introduction

Orissa, comprising 4.74 per cent of India's landmass and with 36.71 million people accounts for 3.57 per cent of the population of the country according to 2001 census. The economy of Orissa is characterized by the dominance of agricultural sector, occupying a pivotal position in the economy of the state by not only providing highest contribution to gross state domestic product (GSDP) but also by providing employment to the people. Nearly 85 per cent of its population live in the rural areas and depend mostly on agriculture for their livelihood. Despite being endowed with vast natural and human resources, Orissa continues to be one of the less developed states with a very high incidence of poverty.

Orissa is primarily an agrarian economy with more than one third of the state domestic product is contributed by this sector which provides employment directly or indirectly to about 65 per cent of the work force as per 2001 census. Unfortunately the prospect of this prime sector of the economy largely depends on weather conditions as about 70 per cent of the cropped area is rainfed. As agriculture is the main source of income generation, a bad crop year in the state poses a threat to the food security of the poor. It is this vulnerability of agricultural sector which necessitates the urgent need of industrialization.

Industrialization is considered as an important means of growth even though in the recent times new forms and varieties in name of 'servitisation' gain importance in the context of the 'new economy'. The concept of industry now includes a whole new set of activities, which were formerly regarded as services supplementing other sectors. This new trend of departing from the conventional manufacturing-based industrialization gives more room for the states to join the bandwagon by exploiting hitherto unexploited areas. This calls for more investments in these regions and sectors to tap the potential. Realizing the potential and importance of industrialization for achieving rapid progress and growth, Government of Orissa (GoO) has been making effort to achieve the goal of industrialization. This is quite evident from the fact that GoO invited a specialized agency the United Nation Industrial Development Organization (UNIDO) to formulate the New Industrial Policy 2001 for Orissa.

But Orissa has been plagued by other problems which have been hindering it from achieving the goal of industrialization. A fundamental prerequisite for industrialization is availability of capital that is non-existent inside this state where the per capita income is one of the lowest in the country. It was Rs. 5663 against Rs.10254 for India in 2000-2001. Raw materials, particularly iron ore, chromite, bauxite and manganese, Orissa has in abundance, but entrepreneurial ability which is the catalytic agent for harnessing raw materials, labour power and capital is still conspicuously absent in Orissa. Any economy will stagnate where supply of capital is inadequate, where business enterprise is lacking in dynamism and where, because of low purchasing power, the market for industrial goods is necessarily restricted. But in the late 1980's and early 1990's a steady but slow industrial growth has been effectively generated in Orissa and the state is now clearly marked out for its own pace of industrialization.

In the wake of New Economic Policy initiated by the Narasimha Rao Government in 1991, states have been conferred considerable freedom in the matter of economic policy. The earlier centrally planned economy has given way to a federal market economy where states enjoy larger share in economic sovereignty. The earlier import substituting industrialization where the focus was on the development of local capability in heavy industries has been substituted with export oriented industrialization and policies towards foreign capital have been liberalized. Economic liberalization has led to progressive dilution of the regulatory regime of the pre-liberalization era thereby creating an opportunity for large private sector participation in the process of development.

Most of the states have taken advantage of the new opportunities and evolved a comprehensive and exploratory polices to speed up the process of economic development with the help of foreign capital. GoO has also taken the advantages of new opportunities and designed polices in such a way to attract foreign investment and forge ahead with its policy of industrialization.

Objective of the Study

- To briefly examine the role of foreign capital in Indian industrialization and the impact of new economic policy on the federal unit like Orissa.

- To analyze the importance of foreign capital in the development of a backward state like Orissa.

- To critically examine and evaluate industrial policies in Orissa in order to appraise the impact of new policy.

- To study the incentives and disincentives provided by the (State) government to attract private/foreign capital for rapid industrialization and the response of foreign capital.

- To understand the nature, trend and pattern of Foreign Direct Investment (FDI) inflow in Orissa in order to understand the political economy aspects in attracting/distracting FDI inflow.

The proposed study aims to analyze the industrial polices and performance of Orissa in the pre-liberalisation as well as post-liberalization period. An attempt has been made to study the nature and pattern of foreign direct investment and its impact in Orissa. Though every attempt has been made to empirically test the hypotheses with the available data, but the lack of data on actual inflow of foreign direct investment in Orissa is considered to be an important drawback of the study, which hinder the researcher from comparing the approval with the actual inflow of FDI. In most of the cases in India, and elsewhere, it has been found that the percentage of realized inflow of foreign investment is much lower than the approved investment. It also specifically aims at analyzing the experience of

Orissa in comparison to other states. Therefore, care has to be taken while applying the findings of the study to other region or other states.

The Hypotheses

Foreign direct investment can help a developing economy to break away from the shackles of underdevelopment in varieties of ways. Although theoretical works suggest that FDI leads to the transfer of capital from capital rich economy to capital scarce economy, but this needs to be empirically tested in a backward region like Orissa where not only capital is scarce but it has also been reeling under poverty. Much of the scholarly work done on the effect of FDI in case of India deals particularly with the developed and industrialized regions, and it has the tendency to generalize the findings beyond a particular case, a kind of nomothetic study and the resultant absent of ideographic or descriptive study. But while making an attempt to generalize the findings care has to be taken in a State like Orissa which present an altogether different case especially its small and capital scarce economy, absence of viable regional capital, its vulnerable climate, absence of strong political leadership.

Secondly, the new economic policy has assigned a more prominent role to the states and regions which are bound to engage them in competition. Thus in order to appraise the performance of overall economy it is extremely important to study the regional dimensions which has hitherto been paid little attention.

Therefore an attempt has been made to explore following hypotheses in this study in order to shed more light on each of these issues.

Hypotheses 1: Industrialization has the potentiality to attract foreign direct investment. Although in recent times 'servitisation' gained in importance in the context of the emergence the new economy, but still industrialization occupies a central position in the development of an economy. Thus research expectation is that industrialization can help in attracting foreign direct investment.

Hypotheses 2: New economic policy has provided the state government with the proactive role to formulate a more independent policy. Research expectation is that the transformation of the Indian polity from earlier centrally planned economy to federal market economy has opened up new vistas for the state government to play a more proactive role in the matters of policy formulation and implementation.

Research Methodology

The methodology followed is an exploratory and empirical study of different industrial polices of the Government of Orissa in the historical setting covering pre-liberalisation as well as post-liberalisation period beginning from 1950-51 to 2001-02. The study is based on primary as well as secondary sources. The primary sources include various Five Year Plan documents, industrial policy documents, budget reports, SIA News letter and various policy documents of GoO. The secondary sources include books, articles published in different journals and alternative study conducted by different non government organizations. The study has tried to explain the findings empirically with the help of tables and models.

Chapter 1

New Economic Policy, Industrial Development and the Question of Foreign Capital in India

Economic development of any country involves proper utilization of resources as to increase the productive capacity of that country. But in many developing countries such utilisation of resources is hampered due to scarcity of domestic capital. Thus, the need for attracting foreign capital arises. However, there is no unanimity among scholars regarding the role of foreign capital in developing economies. Supporters view it as a useful means of bringing scarce capital and transmitting technical change to developing economies. Critics regard it as a potential hazardous instrument that can drain the surplus of developing economies.[1] These two contending views continue to dominate the theories that explain the role of foreign capital in developing economies.

Concepts and Definitions

The inflow of foreign capital into developing countries takes places under three ways: (a) foreign direct investment (b) portfolio equity and (c) loan capital. As part of the research, my study revolves around foreign direct investment.

Foreign Direct Investment (FDI) constitutes a resource flow which is particularly useful for the economic development of developing countries, especially for their industrial development. It provides a unique combination of long- term finance, technology, training, know-how, managerial expertise and marketing experience. FDI includes;

(i) Outlays for the establishment of a new enterprise or for the expansion of an existing enterprise whose operation is controlled by the foreign investor.

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[1] See Rajah Rasiah (1995, Chapter I) for detailed discussion on the merits and demerits of Foreign Capital. I have also discussed the topic at length in chapter III.

(ii) Financial outlays for the acquisition of an existing enterprise (or part of it) either through direct purchase or through purchases of equity, with a controlling interest by the foreign investor. The notion of control is not defined, but control is assumed when the foreign investor owns at least between 10 to 51 per cent of the enterprise's value according to different definitions used by different governments.

(iii) Intra-corporate long-term loans.[2]

It seems wise to include in the concept of FDI the growth of foreign collaborations in India particularly after 1985. Portfolio investment includes financial outlays for the acquisition of an existing enterprise (or part of it) through direct purchase or through purchase of equities, without a controlling interest by the foreign investor. Thus while FDI is considered long term investment the latter (portfolio investment) is typically guided by short-term considerations of speculative gains. Loan capital inflows materialize when the domestic entities decide to raise funds from abroad.

Meaning of Industrialization

Industrialization is a wide ranging process which implies not only development of certain industries, but certain basic changes in the structure, technology and organization of economic activity. The United Nation Committee for Industrial Development defines "industrialisation as a process of economic development where an increasing proportion of home resources are mobilized to establish a technically up-to-date and diversified economic structure. This economy is characterized by dynamical processing industry producing means of

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[2] See OECD (1978): *Investing in Developing Countries*, 4th ed., OECD, Paris, p.5.

production and consumer goods, suitable for making fast development of the total (whole) national economy and the economic and social pressure."[3]

Rosanstein Rodan has viewed industrialization as 'an alternative to emigration for solving the problem of over population and of raising the national income in *economically less developed areas*. Industrialization and agrarian reconstruction in underdeveloped areas are also considered as inter connected parts of one problem. Hence, a *rapid growth of the economy will be possible only if simultaneously with agriculture, industry is developed'.*[4]

In Marxist economic literature the term "industrialization" is used in two different meaning. In the narrow meaning, it is applied to establishing and developing the production of the means of production. In the broad meaning, it signifies the competition of the industrial revolution and transfer of economy to industrial methods of production. These two meanings thus refer to the initial and to the concluding stages of industrialization. They imply that industrialisation begins with the setting up of the heavy industries for the production of the means of production and that when an adequate industrial potential has been attained, the entire economy is transferred to the industrial method of production.[5]

It is a fact that industrialization under the plans is sure to bring in a long sweep of social evolution transforming one ideal type 'folk' society to another ideal type urban society- from Gameinschaft to Gesellschaft.[6] Industrialisation is catalyst in moving a society from one end of polarity to another, from a static acquired status ridden, tradition bound, primary group-oriented, particularistic,

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[3]UN Committee for Industrial Development, *Report of the Third Session 13-31 May 1963*, E.C.O.S.O.C.E/3781, quoted in C.P Sharma (1986): *Industrialisation and Regional Development*, Deep & Deep, New Delhi, and p.12.
[4] See B Ramamurti (1971) "Industrial Cost Data-Concepts, Needs and Availability in the Context of National Planning in India and other ECAFB Countries", *Journal of Industrial Economics, India*, Vol.I,No.1,July-Dec.1971, p.48. Italics added.
[5] See G K Shirokov (1973): *Industrialization of India*, Moscow, Progress Publishers, p.7.
[6]See Richard. G Lambert (1963) *Workers, Factories and Social Change in India, Poone*, Gokhale Institute of Politics and Economics, p.17.

fatalistic society in to one that is rapidly changing, progressive, secondary group oriented, universalistic and aspiring.

Industrialization is the basis of economic development for any state and economic development essentially means increase in per capita real income of the people. It is a fact that most of the people in Orissa are living on the subsistence level. It is the responsibility of the government to improve their economic conditions. The growth of industries with up-to-date techniques can multiply goods and meet the various needs of people and thus improve the standard of living of people in the state. Industrialization has the advantage that it employs up-to-date techniques, facilitates mass production, reduced costs of production per unit of output and thus enables the poor consumer to consume goods which he is not otherwise able to consume.

It would be more appropriate to have a synoptic view of the regional development theories, developed by eminent economists of the world, in the context of the present study of the Industrial Development of Orissa.

Many theories of regional development have been developed by different scholars. But the credit for propounding a comprehensive and integrated theory of regional development goes to A.O Hirschman and Gunar Myrdal. Their theory, too, centres on the growth pole strategy. Hirschman states that whatever the reasons, there can be little doubt that an economy to lift itself to higher increase levels, must and will first develop within itself one or several regional centres of economic growth. This need for the emergence of growing points or growth poles in the course of the development process means the international or interregional inequality of growth itself. Thus in the geographical sense, growth is necessarily unbalanced.[7]

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[7] See Albert O Hirschman (1958): *The Strategy of Economic Development*, Yale University Press, New Haven, CT, and pp.34 – 35.

According to Hirschman, the development that occurs in a few growth centres sets in motion forces which induce development in the backward hinterland. The favourable forces referred to as "the trickling down effects". Unfavorable forces, otherwise, known as polarization effects. It may be added that Myrdal's spread effects and backwash effects coincide with the trickling down and polarization effects of Hirschman. If the trickling down effects is stronger, the process of growth would spread to backward regions.

Myrdal argued that any adjustment to regional inequality depends on the balance between backwash effects which add to regional inequality and spread effects that reduce regional inequality. This balance depends not only on the level of economic development but also on success in achieving growth.[8]

Though we have observed varying definitions of industrialisation, but two criteria are usually put forward:

1) The economy of an area moves from dependence on agriculture to a dependence on manufacturing sector.

2) This move is accompanied by sustained economic growth.

Following points need to be noted here:

- Industrialization takes place on a regional rather than a nationwide basis and often within parts of a region only.
- There are no hard-and-fast rules to define the stage at which a region becomes industrialized, but a considerable degree of manufacturing activity would need to be obvious.
- Industrialization often took place on a gradual basis, though sometimes with a quickening pace, especially from the late 18th century onwards.

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[8] See Gunnar Myrdal (1957): *Economic Theory and Underdevelopment Regions*, Duckworth, London, p.38.

- The notion of sustained economic growth is not meant to imply high rates of expansion, nor did that years of setback not occur.
- It is quite possible to have economic growth without a shift of emphasis to manufacturing activity, though this would not be sufficient for industrialization to occur.

The Scope of Industrial Policy

Industrial development and industrial policy is a major concern in all the countries in the world. History proves that there is no social progress without a dynamic industrial development, as industry exerts great influence on man's entire material environment and even in the intellectual sphere.[9] Without appropriate industrial development, there can be no economic and social prosperity. We have learned from economic history, however, that industrial development must not be considered as independent of other economic sectors, of agriculture, or of services. There can be no permanent healthy development at the expense of non-industrial sectors. Thus, industrial development can only be interpreted, planned and promoted within a complex and comprehensive economic policy.

Industrial policies are often concerned with the performance of the whole economy. It is often sectoral in its focus, the sectors being chosen for a variety of reasons but invariably because they are in difficulty. The aim may be to foster the development of a new or advanced sectors, such as high technology, or to help an older sector to adapt to changes in demand, competition or technology, or to defend high cost sectors against competition because they are judged to serve the

[9] Industrial development creates in a society a new intellectual environment, which, being less bound by tradition, is more conducive to the rise of entrepreneurial class and through such a class expansion can come by capital formation, financial management and technological expansion. This benefits agricultural as well as other sectors of the economy. See Greer Douglas (1980): *Industrial Organisation and Public Policy*, Macmillan, London, introduction by the author.

public interest in any of a number of ways.[10] Capital, labour, research and development and education are all sometimes the target of industrial policies.

Industrial policy is not a substitute for macroeconomic policy but the two can do much to support or frustrate one another. A range of other economic policies, such as those that affect the environment, taxation and labour, have structural implications and have to be looked at in an industrial policy perspective even though they have other primary purposes. Although efficiency is an important criterion for judging industrial policies, other considerations have to be brought into account, notably equity and the willingness of people to change what they do and their modes of life. The ability of countries to carry out different kinds of industrial policies varies greatly because of history, social structure, political systems, size, economic institutions and the relation of government to business, banking and labour.

Industrial Policies and Foreign Investments

Policies toward foreign investment are of special importance for my present research purpose. These policies are at once instruments of industrial policy and measures which, even if they are taken for other reasons, produce structural results and, cumulatively, can do much to shape an economy's over-all performance as well.[11]

The treatment of foreign investment plays a major part in many national industrial policies. It may be encouraged and sought after with tax concessions and other forms of special treatment. It may be limited to minority participation in corporations or forbidden altogether in certain sectors. Sometimes foreign investment is permitted only if the investing firm agrees to meet a series of conditions, such as procuring many of its supplies locally, exporting a certain

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[10] See William Diebold (1987): "Western Industrial Policies and East-West Economic Relations" in Christopher T Saunders (ed.) *Industrial Policies and structural Changes*, Macmillan, London, p 22.
[11] See Ibid.,p 23.

portion of its production, training local technicians and manager, carrying on research and development inside the country, and in other ways contributing to the development of the national economy. The investor's willingness to agree to such arrangements often comes from the fact that otherwise he can not gain adequate access to the national market because of restrictions on imports.

Economists and policymakers in the developing countries have long agreed on the role of government in providing infrastructure and maintaining stable macroeconomic policies. But they have disagreed on policies toward trade and industry. The form of government intervention in this area is the distinguishing feature of alternative development strategies.[12]

A convenient and instructive way to approach the complex issues of appropriate trade policies for development is to set these specific policies in the context of a broader Less Developed Countries (LDCs) strategy of looking outward or inward. Outward-looking development policies encourage not only free trade but also the free movement of capital, workers, enterprises, the multinational enterprise, and an open system of communications. By contrast, inward-looking development policies stress the need for LDCs to evolve their own styles of development and to control their own destiny. Import substitution industrialisation policy formed the core and kernel of inward looking strategy. It encouraged the promotion and protection of goods that substituted for imports. Within these two broad philosophical approaches to development, a lively debate has been carried out between the free traders, who advocate outward-looking export promotion strategies of industrialisation, and the protectionists, who are proponents of inward-looking import substitution strategies.

[12] See Jana Hambrock and Sebastian Hauptmann – "Industrialization in India" (www.econserv2bess.tod.ie/SER/1999/essay20.html).

The advocates of import substitution[13] – the protectionists – believe that LDCs should substitute domestic production of previously imported simple consumer goods and extend this later to a wider range of more sophisticated manufactured items – all behind the protection of high tariffs and quotas on imports. In the long run, import substitution advocates cite the benefits of greater domestic industrial diversification and the ultimate ability to export previously protected manufactured goods, as economies of scale, low labour costs, and the positive externalities of learning by doing cause domestic prices to become more competitive with world prices.

By contrast, advocates of export promotion[14] of both primary and manufactured goods cite the efficiency and growth benefits of free trade[15] and competition, foreign capital[16], the importance of substituting large world markets for narrow domestic markets, the distorting price and cost effects of protection, and the tremendous success of the East Asian export-oriented economies of South Korea, Singapore, and Hong Kong.[17]

The balance of the debate has swung back and forth, with the protectionists predominating in the 1950s and 1960s, and the export promoters gaining the

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[13] Albert Hirchman (1958), Arthur Lewis (1954), Nurkse (1953), Rosentien Rodan (1943), Singer (1950) and Prebisch (1952) are some of prominent scholars who during 1950's and 1960's advocated their theories to overcome the problems of low growth and high poverty with reference to developing countries. Though there were certain differences within these theories, the core of their argument was that of inward looking development strategy with a prominent governmental role in growth process of developing countries.

[14] Ian Little (1993), Deepak Lal (1983), P.T. Baur (1984) and Bela Balasa (1982) are the prominent scholars who challenged the key role of the government in development theories, and market was seen as an efficient allocates of resources. It viewed interventions of government in economic activities as ineffective in achieving objectives, counter productive with undesirable side effects and as a breeding place for corruption.

[15] Bela Balasa, in his empirical work on Trade Policies in developing countries argues that the inward looking trade polices followed by developing countries caused distortions on their export performance and economic growth. For details see Balasa, Bela (1991): "Trade Polices in Developing Countries", *American Economic Review*, 61, (papers and proceedings) (May), pp. 178-187.

[16] Limitations of inward-looking polices in terms of commodities and importance of foreign capital in the growth of low income countries have been elaborately discussed by Deepak Lal, for details see Lal, Deepak (200): *The Poverty of Development Economics*, OUP, New Delhi, pp.49-68.

[17] See Deepak Nayyar (ed.) (1997): *Trade and Industrialization*, General Introduction by the author, OUP, New Delhi, p.10-21.

upper hand in the late 1970s and in the 1980s and 1990s, especially among Western and World Bank economists.[18]

The Role of Foreign Investment in Industrial Development

The international investment process can play an important role in the development of developing countries, both in channeling scarce external capital to their economies, and as a vehicle for the transfer of technology and managerial expertise, particularly to their industrial sectors.[19] However, the range of individual measures and policies of member and recipient governments affecting these investments may be as important as the capital flows themselves. Thus official incentives and disincentives to investment, guidelines for investment behaviour, renegotiation and arbitration procedures, and other related matters, may themselves play an important role in industrial co-operation between developed and developing countries.

As a general rule it may be said that the continuing growth of direct investment in developing countries reflects a basic convergence of interest between investors who seek markets, lower costs of production and sources of supply, and developing countries wishing to attract capital, technology and expertise from the industrialized countries. By and large, pragmatic working relationships have been evolved between many host countries and foreign investors which accommodate the interests of both parties. Such relationships have tended to work best where there is an atmosphere of trust and mutual comprehension, and where both sides have been cognizant of the needs and problems of the other.

On the other hand, there is increasing concern expressed in developing (and even in some developed) countries that the real costs associated with the

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[18] For detailed analysis of shift in the theories of development economics, see John Toye (1998): *Dilemmas of Development: Reflections on the Counter-Revolution in Development Theory and Policy,* Basil Blackwell, London.

[19] See Deepak Nayyar, opcit., p. 1.

direct investment process may not be sufficiently taken into account in the investment relationship. For example, concern has been expressed that repatriated earnings and other costs may, in some cases, be so high as to offset an unduly large part of the benefits derived from external capital. In addition, it is increasingly felt that the transfers of technology which are associated with direct investments may encourage patterns of industrial production which are inappropriate for the internal resource endowments of the recipients, and it is widely believed that more could be done by foreign investors and host countries to adapt technology for this purpose.[20]

In this context it should be noted that the circumstances surrounding direct investments in processing and manufacturing are different from those which are felt to be sensitive sectors of where exploitation of exhaustible natural resources is concerned.

The Role of Governments

It is clear that private direct investors will ordinarily seek to maximize their profits, and it is unlikely they can easily be induce to adopt policies benefiting host countries which imply substantial decreases in revenues. Investment incentives, including tax measures and guarantees, may, of course, be used by home as well as host governments to stimulate direct investment flows to developing countries, and a limited range of such incentives is already employed, e.g., to stimulate employment-creating investment. Such measures might be expanded and could conceivably also aim at encouraging foreign investors to increase, for example, local training activities or to develop labour-intensive technologies, especially in the poorer countries (OECD, 1978).

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[20] See Jessica Woodroffe (1998): "Putting People Before Profit: Proposal For Regulating Foreign Investment" in Walden Bello et al. *Global Finance: New Thinking On Regulating Speculative Capital Markets*, Zed Books, London, p 124.

Indian Industrialization and Foreign Capital: 1947-1990

As in all colonial countries, there was widespread animosity towards foreign capital in India, reinforced by a fascination for the Soviet model of Industrialization. [21] The Industrial Policy Resolution of 1948 recognised that "participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialization of the country, it is necessary that the conditions under which he may participate in Indian industry should be carefully regulated in the national interest". As a rule, "the major interest in ownership and effective control should always remain in Indian hands" though provision was made for "special cases in a manner calculated to serve the national interest."[22]

On 6th April 1949 Nehru made a "Statement on Foreign Investment in India". In it he stated the principles that would govern the official policy in future. The earlier regulation of foreign capital was discarded as that, "arose from (the) past association of foreign capital and control with foreign domination of the economy of the country. But the circumstances today are quite different...Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital can best be secured along with foreign capital".[23] He stated that once foreign investment had been allowed to be made in the country, it would be given non-discriminatory treatment. Firms with foreign investment would be treated at par with Indian firms. There was assurance for free remittance of profits, dividends, and interest as well as repatriation of capital.

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[21] See Nirmal Kumar Chandra (1998): "Planning and Foreign Investment in Indian Manufacturing" in T.J. Byres(ed.), *The State, Development Planning and Liberalisation in India,*, OUP, New Delhi, pp. 379.
[22] See Constituent Assembly (Legislative Debates) III, 1948, pp. 3296-3297.
[23] See CAD, N.173, p.2385, cited in Michal Kidron (1965): *Foreign Investment in India*, OUP, New Delhi, pp.100-101.

In the mid-1950's when industrialization got underway foreign capital ventured into India primarily with technical collaboration. The 1956 resolution on industrial policy reflected a tilt towards 'socialistic pattern' with large chunks of heavy industry earmarked for the public sector to the exclusion of private capital, domestic or foreign. However, established firms in these areas were left alone. On the contrary, the high rate of projected growth under the Second Plan, the lack of indigenous technological capability, foreign exchange shortage since 1956, and the availability of World Bank and other Western credits with 'strings'- all these led to an influx of foreign capital into a number of industries such as automobile tyres, drugs and so on. At the same time, thanks to Soviet and East European entry into the scene, India was able to improve her bargaining position vis-à-vis the Western firms, the most notable example being the oil industry.[24] Moreover, although transnationals were knocking at the door, the government consciously kept them out of several sectors like cars, razor blades, etc.

The extremely bad drought of 1965-66 and the war with Pakistan over Kashmir, created an unprecedented crisis. With the hard currency reserves depleted, huge imports of about ten million tones of grain were needed to avert famine. The west came to the rescue, but with several strings attached to the aid. Among others, the fertilizer industry hitherto reserved for the state was now thrown open to the transnational corporations (TNCs) with no control over pricing. Actually, few came in. on other fronts, however, the government continued to pursue a nationalist line: in the oil industry, a number of public sector refineries were built over the 1960's, crude oil imports were increasingly made from the USSR, thus bypassing the TNCs cartel and, eventually, the foreign companies were nationalized in the early 1970s.

Three enactments, namely the Monopolies and Restrictive Trade Practices (MRTP) Act 1969, the Indian Patents Act 1970, and the Foreign Exchange and

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[24] Michal Kidron,(1965): *Foreign Investment in India*, OUP, New Delhi, p 32.

Regulation Act (FERA) 1973, tipped the scales against foreign capital. The MRTP Act regulated the expansion of large industrial houses with gross assets exceeding Rs.20 crores, or of 'dominant' firms (defined by market shares exceeding one third) with assets over Rs.1 crore. Such firms would have to seek special approval for expanding capacity by more than 25 per cent of existing levels. Mergers and amalgamations that resulted in firms satisfying the above definition would also require clearance from the commission set up by the act.[25] The second one removed many of the monopolistic advantages of the TNCs under the old patent law, and stimulated the emergence and growth of Indian firms, particularly in chemicals and pharmaceuticals. The FERA, however, become the most important tool in the hands of the government for regulating foreign firms. Most of them were compelled to dilute foreign equity, [26] and foreign branches companies were compelled to Indianise their shareholding or fold up.

The over-restrictive, and often self-defeating nature of the regulatory framework, began to change in the early 1980s. Imports were considerably liberalized by the Janata government. By 1980 a foreign exchange crisis surfaced, and the new government of Indira Gandhi took a large loan from the IMF. The changed perception of the government as well as notorious IMF 'conditionalities' led to further liberalisation, not only in respect of commodity imports but also of foreign capital. The process was greatly accelerated with the advent of Rajiv Gandhi to power in late 1984.

Economic reforms were introduced, starting to liberalise trade, industrial and financial policies, while subsidies, tax concessions, and the depreciation of the currency improved export incentives. Foreign capital was welcomed into many hitherto closed areas, and its inflow multiplied manifold. Yet the government retained discretionary powers to decide each proposal by a new

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[25] See Dilip Mookherjee (ed.) (1995): *Indian Industry: Policies and Performance*, OUP, New Delhi, p 18.
[26] Foreign equity holdings had to be diluted to a maximum of 40 per cent, with exceptions made for a few special industries.

entrant on its merit. These measures helped GDP growth to accelerate to over 5% per year during the 1980s, compared to 3.5% during the 1970s, and reduced poverty more rapidly. However India's most fundamental structural problems were only partially addressed. Tariffs continued to be among the highest in the world, and quantitative restrictions remained pervasive.

The Industrial Policy Resolution/New Economic Policy (1991)

Realizing the important contribution that private foreign capital can make to the economic development, the Industrial Policy Resolution of 1991 ushered in major changes to attract foreign investment in India. Although the tendencies towards liberalization of the Indian economy can be traced to the 1970,s the paradigm shift in the development policy occurred during the tenure of P.V. Narsimha Rao, as the Prime Minister of India in 1991. In order to manage the fiscal crisis the government implemented a programme of macro economic stabilization. It also announced Structural Adjustment Programme (SAP) with the intention to improve competitive strength of the economy in the long run. The structural adjustment measures included broad series of reforms in the areas of trade policy, industrial policy, public sector, financial sector, foreign investment and technology.

If the earlier attempts at liberalization had altered only certain aspects of the policy regime, the 1991 statement fundamentally changed the overall framework. The industrial licensing was abolished, foreign investment rules were liberalized, technological collaborations were regarded as essential for improving growth rates, state-owned enterprises were de-emphasised in the development approach, and restrictions on large private companies (MRTP) were removed.

Along with eliminating most licensing requirements, the Indian government also revised its views regarding foreign investment. For the first time in over 40 years, the Indian state emphasised the advantages of foreign investment such as "technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for production of exports" and welcomed it.[27]

The following are the important policy changes that have taken place since 1990:

- Automatic approval for several key areas for foreign equity participation upto 50/51/74/100 per cent, as the case may be.
- Based on the merits of the case the Foreign Investment Promotion Board (FIPB) may grant approval for foreign participation in cases that do not qualify for automatic approval.
- Decisions on all foreign investment proposals are normally taken within a maximum period of 90 days of application.
- For each foreign investment proposal in excess of Rs 1 billion, an officer of the Administrative Ministry is designated as a monitoring officer to help processing and implementation of the project in conjunction with Central and State authorities.
- Free repatriation of profits and capital investment is permitted, except for a specified list of consumer goods industries where it is subject to dividend balancing against export earnings.
- Use of foreign brand names/trade marks for sale of goods in India is allowed.
- Indian capital markets are open to foreign institutional investors.
- Indian companies are permitted to raise funds from international capital markets.

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[27] Associated Chamber of Commerce and Industry, *New Industrial Policy*, New Delhi: ASSOCHAM, 1991, paragraph 24, quoted in Vibha Pingle (1999): *Rethinking Developmental State: India's Industry in Comparative Perspective*, OUP, New Delhi, p 24.

- India has entered into agreements for avoidance of double taxation with over 45 countries.
- India has signed several bilateral investment protection agreements.
- Special investment and tax incentives are given for exports and certain infrastructure sectors, IT, etc.
- 'Single window' clearance facilities and 'investor escort services' have been provided in various states to simplify the approval and implementation process for new ventures.[28]

During the year 2000-2001, FDI upto 100 per cent has been permitted in e-commerce subject to specific conditions. The upper limit of Rs.1500 crores for FDI in project involving electricity generation, transmission and distribution has been dispensed with. The ceiling for FDI under automatic route in oil refining has been liberalised to 100 per cent from 49 per cent. The limit has been raised to 100 per cent for all manufacturing activities in Special Economic Zones also. Foreign equity participation upto 26 per cent has been allowed in the telecommunications sector subject to the issue of necessary license by the Insurance Regulatory and Development Authority (IRDA). 100 per cent FDI has also been allowed in the telecommunications sector for Internet Service Providers (ISPS).

FDI up to 100 per cent is permitted in airports with FDI above 74 per cent requiring prior approval of the Government. The defence industry sector is also opened up to 100 per cent for India private sector participation with FDI permitted up to 26 per cent, both subject to licensing. FDI up to 100 per cent is permitted with prior approval of the Government in courier services.

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[28] India International Centre (1998): *Foreign Direct Investment in India: Problems and Prospects*, National Council of Applied Economic Research, New Delhi, p.19.

India has evolved a comprehensive organizational structure at the state level for industrial development. In most states the organizations present to assist and promote industries are:

- Investment Promotion Agencies (IPA)
- State Industrial Development Corporation (SIDC)
- Small Scale Industries Development Corporation (SSIDC)
- State Financial Corporation (SFC)
- District Industries Centre (DIC)

IPAs and SIDCs are involved in the development of industrial areas, providing assistance and guidance in selection of products and location of industry, preparation of project reports, and extending financial and managerial support to new industrial units. In many states, the SIDCs function as 'single window clearance agencies' or in close association with them. DICs are the district level bodies of the SIDCs. SSIDCs have been set up to provide assistance to companies in the small scale sector. SFCs present in all states are involved in financing of projects of small investment outlays.

Analysis

The sweeping changes introduced since 1991 mark a radical departure from the past and reflect a positive approach towards foreign capital. The changes provide freedom to foreign investors to enter into India Industry. Under the ongoing policy phase the thrust is on providing access to capital, technology and market in order to induce greater industrial efficiency and integration of the domestic economy with the global economy. FDI is permitted in almost all manufacturing industries (except six specified industries of strategic concern reserved for the state, i.e. plantations, housing and real estate, domestic trading print media, defense and strategic industries). The enlarged spheres for FDI entry now include mining, oil exploration, refining and marketing, power generation and telecommunication, which were earlier reserved for the sate sector. Under the new policy, foreign direct investments are also permitted in tourist and hotel industries and trading companies engaged in exports in the service sector. Clearly the sectors opened to FDI now are much larger as compared to the earlier policy.[29]

Social Objectives of Industrialization

Different governments may have different objectives in mind. Generally, however, they will include a faster growth of national income, alleviation of poverty, and reduction of income inequalities. The experience of industrial economies shows a close association between development and industrial expansion. But industry is also thought to provide certain spillovers which would benefit other activities: enhancement of skills, training of managers, dispersion of technology, etc.

It is this immense importance of industrialization which attracted the Indian policy makers while drafting the development strategy for independent India. They wanted to achieve rapid growth and prosperity through industrialization. Indeed the objective has been not only to achieve rapid growth and prosperity within a framework of self-reliance under the direction of the public sector, but to ensure that this is translated into improved conditions of living for the masses.[30]

Industrialization and Balanced Regional Development

The broad objectives of Industrial policy in India have been periodically articulated in the Industrial Policy Resolution of 1948, 1956 & 1973, and the Industrial Policy Statement of 1980. The public statements on broad policy have been, not surprisingly, large on rhetoric, and have also contained a number of

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[29] See Chanchal Chopra (2003): *Foreign Investment in India*, Deep & Deep, New Delhi, p 129.
[30] See Isher J Ahluwalia (1988): "Industrial Policy and Industrial Performance in India" in Robert Lucas & Gustav F. Papanek (ed.): *The Indian Economy*, OUP, New Delhi, p 151.

potentially conflicting objectives.[31] The situation prevailing at the time of the First Plan, forced our planners to give more attention towards the reconstruction of industries. Emphasis was directed more towards capital goods industries which generally have a lesser degree of regional spread. This implicitly meant that there would invariably be a spurt in spatial imbalances in the initial phase of industrial planning. But the industrial environment in the country left no other alternative, in the initial stages, to our policy-makers, in striving towards rapid progress.

The first three plans could not give much attention to the spatial aspect of industrialization for reasons mentioned above. However, there were some policies of locating industries in backward areas. The Second plan had emphasised the development of infrastructure in backward areas and the promotion of small-scale industries as the main instruments of industrial dispersal.[32] The Third Five-Year Plan followed an essentially similar approach.[33] This can be regarded as an implicit policy towards controlling regional imbalances in future. A praiseworthy feature of the policies was the gradual development of the capital goods industries.[34] The policies were not seriously questioned till the mid-sixties though there were some gaps between the targeted and achieved growth rates. But from the mid-sixties onwards a structural retrogression started setting in, which called for attention. Reformulations of policies were suggested and consideration for regional dimensions started germinating.

The federal and varied structure of India led to political pressures which made it necessary to deal with the problem of balanced regional development

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[31]Thus the avowed objectives of industrial policy have involved (i) increasing production and productivity, especially in the priority sectors, (ii) encouraging small scale industries with a view to generating more employment and fostering entrepreneurial talents, (iii) bringing about regionally balanced industrial development, (iv) preventing concentration of economic power by the control of monopolies and 'large' houses, and (v) controlling foreign investments in domestic industry.

[32] Government of India (1956): *Second Five-Year Plan*, Planning Commission, p.37.

[33] Government of India (1961): *Third Five-Year plan*, Planning Commission, p.142.

[34] Industrial licensing has also been used increasingly for attaining the objective of regional dispersal of industrialisation by favouring the applications by the private sector for setting up units in backward areas. More recently, specific financial and tax concessions have been offered to encourage movement of industry to 'backward' and 'no industry' districts.

more explicitly. After three decades of planning, it was realized there was still "a long way to go in this task of reducing regional imbalances"[35] Serious efforts towards a policy for industrial dispersal began when the Planning Commission in 1969 issued Guidelines for the identification of industrially backward districts on the basis of the recommendations of the Working Group for identification of Backward Areas (B.D.Pandey Group, 1968) and the Working Group on Fiscal and Financial Incentives for Starting Industries in Backward Areas (N.N Wanchoo Group, 1968).

The Pandey Committee in its report, declared as many as 225 districts as industrially backward that deserve special attention by the Government of India for their industrial development. Subsequently, the Planning Commission decided to accept districts as units of planning so as to have maximum possible use of local resources for development of districts. Districts Industries Centres (DICs) were formed thereafter to coordinate and promote the development of industrial growth centres in suitable places in each district.

Thus the Fourth Plan (1969-74) made a break with the past. Beginning with a decision of The National Development Council in September 1969, the policy relied increasingly on financial incentives to disperse industry to backward areas in the years to come, with states supplementing the central schemes with their own, and further gradations of backwardness resulting in the creation of entities such as the No-Industry-Districts in 1980.[36] The sixth Plan, thus, laid more emphasis on the development of small scale and cottage industries and ancillaries by setting up nucleus plants in the industrially backward areas.

The above discussion shows that regional balances were continuously ignored till the Fourth Plan. As a result, despite some spectacular achievements in

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[35] See Government of India (1980) *Sixth Five Year Plan*, Planning Commission, p. 43.
[36] See Isher J Ahluwalia (1998): "Contribution of Planning to Indian Industrialisation" in T. J Byres (ed.) *The State, Development Planning and Liberalisation in India*, OUP, New Delhi, p 268.

the industrial sector at the national level, pushing the country to the midst of important industrial nations of the world, regional disparity has tended to grow and some of the backward states like Orissa, despite their great industrial potentiality, has failed to respond adequately to the central policy and strategy of industrial development so far.

Conclusion

Thus we have seen that India's policy towards foreign private capital is marked by cautious welcome in the initial decades of fifties and sixties and selective and restrictive policy during seventies. In the decade of eighties, it was the policy having partial liberalization with many regulations. Liberal investment climate has been created only since 1991. The period from 1991 till date is characterized by transparency and openness and is intended to seek more foreign investment flows. No doubt, India as a whole has achieved spectacular industrial development if we look at the base from where it started and took the help of foreign capital when needed. But the absence of the concept of balance regional development in the initial years of planning, which got serious attention only in the fourth plan period, pushed India towards regional imbalance with regard to industrial growth. With the shift in liberal policy regime in the nineties and the state assuming more freedom in the policy making, foreign capital can be of immense importance to move towards rapid industrialization and development.

Chapter 2

Evaluation of Industrial Policies in Orissa: A Critical Appraisal

Orissa, the ancient land of temples in the eastern coast of India, is one of the most resource-rich states in the country. With the onset of the process of economic reforms in India and fast emerging globalization of the Indian economy, Orissa is making attempt to augment the pace of industrial growth. The State Government is determined to take full advantage of the sweeping changes in the national and international scenario and forge ahead with its programme of industrialization by removing bottlenecks which hinder it to achieve the goal of industrialization.

Potential of Orissa

Orissa is endowed with vast natural resources-mineral, marine, agricultural and forest wealth. It has abundant reserves of coal, iron-ore, bauxite, chromite, limestone, dolomite, magnesite and manganese. It also has tin, nickel, vanadium, gemstones and granite. Orissa has 98.39% of India's chromite, 91.84% of nickel ore reserves, 64.52% of graphite, 59.53% of bauxite, 27.99% of iron ore and 24.11% of coal reserves.[1] Of late, vast potential of diamond and gold has been indicated. Water resources are plentiful. Potential of agriculture is unlimited. At Paradeep is the country's deepest port. A wide network of new railway linkages connecting strategic resource bearing locations is fast emerging. With these advantages Orissa has become a major destination of steel plants, thermal power plants, alumina/aluminum projects and oil refineries. The State Government is fully committed to attract large investment in development of infrastructure, mining and industry including power generation to harness the vast promise and potential to improve the economy to create employment and generate resources

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[1] Government of Orissa (2002) *Economic Survey (2002-03)*, Directorate of Economics and Statistics, Bhubaneswar, p 10/1.

for all round development of the state and its people. While the past industrial policies starting from 1980 have created a favorable industrial climate in the state with many new industries coming up, the state has to take full advantage of the liberalized economic and industrial regime to attract substantial private investment for infrastructure and industrial development of the State.

Industrialization in Orissa

At the time of independence, Orissa was one of the most backward states in the country notwithstanding her rich mineral, forest and agricultural resources. The First Five Year Plan laid the foundation of industrial infrastructures by initiating the establishment of a few industries like Cement Factory at Rajgangpur, Ferro Manganese Plants at Rayagada and Joda, one Tube Factory and one Paper Mill at Choudwar and one Aluminium Factory and one Cable Factory at Hirakud. The state and national highways were also expanded and developed.[2]

State Aid to Industries Act was passed by the Orissa government during the First Plan period. Under the Act grant-in-aid to 240 small entrepreneurs engaged in cottage industries, weaving, carpentry, tailoring, etc were provided. The hydro-electric projects at Hirakud and Machhakund became ready for transmission of power to the different areas of the state during the Second Plan. Thus, with the development of a minimum level of infrastructural facilities the State made sincere efforts for industrialisation. The greatest landmark in industrial development was the establishment of one of the largest Steel Plants of the country at Rourkela in Sundergarh district by the Government of India in the public sector during the Second Five Year Plan period. Besides, many other big public sector Projects like the Fertiliser Plant at Rourkela, Mig Factory at Sunabeda, Thermal Power Station at Talcher and Paradeep Port at Paradeep came up in the state during this period.

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[2] Rajkishore Meher (1993): "Industrialisation Drive and the Functioning of Small Scale Industries in Orissa", *Indian Journal of Regional Science*, vol. XXV, No. 2, p 75.

The programme of Industrial Estates was introduced by the Government of India on the recommendations of the Small Industries Board in 1955. In Orissa the construction of Industrial estates started from the year 1956-57. Till 1973-74 the cost of those industries was funded by the government budgetary allocation. In 1973-74, special employment programme called "Half-a-million jobs programme" and "Assistance to Educated Unemployment" were introduced. The industrial Estate Programme was considered an important and effective tool for creating, sustaining and for modernizing of small scale industries providing more employment and for industrializing the backward areas.

In 1957, the State Government introduced the "Pilot Project Scheme", which provided certain facilities like factory house, electricity, etc. through Industrial Estate. As per the Scheme, the State Government encouraged several small companies with 90 per cent finance from the Government and the balance 10 per cent subscribed by the private entrepreneurs.[3] Private entrepreneurs were appointed as Managing Director of the companies.

The Orissa Government set up a number of financial institutions for promoting industrial growth. Following the State Financial Corporation Act, 1951, Orissa State Financial Corporation (OSFC) was set up in 1956. Its main objective was to develop small and medium industries in the State. It also provides financial assistance for a number of allied sectors like transport, hotels, nursing homes and clinics, acquisition of mining and road construction equipment etc. The Corporation receives financial assistance from the State Government as well as Central Government and provides soft loans and margin money for rehabilitation of sick industrial units.[4] In order to help the steady growth of Small Scale Industries (SSI) in the State, the Orissa Small Scale Industries Corporation

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[3] Government of Orissa (1992): *Orissa State Gazetteer, Vol. III*, Department of Revenue, Bhubaneswar, p.163.

[4] Government of Orissa (1998): *Economic Survey (1998-99)*, Directorate of Economics and Statistics, Bhubaneswar, p 10/1.

(OSIC) was established in the year 1972 to procure and channelize the supply of raw materials to the SSI units.

In order to promote industrialization in most backward districts of the State and to assist the growth of SSI units through forward and backward linkages effects of large and medium industries, the Government set up the Industrial Development Corporation (IDC) in 1962. To give a further impetus to industrialisation, the State Government in 1973 established another Industrial Financing Institution namely Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) to promote large and medium industries in joint and private sectors. Simultaneously, with a view to diversifying the industrial production in the state, the Government set up two new public sector undertakings in the seventies namely Orissa Leather Corporation and Orissa Film Development Corporation. Besides all these, the State Government took a number of initiatives in the promotion of Village and Cottage Industries by establishing a number of organizations like Khadi and Village Industries Board, Orissa State Handloom Weavers Co-operative Society, Orissa State Co-operative Handicraft Corporation and so on. Industrial Development Corporation of Orissa Limited (IDCOL) was set up on 29th March, 1962 to set up/promote industrial units for utilisation of natural resources available in the State. The Corporation has set up 14 industrial units with an investment of Rs.538.58 crore till the end of March 1998 in diverse fields.[5]

In November 1962, the Rural Industrial Programme (RIP) was launched by the State Government with a view to achieve intensive and integrated development of small industries in certain selected rural areas. Rural industrialization programme was conceived for making each Panchayat Samiti and Gram Panchayat headquarters a nucleus for development of rural industries. During the year 1962-63, the Panchayat Industries Programme (PIP) was started

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[5] See Ibid., p.10/8.

in the state. To evoke better public participation in rural areas, it was decided to set up industries in Grama Panchayat areas. While selecting the location of industries the economic factors like availability of raw materials, man power, etc were taken into consideration. The industries established under the programme meant for processing agricultural produces and for providing better skills and improved equipments to the local artisans and workers. By 1973-74, only 67 industrial co-operatives under the scheme were working. 33 units were in the process of liquidation. The failure was due to faulty location and selection of industries in rural areas. Lack of infrastructural support, inadequate market support and faulty and inefficient managements brought down most of the Panchayat Industries in the State.[6] The Sixth and Seventh Five Year Plans of the State aimed at wider dispersal and diversification of industries coupled with growth in output and employment, removal of constraint on capacity utilization, reduction in industrial sickness and promotion of industries in the decentralized sector. The establishment of National Aluminium Company (NALCO) at Angul and Damanjodi, served another milestone in the industrial development not only of Orissa but also of the country.

Pre-Liberalization Industrial Policies

By and large, industrial development in India during the last five decades has been quite impressive. In Orissa the development, though not impressive enough, it is quite substantial in view of the low base from which it started. Rural and small industrial units still dominate the industrial scene of Orissa. However, paradoxically enough, capital owned by small units is hardly 14-15 per cent of the total industrial capital in the state.[7] The state government has been making efforts since the inception of planning, more particularly from the second five year plan period for meeting the challenges of industrial development.

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[6] See S C Patnaik (1994): *Industrial Development in A Backward Region: Dynamics of Policy,* , Ashish Publishing House, New Delhi, pp.112-113.
[7] See Ibid., p.113.

First Industrial Policy

The industrial policy of the state is framed within the general framework provided by the central government and the implementation, supervision and administration are done by the office of the Industries Commissioner which coordinates with the other development agencies. The government of Orissa announced its First Industrial Policy in 1968. The policy emphasizes to offer transport and communication facilities to industrial and mineral zones and invited the private entrepreneurs to participate in industrial venture by providing various concessions both fiscal and physical. These concessions included allotment of land at cheaper cost, exemption of octroi, holiday on sales tax, price preference to the small-scale industries for participation in the 'State Government Store Purchase Programme', concessions for power rates, etc.[8] However, the response from private sector was not encouraging. The Fifth Five-Year Plan re-emphasised the complementary relationship between the large-scale and small scale industries and emphasised for the development of backward areas.

Industrial Policy 1971-76

The 1971 Industrial Policy of Government of Orissa offered a package of incentives to industries with the sole aim of promoting the industrial development of the state. Apart from the public sector developments, certain basic and genuine concessions were given to small scale industries. Applications for industrial license were examined liberally. The state Government also provided all possible financial assistance under the State Aid to Industries Act. Loans were available from OSFC, OSIC and the DIC of Orissa. Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) was set up in 1973 as the nodal agency of the State Government for promotion and development of large and medium industries in the State including joint sector/joint/venture and assisted projects.

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[8] See Orissa Gazetteer (1992), p 165

Industrial Policy 1977

The Industrial Policy announced on the 23rd December 1977 aimed at effective promotion of cottage and small industries, widely dispersed in rural areas and in small towns. One of the important achievements of Industrial Policy of Janata Government was the establishment of DIC in all the 13 Districts. The functions of DICs were to investigate the raw materials and other resources of the Districts, besides supplying machinery and equipments. They also impart training to entrepreneurs and make arrangements for credits. They offer facilities for quality control and provide marketing support for the products.

A composite loan scheme sponsored by RBI was introduced in December 1978 for financing units whose requirements did not exceed Rs.25,000/-. This was to facilitate development of very small units. The Industrial Policy of the Government of Orissa had the major thrust of developing relatively more labour intensive village and cottage industries.

Industrial Policy 1980

A bold, pragmatic and progressive industrial policy was formulated by the State Government in August 1980 for the rapid development of industries in the state. This liberal policy included a package of attractive incentives and concessions for entrepreneurs along with well defined administrative measures aimed at removing bottle-necks and expediting assistance to industries. The concessions included provision of various infrastructural facilities like, land, water and power. The administrative measures outlined in the policy included a single point contact forum (the Industrial Coordination Bureau in the Industrial Promotion and Investment Corporations of Orissa Limited, for large and medium industries and District Industries Centres for small industries) where entrepreneurs could secure all assistance within a stipulated period of twenty-one days.[9] Thus

[9] See ibid. p.186.

the policy provided for a co-ordinated push for the promotion of major, medium and small industries so that each sector would promote and nourish the other and the vast resources of the state could be efficiently and effectively utilized to create an adequate industrial base in the state. The Government gave a call for "thousand industries in thousand days with investment of Rs.1,000 crores".

Greater emphasis was given to mineral based, engineering and agro-based industries. Effective steps recommended for providing infrastructure in all areas of industrialization, as per the availability of raw material and other locational advantages. Special priority was given for employment generating investments and for industries seeking to utilize mineral, chemical, marine and agricultural resources of the state. A concerted drive was launched for massive public sector investment by the Central Government in the core sector of industries. Special emphasis was given for the development of ancillary industries around large and medium units. Orissa Industrial Infrastructure Development Corporation (IDCO) was established in 1981 with the objective of creating infrastructure facilities in industrial estates/area for accelerated growth of industries, and trade and commerce.

Industrial Policy 1986

The number of industrial units promoted during 1980-85 is significant enough. The industrial base of the economy, however, remained low. It was felt that the state needs further thrust in the field of sophisticated industries including electronics, electrical, domestic appliances, ceramics, textiles, polymers, leather, drugs, chemicals and pharmaceutical industries and upgradation of technology, modernization of the existing units and development of functional industrial areas in the field of electronics and computers, and for preparing the state to meet the new and emerging compulsions of the 21st century. Therefore, the new policy was announced in 1986, offering a 'New Deal' to the entrepreneurs for promoting new units and/or expanding their old units. The main emphasis of policy statement was on private industries and joint venture projects and less on public sector and joint sector projects. Some of the important objectives of the industrial policy were: generation of employment in secondary and tertiary sectors, large employment of women in appropriate industries, dispersal of industries in backward areas of the state, anti-pollution measures, promotion of ancillary and down-stream industries, adoption of appropriate package for rehabilitation of sick industries, pragmatic market support, strengthening of the quality control and testing laboratories of the state, adoption of appropriate technical manpower policy, planning for long term and maximum utilisation of raw materials, proper utilisation of industrial by-products and waste materials available in the state and above all expeditious delivery of incentives and facilities and effective monitoring of progress of industrialization.

For the purpose of different incentives, the state was divided into the following three districts zones:

Zone A – consists of districts of Phulbani, Bolangir and Kalahandi.

Zone B – comprises the districts of Keonjhar, Mayurbhanj, Dhenkanal, Koraput, Balasore and Ganjam.

Zone C – consists of the districts of Cuttack, Puri, Sundergarh and Sambalpur.

This classification was made on the basis of the industrial backwardness of the districts, those covered under Zone *A* being industrially the most backward, those in group *C* being the least backward. This had been done with a view to offering incentives on a graded scale, the maximum being to *A* and the minimum to Zone *C*.

Thus the above discussion of the industrial policies clearly indicate that from the first Industrial policy 1968 till 1980 a number of industrial policies had been announced in the state, offering to promote small scale and village and khadi industries, establishment of DICs in all the districts. However, those were not able to produce any fruitful result for the industrial transformation of Orissa which was quite evident from the substantial decline in the State's share in the national industrial output - from 2.5 per cent in 1965-66, it declined to 1.6 per cent by 1978-79. [10]

In fact, the Industrial Policy Resolution of 1980, launched by the Congress government, was the most explicit in its objective to bring about rapid industrial development in the state. The policy was launched in an unprecedented populist style where the State government, led by then chief minister, J.B. Patanaik, announced to set up "one thousand industries in one thousand days with an investment of one thousand crore of rupees". This was the major political slogan which for the first time aroused hopes in the public for an industrialized Orissa. It provided for large number of subsidies, procedural relaxations and various concessions to the intending entrepreneurs. [11] In 1986, the same Congress government announced one more Industrial policy offering a 'new deal' whereby emphasis was placed on developing sophisticated industries, technology upgradation, modernizing existing units, developing functional industrial areas, improving technical and managerial skills and boosting entrepreneurship in the state. [12]

However, despite four decades of Industrial Planning Orissa could not make headway in the field of industry unlike other major states in the country. The rate of unemployment and underemployment in the State was very high. The development efforts of the State remained largely trapped in the vicious circle of poverty with more than 50 per cent of the population living below the poverty line. In view of above situation GoO reformulated its industrial policy in the nineties in order to take the economy towards progress and development.

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[10] Government of Orissa (2003): *Orissa Development Report2000*, p.216.
[11] For a detail discussion of policy see page no. 34 & 35.
[12] For a detail discussion see page no. 35 & 11.

Post-liberalization Industrial Policies

The New Economic Policy introduced by the government of India in the year 1991 aimed at reducing the various barriers to industrialization. However, these measures, it was feared will yield little results if they are not accompanied by suitable measures at the state level. Realizing this, the GoO has made efforts to reduce and simplify the procedures involved at the stage of setting up of a unit and in increasing the availability of the infrastructure with private sector participation. In order to know the changes introduced by the GoO in formulating the industrial policies in the post-liberalization period, it is prudent here to examine the different industrial policies launched under the reform period. This will also help in making a comparison between pre-liberalisation and post-liberalisation industrial policies.

The Industrial Policy 1992

The Industrial Policy of Orissa 1992 was formulated with a view to creating an environment conducive for accelerated industrial growth through the selective process of liberalization and privatization of industrial structures and relations. The state successfully created a fairly stable and large industrial base by providing attractive incentives, concessions, encouraging private investment and diversifying institutional and infrastructural support. Expeditious clearance for setting up new industries through a single window and special attention and fast track treatment to foreign and Non-Residential industrial investors are the attractive features of the policy. Keeping in view the industrial backwardness and no industry areas of the state, fixed capital investment subsidies at rates of 30%, 20% and 10% subject to a limit of Rs.30,00 lakh, Rs.20.00 lakh and Rs.10.00 lakh were provided respectively.[13] Specific zones were identified for development of industrial enterprises with emphasis on small and cottage industries for providing gainful employment to weaker and vulnerable sections and maintenance of

[13] See Government of Orissa (1994) *Economic Survey (1994-95)*, Directorate of Economics and Statistics, Bhubaneswar, pp. 66-67.

desirable ecobalance. Besides, twelve categories of industries[14] were identified as thrust areas for special care and financial support from the government and to build up a sound industrial climate and relation in the State.

During the Eight Plan, the government tried to provide an alround sustained industrial growth in the State through attractive subsidies, tax incentives, marketing support, encouragement of entrepreneurs, institutional safeguards and rehabilitation of sick and viable industrial units, equity participation in setting up of new industries and improvement of infrastructure and training facilities. Besides, measures were explored to obtain the assistance from NRI's, MNCs, and World Bank. A separate Department of Public Enterprises has been created from January 1991 for effective and profitable management of Public Sector Industries.

The Industrial Policy 1996

The industrial policy launched in 1996 by the Congress government was landmark for the industrial development of Orissa in the sense that it brought several changes in the policies which was in conformity with the reforms measures initiated by the central government in 1991.The policy aimed at improving the investment climate in the State and promoting opportunities for growth of industries and related sectors. The Policy offers a comprehensive package of incentives conducive for investment in the State.

The main objectives of the Industrial Policy, 1996 are as follows:

- Harnessing Orissa's vast natural resources and potential for accelerated industrial growth consistent with the protection of environment.

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[14] (i) Export Oriented and Import substituted, (ii) Leather, (iii) cutting and polishing Gem Stones and Granite, (iv) producing Pig Iron, Sponge Iron, Ferro Alloys and Steel, (v) Electronics (hard ware and soft ware) excluding entertainment electronics, (vi) Seed production, bio-technology and export dedicated floriculture, (vii) Agro-based, marine based and food processing, (viii) Plantation of cash crops like tea, coffee, rubber, cashew and spices as well as industries processing them, (ix) Knitwear synthetic fibres and textiles, (x) Plastics, (xi) generation of Power including generation through non-conventional sources and (xii) downstream industries including fly-ash utilisation.

- Advancement of agriculture by establishing appropriate linkage between agriculture and agro and food processing industries.
- Attracting and facilitating large investment in infrastructure and industries both from inside and abroad.
- Generating employment on a large scale in industrial/commercial activist.
- Development of backward area/regions of the State through industrial/mining ventures.
- Strengthening the rural economy through development of afro-based industries, small industries, village and cottage industries, sericulture, handloom and handicraft.
- Stimulating and strengthening local entrepreneurial base/talent.
- Development of skill/expertise.

The Industrial Policy, 1996 seeks to attract investment in priority industries through a scheme of special incentives. These industries include electronics, telecommunication, agro and food processing, aluminium based industries, garments manufacturing including hosiery and knitwear, synthetic yarn spinning and weaving mills, gems and jewellery, automobile components, basic drugs and pharmaceuticals, petrochemicals, 100% export oriented industries, ship breaking etc. higher incentives have been provided to pioneer units (i.e. medium and large scale units in areas where there were no such units earlier), labour intensive industries, industries set up by ST/SC, handicapped and women entrepreneurs, small scale units with fixed capital investment less than Rs.10 lakh and large scale projects over Rs.100 crore.[15]

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[15] See Government of Orissa (1998) *Economic Survey (*1998-99), Directorate of Economics and Statistics, Bhubaneswar, pp.9/1-9/2.

With a view to sustaining the rapid pace of industrialization, emphasis is being laid on infrastructure development. Till recently, development of infrastructure was perceived to be responsibility of the state. Owing to constraints of Government resources, there has been a shift in focus and steps have been taken to enable private and foreign investment to flow to infrastructure development. Notable initiatives taken in this regard include proposals for development of Dhamara and Gopalpur ports through private investment, development of an industrial park at Paradeep through foreign investment, and development of major road through external assistance and private participation.

For the purpose of incentives, depending upon industrial development of different areas of the State, the State has been divided into the following three zones:[16]

Zone-A: Anandpur, Athamallik, Balliguda, Bamanghati, Bhawanipatna, Birmaharajpur, Bonai, Boudh, Deogarh, Dharamgarh, Gunupur, Hindol, Kamakhyanagar, Kaptipada, Khandmals, Kuchinda, Malkangiri, Nawapara, Nilgiri, Nowrangpur, Padampur, Pallahara, Panchpir, Paralakhemundi, Patnagarh, Rairakhol and Sonepur sub-divisions.

Zone-B: Athagarh, Banki, Baripada, Bhanjanagar, Bhadrak, Bolangir, Champua, Jagatsinghpur, Jeypore, Kendrapara, Keonjhar, Khurda, Koraput, Nayagarh, Puri, Sundargarh and Titlagarh sub-divisions.

Zone-C: Angul, Balasore, Bargarh, Berhampur, Bhubaneswar, Chhatrapur, Cuttack, Dhenkanal, Jajpur, Jharsuguda, Panposh, Rayagada, Sambalpur and Talcher Sub-divisions.

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[16] Earlier division in 1986 was based on the thirteen districts. Since the number of districts increased to 30 in 1992, the GoO redivided the districts into three zones in order to facilitate the process of industrialization.

Capital Investment Subsidy

New industrial units will be allowed Capital Investment Subsidy in the followingmanner:

Zone-A: 20 per cent of the fixed capital investment subject to a limit of Rs. 20 lakh.

Zone-B: 15 per cent of the fixed capital investment subject to a limit of Rs. 15 lakh.

Zone-C: 1 0 per cent of the fixed capital investment subject to a limit of Rs. 10 lakh.

Provided that only new industrial units with a maximum project cost up to Rs. 5 crore will be eligible to avail of the incentive of capital investment subsidy. Provided further that special class entrepreneurs' will be eligible for 5% extra capital investment subsidy subject to a limit of Rs. 5 lakh over and above the limits specified.

Industrial Policy 2001

The New Industrial policy 2001, formulated in the context of ongoing globalization as well as economic liberalisation, reflects the GoO commitment to growth and development of industries. The objectives of the new industrial policy are to create a business climate conducive to stimulating private sector investment in industry and infrastructure projects, with a view to raising income, employment and economic growth in the State and reducing regional disparities in economic development.[17]

To achieve objectives set in the Industrial Policy 2001, the State Government will:

- Encourage private initiative and restrict its intervention to such areas where it enjoys a distinct comparative advantage,

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[17] See Government of Orissa (2001): *Industrial Policy 2001*, Industries Department, Bhubaneswar, p.3.

- Invite private investment for development and operation of quality infrastructure,
- Promote the image of Orissa as an attractive destination for investment and tourism,
- Assume a proactive role in selected sectors such a mineral-based industries, craft-based products, agro and marine-based industries, industries based on medicinal herbs and minor forest produce, tourism, electronics, information technology and biotechnology,
- Encourage the creation of small scale industries (SSI) clusters in similar lines of business,
- Proceed more decisively with the restructuring and consolidation of sick industrial units,
- Leverage the potential in Special Economic Zones (SEZs) to build concentration of technologically advanced manufacturing industries.[18]

Large and Medium Scale Industries

Industrial Promotion and Investment Corporation of Orissa (IPICOL), Industrial Development Corporation of Orissa Limited (IDCOL) and Orissa State Electronics Development Corporation (OSEDC) are the three nodal agencies which have been playing a significant role for promotion of large and medium scale industries in the State. By the end of 7th plan i.e. 1989-90, Orissa had 231 large and medium industries with an investment of Rs.1044.88 crore and employment potential for 69,458 persons. During 2001-02, 10 (ten) large and medium industries have been set up with an investment of Rs.1492.34 crore and employment for 1615 persons. Table 1.1 indicates the development of large and

[18] See ibid., p.3.

medium industries in the. State. The table reveals that the number of industries gone in to production has increased over the years from 1990-91 to 2001-02.

Table No: 1.1. Large and Medium Industries in Orissa

Year	No. Of units gone into production	Investment (Rs. in crore)	Employment generated (number)
By the end of 7th Plan(1989-90)	***231***	***1044.88***	***69,458***
1990-91	23	36.15	1751
1991-92	12	28.18	1302
1992-93	11	137.23	1985
1993-94	10	186.49	1881
1994-95	9	140.05	1427
1995-96	3	14.16	313
1996-97	6	29.82	476
1997-98	14	167.47	1769
1998-99	16	85.39	1203
1999-00	4	156.54	963
2000-01	3	31.93	1226
2001-02(p)	10	1492.34	1615
	121	***2505.75***	***15911***

P: Provisional

Source: 1. Government of Orissa (2002): *Economic Survey* (2002-03), Directorate of Economics and Statistics, Bhubaneswar.
2. Government of Orissa (1998): *Economic Survey* (1998-99), Directorate of Economics and Statistics, Bhubaneswar.

In addition to the units indicated in Table 1.1, nine large and medium industries namely, Hindustan Aeronautics Ltd. Unit at Sunabeda, Rourkela Steel Plant at Rourkela, Indian Rare Earth Ltd. At Chhatrapur, Carriage Repair Work Shop at Anugul, Fertilizer Corportion of India (FCI) unit at Talcher, Heavy Water Project at Talcher, National Aluminum Company units at Angul and Damanjodi have been set up in the State in the Central sector. All these units were established prior to 1990-91.[19]

After economic liberalization (1991) and adoption of the Industrial Policies 1996 and 2001 there has been a surge in investment proposals for establishment of medium and large scale industries in alumina and aluminum, sponge iron, granite cutting and polishing, telecom cable, steel, petrochemicals, fertilizer, power, chemical and pharmaceuticals, telecom, etc. with promulgation of Industrial Policy 2001, it is expected that there would be greater impetus in more diverse areas for establishment of medium and large industries.

The above discussion of the different Industrial Policies clearly indicates that certain ideological and procedural differences exists between the pre liberalized and post liberalisation era in the approach of the GoO in formulating the industrial policies and in some of the agencies set up for industrial promotion towards industrialization in the context of reform measures. By ideological differences we mean the changes in the approach or the policy while the procedural differences refer to the innovations or changes that have taken place in the functioning of the agency due to change in the approach of the government.[20]

Ideological Differences

The ideological differences of GoO is clearly reflected when we compare the nature and the way different industrial policies have been formulated and the details regarding the incentives and subsidies provided to various industries in the pre liberalized and post liberalisation era. Nevertheless, the GoO before framing the Industrial Policy Resolution called upon the United Nations industrial Development Organization (UNIDO) in November 2000, to comment on the

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[19] See Government of Orissa, *Economic Survey* 2002-03, p.9/3.

[20] This approach was adopted by N. Lalitha to study the reform measures undertaken by the state of Gujarat in order to promote Industrialisation. See Lalith, N (1998): "State Level Reform to Promote Industrialisation: A Case Study of Gujarat", *Indian Journal of Regional Science,* Vol.XXX, No.1, pp.1-21.

Policy Resolution.[21] The Government then invited opinions and suggestions from people belonging to different walks of life, like businessmen, industrialist, government officials, public servants and civil society organizations to review the new industrial policy. This was the new strategy adopted by the GoO which shows the marked ideological differences from the earlier policy announcement.

The other ideological differences have been the realization of the GoO that licensing and locational policy of the Government of India were not only factors impeding state's industrial development but the inadequate infrastructure and bureaucratic delays and procedures could make the investors shy away from a particular state. This is obvious in the Industrial Policies 1996 and more clearly stated in Industrial Policy 2001, which apart from a separate incentive policy, presented the issues, problems and areas where reform measures were needed to be introduced. Though the objectives such as accelerated development of the backward areas, improvement of human resources and creation of large scale employment opportunities are not new, the specific thrust on the accelerated development of infrastructure is unique in these documents.

The need for review of the fiscal incentives was emphasised by UNIDO. Firstly, it is doubtful to what extent capital subsidies help the process of industrialization. Second, the stepping up of capital incentives in West Bengal has raised the stakes of the game beyond what GoO can hope to emulate. It would be better if GoO were to conserve whatever financial resources it can generate into spearheading expansion of the physical infrastructure base in the State and consolidation of the existing capital assets —both infrastructure and industrial. But subsidies and incentives being political issues, it is clear that no single state

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[21] The United Nations Development Programme and the UK's Department for International Development offered their financial and technical contribution to the exercise. UNIDO then recruited the Delhi-based Indian Council for Research on International Economic Relations to undertake a background study on the prospects for socio-economic growth in the State through the promotion of manufacturing activates. Subsequently, the State Government organized a review workshop (Bhubaneswar, 09-10 May 2001) during which the UNIDO experts submitted their findings and conclusions to the critical appreciation of the local stakeholders.

will come out with a bold decision till all the states arrive at a consensus on this issue. In any case, it remains contentious whether the fiscal resources of GoO are best spent by way of capital incentives, or through investment towards improvement in the infrastructure that is made available to SSI entrepreneurs.

Infrastructure

In line with the NEP, the GoO has given maximum priority to develop infrastructure in the state through private and foreign investment. The Industrial Policy 1996 and 2001 accord special priority to infrastructural development which in turn would facilitate flow of funds for large investments in the industrial sector. Special Economic Zones are particularly attractive instrument of industrial progress in Orissa. The Industrial Infrastructure Development Corporation of Orissa (IDCO) is responsible for the development of economic zones throughout the state.

(a) **Roads:** In absence of adequate internal rail linkages, roads are the major means of transportation in the state. All-weather connectivity to every village is necessary for improving the quality of life and economic conditions in rurual areas. Rural connectivity has been identified as one of the basic minimum services for development of agriculture and rural economy and the GoO has accorded high priority to this sector. The Works Department of Government of Orissa is in charge of improvement of roads, construction of bridges, maintenance and repair of National Highways, State Highways, Major District Roads and Other District Roads and bridges on these roads. With a view to improving road infrastructure, World Bank has sanctioned 2.9 Million U.S dollars for project preparation work of Orissa Sate Road Projects. It is proposed to take up upgradation and maintenance of 198 kms and heavy maintenance of 1210 kms road at a cost of Rs.800 crore out of which World Bank loan would be Rs.560 crore.

Implementation of the project has been deferred since World Bank has postponed sanction of the loan.[22]

(b) **Ports:** among the 11 major ports of the country, Paradeep is the only port located in Orissa. Mainly minerals and metallurgical products are exported through this port. The GoO has developed a fair weather port at Gopalpur with an investment of Rs.35.95 crore which has been opened to traffic from 1987. considering the requirement of port based Steel Plant TISCO, L&T and other industries which are likely to come up near the Gopalpur Port, the GoO have decided to develop it into an all-weather port through a private developer namely the "Adani Group of Companies" and the memorandum has been signed. It has also been decided to develop a mega port at Dhamara in Bhadrak district through private investment. Accordingly, an agreement has been signed with M/S International Sea Ports Ltd. of Singapur in April, 1998.[23]

(c) **Power:** The State of Orissa has the distinction of being the first State in the country to embark on a full-fledged reform process for its power sector. The paramount objective of the reforms in power sector is to provide consumers with reasonably cheap, reliable and assured supply of power. In order to achieve this, the Orissa Electricity Reforms Act, 1995 was enacted and came into effect on 1st April 1996. With the enactment of Orissa Electricity Reforms Act, 1995, the erstwhile Orissa State Electricity Board (OSEB) was restructured and the function of OSEB was entrusted to Hydro Power Corporation (OHPC) on 1st April 1996. The existing transmission and distribution system was transferred to OHPC. The Orissa Power Generation Corporation (OPGC), which was incorporated in 1984, is looking after the thermal power projects in the State.

[22] See ibid., pp 12/1-12/2.
[23] Ibid., p12/9-12/10.

In order to achieve the desired objective of the reforms, under the Orissa Electricity Reforms Act, the Orissa Electricity Regulatory Commission (OERC) was created. It has been entrusted with the responsibility of promoting efficiency and economy as well as protecting the interest of the consumers. The Regulatory Commission determined the rates at which electricity shall be sold within the state. The tariff is determined on the basis of public hearing.

The distribution function of GRIDCO was privatized in the year 1999 and was entrusted to four private distribution companies namely, CESCO, WESCO, NESCO and SOUTHCO. GRIDCO is now the sole transmission licensee for supply of power in Orissa. It purchases power from various sources like OHPC, OPGC, NTPC and CPPs in the State. World Bank has sanctioned US $350 million for upgradation of transmission and distribution system and for replacement of defective energy meters under Orissa Power Sector Reform and Restructuring Project.[24] The Department for International Development (DFID) of the British government has sanctioned 65 million pounds for consultancy support and repair and maintenance work under the Orissa Power Sector Reform and Restructuring Project.[25]

The above discussion clearly indicates that GoO has accorded very high priority to private sector investment for power generation. However, there appears to be a wide-ranging perception in the State that the power reform process has not lived up to expectations.[26]

Procedural Differences

Policy is inseparably linked with procedure – that is how the instrument is executed by the organization mandated to do the job. Good policy, with ineffective implementation is little different from bad policy. GoO has made

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[24] See ibid., p 11/9.
[25] See ibid., p 11/10.
[26] For detailed see UNIDO, *Industrial Policy Resolution 2001 of the State of Orissa*, p. 6.

several efforts for improvement in the manner in which policies are executed. No doubt, reducing the bureaucratic delay and simplifying the rules and regulations has occupied top priority on the reform agenda of GoO.

State Level Empowered Committee (SLEC)

In order to make the delivery system more effective, care has to be taken to meet the following needs of the entrepreneur:

(a) Availability of land, water, electricity within a stipulated time frame
(b) Clearance of the State Pollution Control Board
(c) Sanction of term loan and working capital finance within the specified time schedule.
(d) Industrial Policy benefits to existing and new industrial units.

To achieve the above objectives, problems of the industries referred to the Government are reviewed by the State Level Empowered Committee of the Industries Department and appropriate instructions issued to all concerned. To facilitate resolution of the problems at the ground level, the District Level Empowered Committee (DLEC) was formed under the Chairmanship of the Collector of the district.[27]

The Industrial Coordination Bureaus constituted in the office of IPICOL, OSFC and Orissa State Electronics Development Corporation (OSEDC) continue to provide assistance and guidance to entrepreneurs in project identification, project finance, preparation of project report, getting registration and license, obtaining clearance from various authorities and statutory bodies and removal of operational constraints for medium and large scale units. The bureau in IPICOL deals with medium and large units other than electronic units, which is dealt with

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[27] See Government of Orissa, *Industrial Policy1996*, Directorate of Industries, Bhubaneswar, p. 32.

by the bureau in OSEDC. Matters relating to project finance for small scale industries are decided by the bureau in OSFC.

The Single Window Clearance (SWC) system has been also introduced in order to remove the bottlenecks for the investors at level of dealing with the officials for obtaining licenses to set up industries or projects. SWC aims at providing the investor a single point of contact to meet all regulatory requirements and get approvals.

Orissa has played a pioneering role in the reform of critical areas of public provision. GoO has kept an open mind on issues concerning economic governance and has initiated several broad-based reform initiatives. The government has committed itself to deep fiscal reform, including seeking to cap salary components of its revenue expenditure, besides encouraging open debate and sharing information with the public at large in the form of candid White Papers.

Conclusion

The above discussion clearly suggests that Orissa has come a long way in its trajectory of industrialization if we look at the base from where it started. But the image of Orissa as a backward state still remains. Though a number of polices have been initiated by different government at different period of time, but most of the policies were mere rhetoric lacking any substantial zeal at the implementation level. The new industrial policy 2001 which has been prepared with the help of UNIDO and the suggestion offered seems to be quite remarkable and if properly implemented, can lead Orissa towards rapid progress and development. But looking at the past experience which reflects that failure of Orissa does not lie in making policies, but at the implementation level, it would be naïve to make any prediction based on the policy.

Chapter 3

Foreign Capital and Industrialization in Orissa: A Critical Analysis

In a world of intensifying competition and accelerating technological progress, the complementary and catalytic role of foreign capital[1] is very critical. During the past decade and a half, global economic integration seems to have proceeded faster through foreign capital, especially foreign direct investment (FDI) than through trade. There has been a decline in the official development assistance to the developing countries during nineties as compared to the seventies and eighties. The increased budgetary stringency among donor governments has been persisting and the developing countries have to shift to private capital flows for sustainable development. Bonds and equity financing have become the important sources of finance for the developing countries since the mid-nineties and FDI has become the largest component of external financing to developing counties.[2]

When the factor proportions vary widely among regions or countries, pressures exist for the most abundant factors to move to regions with greater scarcity, where they can command a better return. Thus in regions with an abundance of labour relative to land and capital, laborers tend to be unemployed, and often poorly paid. If permitted, these workers will gravitate to countries or regions that have relatively better employment opportunities and higher wages. Similarly, capital will tend to move away from regions where it is abundant to those where it is scarce.

Theories of FDI

While a number of theoretical frameworks of FDI help to explain some aspects of recent patterns of foreign investment in Orissa, some of the specific

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[1] For definition of foreign capital see chapter I.

[2] See International Monetary Fund (1998): "Official Financing for Developing Countries", *World Economic Outlook*, October, pp. 103-117.

characteristics of Orissa economy, including its small size, abundance of raw materials and availability of relatively cheap labour and its scarce capital, suggest a need for caution in applying such models to explain the Orissa experience. Dunning's "eclectic paradigm" argues that the likelihood of a firm investing abroad depends essentially on ownership-specific advantages vis-à-vis firms of other nationalities in serving particular markets, location specific factors that make it advantageous to invest in a particular country or region, and internationalization advantages which cause the internal transfer of labour, capital and technical knowledge within the firm to be more cost-effective than using outsiders, such as licensees, import agents, distributors and so on.[3] Dunning noted that late twentieth century capitalism is knowledge-based, regional or global in its scope and involves more intra- and inter-institutional alliances than any of its predecessors. With advances in telecommunications and the lowering of barriers to trade, the locational options open to firms to engage in both asset-augmenting and asset-exploiting activities have widened considerably. While at the same time, the need of countries to attract knowledge-related assets to sustain and upgrade the competitiveness of their own firms is more acute. While Dunning argues that the eclectic paradigm is sufficiently robust to accommodate most of the changes which have characterized FDI in the 1990s, there is need to incorporate more recent changes in international business models in order to explain the rationale for investment strategies associated with the new technologies and exploiting relatively peripheral locations like Orissa. Nevertheless it helps to explain the factors that determine the flow of foreign direct investment in particular region or country.

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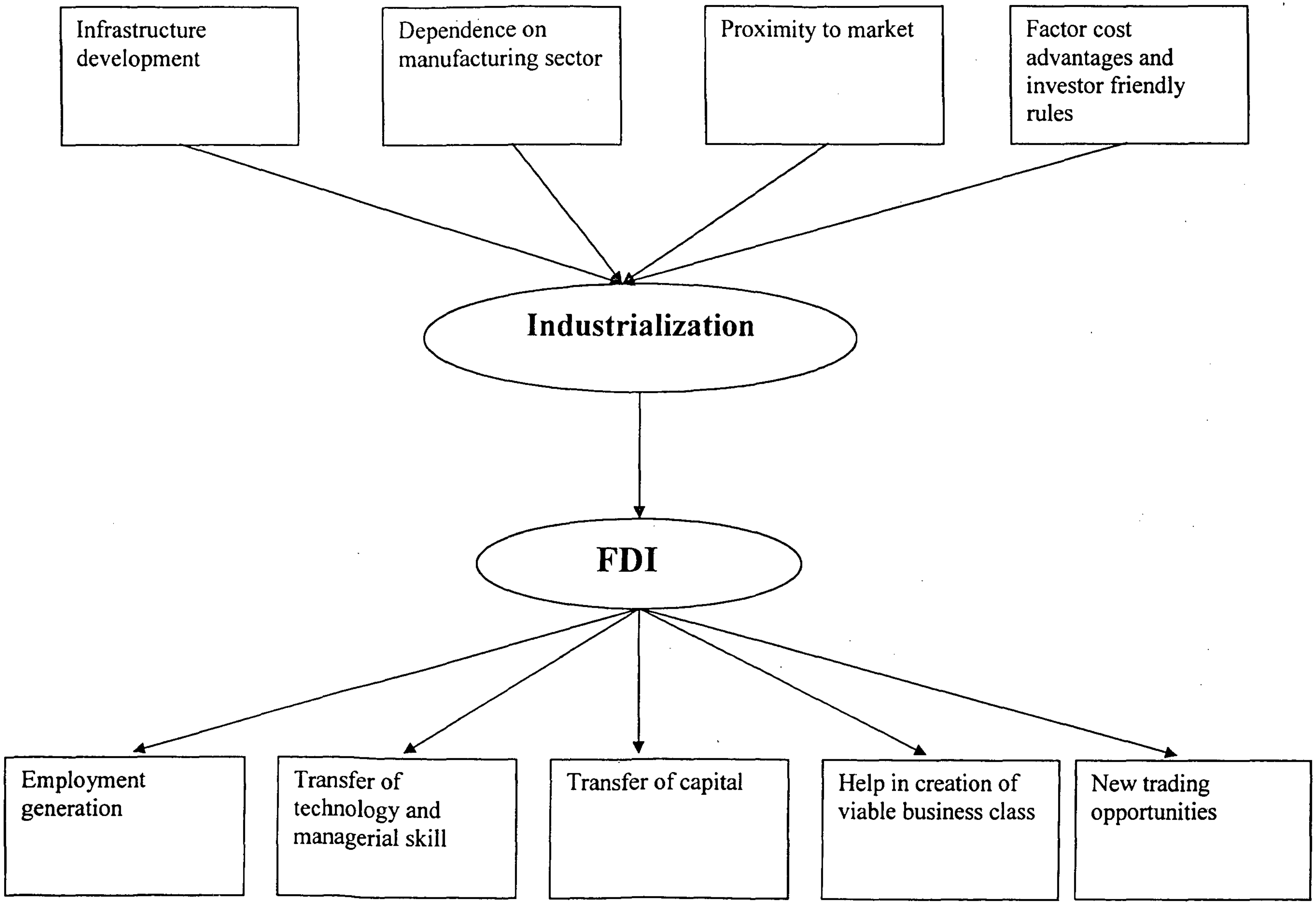
[3] See John H Dunning (2000): "The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity", *International Business Review,* Vol.9, No.1, pp.163-90.

Figure 1.1. A figurative explanation of factors influencing industrialization, FDI and its impact on the economy



The Role of FDI

Foreign direct investment can have beneficial economic consequences, particularly within disadvantaged or peripheral areas. In addition to job creation and resource transfer, foreign investments also provide new trading opportunities and technology and skills transfer to supplier and customer sectors. Moreover, the presence of multinational enterprises can have other beneficial effects on indigenous industry and allied sectors. Multinational enterprises may provide a basis for technology spillovers and the development of innovatory capacity in domestically owned sectors[4]. These externalities may be in the form of knowledge spillovers or demonstration effects, and will be greatest where significant linkages develop between the foreign and domestic sectors. This is an argument that dates back to Hirschman (1958), that economic development is accelerated by investment in projects and industries with strong backward or forward linkages[5]. When considering the type of industry suitable to locate in underdeveloped regions, the growth and development of linkages with the indigenous sector has been emphasised as an important aspect of the overall development.[6]

Nevertheless foreign investment can also have some negative effects. Holden and Swales discuss the problem of displacement, particularly in the contest of regional policy. They show that with the advent of more discretionary investment or employment subsidies, then the impact on the incumbent firm may be greater than otherwise anticipated, and displacement of such output and employment increased.[7]

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[4] M Blomstrom and F Sjoholm (1999) "Technology Transfer and Spillovers: Does Local Participation with Multinationals Matter?" *European Economic Review*, Vol.43, pp. 915-23.

[5] "Forward linkages" means the relationship between an industry or firm and other industry and firms which use its output as an input. A change in output or price will be transmitted forwards to users of its product. "Backward linkages" means the relationship between an industry and firm and the supplier of its inputs. A change in the output of the industry will be transmitted backwards to the supplier of its inputs by a change in demand for inputs.

[6] See Nigel Driffield and Dylan Hughes (2003): "Foreign and Domestic Investment: Regional Development or Crowding Out?" *Regional Studies*, Vol.37, No.3, pp.277-288.

[7] See ibid., p 279.

The issue of increased displacement from FDI is also linked to the nature of ownership advantages that MNEs are assumed to possess. There is evidence that inward investment acts to increase industry wages,[8] and that domestic firm respond by reducing employment. FDI therefore may cause employment reduction in different sectors in Orissa in which it is coming.

It is with these adverse effects as well as the benefits of foreign investment in mind that the effects of FDI on industrialisation in Orissa would be analyzed.

Data on FDI and Its Limitations

To understand how the recent changes in foreign investment policy have influenced the economy, quantitative information is needed on broad dimensions of the investment (and its distribution) across industries, regions and by size of projects; firm and industry level production accounts, and audited financial statements. However, such information is scarce. The most easily available and widely used data in India are on FDI approvals (contracted), by broad industry group, by country of origin, and by states (regions) of destination. This represents mere intentions of investment. The actual or realized foreign investment is not available by the same classification, but according to the administrative and institutional channels of the inflow. Therefore, it is not possible to compare the realized with the intentions, in any meaningful manner. Due to data constraints, FDI approvals are taken as the proxy indicator for FDI in Orissa.

FDI Approvals and Its Composition

Cumulative approved foreign investment in Orissa during August 1991 and January 2003 is Rs.82292.13 million which is 2.89 per cent of total FDI approved in India during this period (Table-1.4). The economically advanced states of Maharashtra, Delhi, Tamil Nadu, Karnataka and Gujarat have attracted more than fifty per cent of the approved foreign investment. One third of the approved

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[8] See ibid., p279.

foreign investment in Orissa between August 1991 to December 2001 is from Mauritius (35.41%) followed by United States (26.22%) and United Kingdom (13.90%) (Table-1.3). The sectoral distribution of foreign direct investment inflows approved between August 1991 to December 2001as given in Table-1.2 shows that power and fuels and metallurgical industries account for as much as over 94 per cent of the investment, (Power & oil refineries 69.19% , metallurgical industries 25.20%).

Interpreting the Trends

Though it is not possible to give a comprehensive account of the impact of foreign investment in the Orissa economy in the absence of actual or realized data of foreign investment flow for the reasons mentioned above, still an attempt can be made here to interpret the trends with the available data.

Table-1.2

Statement on Sector wise FDI Approved in Orissa (Aug 1991 to Dec. 2001)

(Amount Rs. In million)

Sectors	*Amount*	*%*
Power & oil Refineries	56936.05	69.19%
Metallurgical industries	20669.7	25.12%
Transportation Industries	2481	3.01%
Hotel & Tourism	844	1.03%
Service Sector	167.6	0.20%
Others (Remaining sectors)	1191.68	1.45%

Source: Ministry of Commerce & Industry, Govt. Of India, *SIA Newsletter*, 2001.

Bulk of the foreign investment in Orissa has gone to the power and fuel sectors. For an *underdeveloped* economy like Orissa investment is needed in the capital good sectors. Power and fuel sectors are intensely capital intensive sectors. As stated earlier Orissa is a capital scarce economy, so larger amount of investment in the capital goods sector cannot be alone taken either by state government or private corporate bodies. Secondly, these sectors have both forward and backward linkage effects. The development of power and fuel sectors can give boost to mining activities in backward effect linkage and make easy for the development of other power intensive sector by making the state power rich. Therefore, GoO should try to encourage investment in capital goods sector which can help in boosting the economic growth of a backward economy.

Metallurgical industries are another important area which has received the second largest inflow of approved foreign investment (25.12%). It is worthwhile here to mention S W Singer-Raul Prebisch theory in order to explain the development phenomena undergoing in Orissa. As per Singer-Prebisch[9] the only way for the underdeveloped countries to speed up its rate of economic growth is by producing manufactured goods which in turns depends upon industrialization. As it is well established by Singer and Prebisch, if the Less Developed Economies produce and export more of Primary and Natural goods (raw materials and food product etc), the Terms of Trade (ToT)[10] for their exports will go down. It is because the income and the demand elasticity tend to decline for Primary products over a period of time. In the development process the underdeveloped economies need rising export incomes because their own marginal propensities to import are so high.[11] Thus when we look at the export performance of Orissa, it is observed that more than three fourths of the exported goods to various foreign countries are the primary products (Appendix I). Instead of exporting primary products to other

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[9] Raul Prebisch has studied the terms of trade of the South American states.

[10] Terms of Trade (ToT) $= \frac{P_x}{P_m}$, where P_x is price of exportable and P_m is price of importable. If $P_x > P_m$, it is called favorable ToT, If $P_x < P_m$, then it is a case of unfavorable ToT. In case of Primary goods the Price elasticity of demand as well as income elasticity of demand is low vis-à-vis manufactured goods. As a result, the country which exports primary goods will face deterioration in their ToT sooner or later.

[11] For detailed discussion of the Singer-Prebisch theory see Bo Sodersten (1970): *International Economics*, Basingstoke, London, pp.155-163.

countries and again importing finished products from them at a heavy price, GoO should try to exploit those resources within the state by establishing processing units, which will not only save scarce resources of the state but can also generate income opportunities for the natives which in result help the economy to move forward rapidly. Thus the main focus of GoO should be value-addition to the primary products than going for exports which lead to unfavourable terms of trade for the state, and it should focus on the export of manufacturing goods.

Table-1.3

FDI Approvals with Top Five Investing Countries (Aug.1991 to Dec.2001)

(Amount Rs. In million)

Countries	*Amt. Of FDI Approved*	*%*
Mauritius	29136.03	35.41%
United States	21576.45	26.22%
United Kingdom	11439.3	13.90%
Germany	4612.75	5.61%
U.A.E	4000	4.86%
Others (Remaining Countries Share)	11525.51	14.01%

Source: Ministry of Commerce & Industry, Govt. Of India, *SIA Newsletter*, 2001.

Mauritius has been the major country source of foreign investment approved in Orissa. It contributed 35.41% of the foreign investment approved during 1991-2001. United States is the second largest country having a share of 26.22% in the total foreign investment approved in the nineties. While United Kingdom contributed 13.90% of foreign investment approved in Orissa. Conduit of major chunk of foreign investment in Orissa should be understood in the larger context of India's policy towards these countries. India has double taxation avoidance treaty[12] with these countries. The tax factor can play a determining role in the choice of an FDI location and this can give rise to a tax competition for investment. By adopting a treaty, a country commits itself to the objective of avoiding double taxation through a mutual agreement procedure and adopts an internationally accepted approach to deal with transfer-pricing issues. It is generally believed that although the countries conclude a bilateral treaty using an accepted framework, they subscribe to international rules immediately familiar to tax payers- rules that promote stability, transparency and certainty of treatment. These features are as important to firms as the particular concessions or incentives that a treaty may contain. This is quite evident from the inflow of approved foreign investment which Orissa has received from these countries.

Table-1.4

Top Ten States in Terms of FDI Approved During Aug.1991 to Jan. 2003

(Amount Rs. In million)

States	*Amt. Of FDI approved*	*% with total FDI approved*
Maharashtra	494981.58	17.37%
Delhi	340031.95	11.94%
Tamil Nadu	236128.84	8.29%
Karnataka	236285.87	8.29%
Gujarat	185097.04	6.50%
Andhra Pradesh	131889.07	4.63%
Madhya Pradesh	92709.17	3.25%
West Bengal	89538.97	3.14%
Orissa	*82292.13*	*2.89%*
Uttar Pradesh	48010.44	1.69%
Coefficient of variation (in %)	***71.86***	***71.86***

Source: Ministry of Commerce & Industry, Govt. Of India, *SIA Newsletter*, 2003.

*Coefficient of variation is a measure of inequality in the series. It is measured as follows:

CV (%) = (Standard deviation/Mean)*100

[12] Double Taxation Treaty generally attribute the exclusive right to tax either to the country where the income arises, or to the country, of which, the taxpayer is a resident. Alternatively, it may attribute this right to both, with an obligation imposed on the country of residence to provide relief for any resulting double taxation. Treaties are aimed not at establishing uniformity of application of taxes but at establishing tax criteria for the prevention of double taxation.

The economically advanced and industrially developed states of Maharashtra, Delhi, Tamil Nadu, Karnataka and Gujarat[13] have accounted for more than fifty per cent of the approved foreign investment that came to India during August 1991 to January 2003 (Table-1.4). FDI, regarded as a package including superior technology, could propel industrial growth in these five states leaving the others as permanent laggards. It clearly belies the hypothesis that the rich natural resources would ensure industrial development and growth. This was true in the 19th century. However, the recent experience shows that the natural resources rich economies have fared badly vis-à-vis natural resource scarce economies in the past half-century. For example, the natural resource-scarce economies in East Asia, such as Japan, Korea and Taiwan, became wealthy by exporting technology-intensive manufactured goods and importing primary commodities —some of them from Orissa — that were used for further production and export.[14] Therefore, Orissa needs to acknowledge the importance of industrialisation in attracting foreign/private investment which has become highly mobile especially in the post-liberalization period.

But another disturbing trend must be noted. Table-1.4 shows that the coefficient of variation among the top ten states during August 1991 to January 2003 is remarkably high that is 71.86%. Thus there is growing disparities among the Indian states in the post-liberalization period with respect to foreign capital inflow. Orissa is unable to attract private investments because of unfavorable investment climate including poor infrastructure. It failed to create an appropriate investment climate by improving the existing poor infrastructural facilities. Thus, in terms of proposed foreign investment and amount of investments we notice a

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[13] Maharashtra, Tamil Nadu, Karnataka and Gujarat are considered to be industrially advanced states of India. West Bengal is another top five industrially developed state, though it's not receiving the major amount of FDI. It is because of the policy and nature of the government which is keeping the foreign investor away from the state. It should be noted here that recently the government has adopted liberal policies towards foreign investors and started welcoming them to invest in the state. This is positive sign which may lead to the influx of foreign capital in the state. See Arup Mitra et al (2002): "Productivity and Technical Efficiency in Indian States' Manufacturing: The Role of Infrastructure", *Economic Development and Cultural Change*, vol, 50, No.3, April, pp. 395-426.

[14] See UNIDO (2001): *Industrial Policy of Orissa 2001*, Vienna, p.16.

lopsided flow towards certain states and regions, while other states are still in the waiting list.

Impacts of FDI on Orissa

Every developing economy undergoes structural transformation. It has been experienced all over the world that over a period of time share of primary sector goes down in the national income and the share of manufacturing sector and service sector goes up.[15] The same trend has been observed in Orissa. Table 1.5 clearly reflects that primary sector whose average share was nearly half of the GSDP (47.09%) in the pre-reform period has come down to 33.53% in post-reform period. While the average share of secondary and service sectors to GSDP which stood at 20.34% and 32.57% respectively in the pre-reform period has increased to 26.88% and 39.60% in the post-reform period. Thus in the post-reform period the contribution of primary sector to the gross state domestic product has come down while the share of secondary and tertiary sectors has increased. In the decade of eighties the share of agriculture and allied activities began to drop off in Orissa. Between 1980-81 and 1990-91, the share of agriculture and allied activities fell sharply from 50.2 to 35.8 per cent – a level at which it has remained through most of the nineties. In the eighties, Orissa witnessed a very sharp increase in the share of industry in GSDP to 26.7 per cent in 1990-91, an increase of 7.2 percentage points. But during the post-reform period 1990-91 to 1997-98, the share of industry in GSDP remained more or less unchanged in Orissa. However, virtual position has not been changed which is quite evident from the fact that still nearly 80% of the population of Orissa depends on agriculture directly or indirectly for their livelihood. Thus in the post-reform period, service sector has come to occupy first position followed by primary and secondary sector.

[15] For theory of structural transformation see Simon Kuznets (1971): *Economic Growth of Nations: Total Output and Production Structure*, Harvard University Press, Cambridge Mass.

Table-1.5

Contribution of Sectors to GSDP (%)

	Primary	**Secondary**	**Service**
Year	***% to GSDP***	***% to GSDP***	***% to GSDP***
1980-81	50.2	19.5	30.3
1981-82	51.3	17.5	31.1
1682-83	47.7	19.3	33.0
1983-84	51.8	18.6	29.6
1984-85	46.6	21.0	32.4
1985-86	49.0	19.0	32.0
1986-87	46.1	20.1	33.8
1987-88	42.7	21.6	35.7
1988-89	41.7	24.3	34.1
1989-90	43.8	22.5	33.7
Average	**47.09**	**20.34**	**32.57**
1990-91	35.8	26.7	37.5
1991-92	36.9	25.1	38.0
1992-93	34.0	26.4	39.6
1993-94	36.8	24.8	38.4
1994-95	35.2	25.9	38.9
1995-96	32.4	28.0	39.6
1996-97	26.8	29.5	43.7
1997-98	30.3	28.6	41.1
Average	**33.53**	**26.88**	**39.60**

Source: Pattanayak, Manoranjan, *Agricultural Infrastructure, Input Use & Productivity: A Spatio-Temporal Analysis Of Orissa,* Unpublished Mphil Dissertation, ITD, CSDIL&E,SIS, JNU, New Delhi, 2002.

The inter-sectoral and intra-sectoral composition of GSDP underwent a significant change in the post reform era. The share of industry in the State's GSDP in the eighties was 20.34 per cent. Of this, 12.0 per cent came from manufacturing, 2.8 per cent from mining and quarrying, 4.0 per cent from construction and 1.9 per cent from electricity, gas. In the nineties, the share of industry in GSDP had risen by 6.54 percentage points to 26.88 per cent. The largest increases were in mining and quarrying. In the post-reform period, the service sector has come to occupy a significant place of prominence in terms of relative contribution to GSDP though it has not received any amount of FDI. Nevertheless, sectors like mining and quarrying, power and gas which have received major chunk of FDI have increased their contribution in the total share of GSDP in the post reform period (Table-1.6). It should be noted here that sectors like mining and quarrying, power and gas have received more than 90% of the total proposed foreign investment. Thus mining and quarrying whose average share to the GSDP was 2.8% in the pre-reform period rose to the 5.3% in the post-reform period. Similarly, electricity and gas which have received largest chunk of foreign investment in the reform era have increased their contribution from 1.9% to 2.3% which is quite low. Thus it can be remarked here that there is not any significant impact of FDI on the different sectors of Orissa economy which is quite evident from the growth pattern of different sectors of economy in the pre-liberalisation and post-liberalisation period.

Table-1.6

Intra-Sectoral Distribution of GSDP In Pre-Reform And Post-Reform Period

Sector	**80-81 to 89-90 (% Share to GSDP)**	**90-91 to 97-98 (% Share to GSDP)**
Agriculture	41.6	28.9
Forestry & logging	3.6	1.9
Fishing	1.5	2.6
Mining & quarrying	2.8	5.3
Agriculture & allied services	**49.5**	**38.7**
Manufacturing	12.0	14.2
Construction	4.0	5.1
Electricity, gas	1.9	2.3
Industry	**17.8**	**21.6**
Transport, storage	3.4	4.8
Trade, hotels	13.5	15.4
Banking & insurance	2	3.8
Real estate, ownership business	4.6	4.5
Public administration	4.5	5.2
Other services	4.7	6.1
Service sector	**32.7**	**39.7**

Source: Pattanayak, Manoranjan, *Agricultural Infrastructure, Input Use & Productivity: A Spatio-Temporal Analysis Of Orissa*, Unpublished Mphil Dissertation, ITD, CSDIL&E,SIS, JNU, New Delhi,2002.

Table-1.7

Development of Large and Medium Industries in the Pre-reform and Post-reform Orissa[16]

	No. of Units created	**Investment (Rs. in crores)**	**Employment generated**
Between 1950-51 to 1989-90 (Pre-reform period)	231	1044.88	69458
Between 1990-91 to 2001-02 (Post-reform period)	121	2505.75	15911
	Avg. No. of Units created per year	**Avg. Investment per year (Rs. in crores)**	**Avg. Employment generated per year**
Between 1950-51 to 1989-90 (Pre-reform period)	5.78	26.12	1736.45
Between 1990-91 to 2001-02 (Post-reform period)	11.00	227.79	1446.45

Source: 1. Government of Orissa (2002) *Economic Survey* (2002-03), Directorate of Economics and Statistics, Bhubaneswar.
2. Government of Orissa (1998) Economic Survey (1998-99), Directorate of Economics and Statistics, Bhubaneswar.

Table-1.7 shows that by the end of 7th plan (1950-51 to 1989-90), which represents pre-reform period, Orissa had 231 large and medium industries with an investment of Rs.1044.88 crore and employment potential for 69,458 persons. It means average units that that gone into production every year in the pre-reform period is around 6 with an average investment of Rs.26.12 crores which generated around 1736 employment every year. But in the post-reform period i.e., 1990-91 to 2001-02, average number of large and medium industries that went into production every year has increased to 11 from 6. There is also tremendous increase in the average investment in the post-reform period which went up from Rs.26.12 crores per year to Rs.227.79 crores. But the employment generation capacity of the large and medium industries in the post-reform period has actually come down from the pre-reform period. Average employment generated in the large and medium industries in the pre-reform period was 1736 per year, which has been reduced to 1446 in the post-reform period. It clearly reflects that in the

[16] Here we have intentionally omitted small scale and agro-based industries because FDI is particularly attracted to large and medium industrial sectors which are also evident from Table-1.7.

post-reform period investment in Orissa has been largely in the capital intensive industry than the labour intensive industry. This may also be due to the nature of FDI. If the foreign investment is coming to invest in new industries and processing units or invest in the service sectors, it is bound to generate employment. On the contrary, if FDI enters a host economy through mergers and acquisitions (M&As), it may lead to significant labour shedding in the acquired firms. FDI could, under certain conditions, crowd existing firms out of business, creating unemployment for their workers. It may also induce local competitions to shed employees, either by reducing the local firms' production due to a decreased share of the market or because of efforts by local firms to increase their efficiency and competitiveness by down sizing their labour force.

Table-1.8

SDP Growth Rates (In Percentage)

Period	Orissa	All India
1960-61 to 69-70	4.4	3.0
1970-71 to 79-80	2.3	3.6
1980-81 to 90-91	5.0	5.6
1990-91 to 97-98	3.8	6.2

Source: UNIDO, *Industrial Policy of Orissa 2001*, Vienna.

There is no significant positive correlation between economic reforms and growth in Orissa which is quite evident from Table-1.8. The SDP growth rate in Orissa in the eighties was 5.0 per cent which has come down to 3.8 per cent in the post-reform period. However, if we look at the pattern of GDP growth in India it has improved in the post-reform period. Foreign direct investment has the potentiality to improve the growth rate of a state, if it is properly utilized. Though GoO has been making a concerted effort to woo foreign direct investment in the post reform period it has not been successful. During 1995-96, Orissa received the largest amount of private investments in India, both foreign and domestic, followed by Gujarat, Karnataka and Maharashtra. During the same period, Orissa ranked sixth in terms of attracting proposed foreign investment.[17] But GoO failed to materialize the proposed investment into realized investment.

The Role of Government in Attracting FDI

With the new policies of economic reforms underway since 1991 the role of Government has undergone a change. In a market determined resource allocation, Government's role is one of facilitator rather than direct participant in production and distribution. The private investment has to be the prime mover of economic activity. It should be noted here that almost three-fourths of the gross fixed investment at the national level comes from the private sector, with private corporate investment accounting for 38 per cent of the total and private household investment about 33 per cent. Public sector investment at the national level is only about 28 per cent of total investment and this includes both the centre and the states. Public investment by the centre and states together is therefore about 6.8 per cent of GDP, of which state plans account for only one-third.[18] Any effort to increase the total level of investment in the slower growing states like Orissa must therefore recognize the importance of private investment; identify the constraints on increasing such investments and devise policies that will deal with these constraints.

Private corporate investment is potentially highly mobile across states and is therefore likely to flow to states which have a skilled labour force with a good 'work culture', good infrastructure especially power, transport and communications, and good governance generally. The mobility of private corporate investment has increased in the post-liberalization period since decontrol has eliminated the central government's ability to direct investment to particular areas, while competition has greatly increased the incentive for private

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[17] See Kawaljit Singh (1999): "Industry Flocks to 'Backward' Indian State", http://www.twnside.org.sg/title/1907-cn.htm

[18] See Montek S Ahluwalia (2000): "Economic Performance of States in Post-Reforms Period", *Economic and Political Weekly*, May 6, pp. 1637-1648.

corporate investment to locate where costs are minimized. Orissa has to address the underlying factors which attract investors, i.e., labour skills, work culture, good infrastructure and good governance if it wants to increase the volume of private corporate investment.

It is generally agreed that rapid industrial growth depends especially upon the availability of infrastructure support in the form of electric power, road and rail transportation and telecommunications. Similarly, agriculture growth depends upon rural infrastructure such as the spread and quality of irrigation, land development, extent of rural electrification and the spread of rural roads. Availability of good quality physical infrastructure can improve the investment climate for foreign direct investment by subsidizing the cost of total investment by foreign investors and thus raising the rate of return.[19] Compared to other states Orissa has lagged behind in this area.[20] Some of these infrastructure needs can be met by the private sector, but the scope for private investment in infrastructure is limited in the less developed states like Orissa. Most of the infrastructure development needed in Orissa will have to be met through public investment, either by the central government or the state government.

Infrastructure development in a backward state like Orissa can be better taken care by the central government and state government can play a supportive role. National highways, rail transportation, telecommunications, airports and major ports are the areas which are in need of improvement, and which at present puts Orissa at the disadvantage position vis-à-vis developed coastal states.

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[19] The favorable role of physical infrastructure in influencing the patterns of FDI inflows has been corroborated by recent studies. For detail see Loree, David W and Stephen E. Guisinger (1995): "Policy and Non-Policy Determinants of U.S Equity Foreign Direct Investment", *Journal of International Business Studies,* Vol.26, No.2, Second Quarter 1995. Mody, Ashoka and Krishna Srinivasan (1996): "Japanese and United States Firms as Foreign Investors: Do They March to the same Tune?", Washington, DC: World Bank, mimeo. Kumar, Nagesh (2002): "Infrastructure Availability, Foreign Direct Investment Inflows and Their Export-orientation: A Cross-Country Exploration", *RIS Discussion Paper,* Version 2.0, 2 March. World Bank (1994): *World Development Report 1994: Infrastructure for Development,* Oxford University Press, New York.

[20] See Montek S Ahluwalia (2000): opcit., p 1641.

Poor administration and corruption are now widely recognised as major problems reducing the effectiveness of many government policies undertaken to promote investment. The quality of governance can help stimulate growth by making the policy environment more business friendly through deregulation, decontrol and procedural simplification. Entrepreneurs setting up an industrial unit in the state need as many as 30 permissions from various departments, each of which subjects the entrepreneur to the triple vicissitudes of the inspector raj – harassment, delay and corruption. Sweeping reform of these regulatory systems at the state level is needed to reduce the transaction costs of doing business. It is important to note that the high transaction costs of cumbersome procedures are borne primarily by the small businesses which is precisely the group which a state government otherwise keen to promote. Unless the local business environment is significantly improved, it is difficult to imagine that larger corporate investment can be attracted from outside the state.

Orissa does not have any strong entrepreneur class or regional capital[21] which has been another major reason for Orissa's poor performance. States like Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu, Karnataka have strong capitalist class. Inter-state variations in the presence of regional capital may be due to the polices pursued by individual state government, some more supportive of local enterprise than others. Secondly, the impact of central government decisions, especially the location of public sector enterprises; thirdly, the investment decision of national big business sector enterprises which catalyze local business activity. Absence of regional capital can affect the decision of

[21] Unlike 'national big' business groups who have largely metropolitan origin with merchant capitalist background, supported the national movement, authored the Bombay Plan, funded the Congress party and influenced national policy for over four decades, and had an image of itself as related to the central government and national political parties, regional capital have an agrarian origin and rural roots(though there are regional capitalist who had no links with agrarian economy and moved into manufacturing business from commerce or other professions), core business is largely confined to his state of origin, , invested in regional political parties to gain political support at the state level and entered into collaborations with foreign investors to gain market leverage over national big business. See Sanjaya Baru (2001): "Economic Policy and the Development of Capitalism in India: the role of regional capitalists and political parties", in Francine R. Frankel (et al.): *Transforming India*, OUP, New Delhi.

foreign/private investors in various ways. On various occasion foreign/private investors operate through sub-contracting, dealership, ancillary development, demand for support services, etc. Thus foreign investors need regional partners to manage their business and absence of such partners is keeping the investors away from Orissa.

"No social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society itself. Therefore mankind always sets itself only such tasks as it can solve; since, looking at the matter more closely, it will be found that the task itself arises only when the material conditions for its solution already exist or are at least in the process of formation."[22] Sustainability of any reforms or policies depends upon the support provided by the matrix of forces operating in every society. Thus the state is "embedded" in and reflects the configuration of articulated interests in its own society. Therefore, it may be possible on the part of the state to autonomously initiate a substantial reform measures, but it would be successful only when supported by strong and organized social interests. While policies may be initiated at the behest of foreign agencies, the actual implementation and the long term effects depend much more on the nature of the society in question and in particular, on the nature and strengths of the various social forces within it.[23] Though reform has been initiated in Orissa before one decade but it is not in a position to sustain it. Orissa was the first state to initiate the reform in the power sector but it is unable to make it a success because of the absence of any viable support from the organized social interests. Unlike other states Orissa does not have any viable regional capital or business class who can

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[22] Karl Marx (1973): Preface to *A Contribution to the Critique of Political Economy* [1859]. In Karl Marx and Friedrich Engels, *Selected Works*. Vol.1, , Progress Publishers, Moscow, p 504.

[23] It is argued that reforms measures initiated in India have been sustained because it is supported by new class of industrial entrepreneurs who emerged in the 1980's. For a detail discussion see Pederson, J D (2000): "Explaining Economic Liberalization in India: State and Society Perspectives", *World Development*, Vol. 28, No.2, pp. 265-282.

strongly articulate their demand on the political arena for consideration. Thus the absence of any mature or viable social forces has resulted in the failure of the most of policy reforms measures initiated by Orissa government. Therefore it is imperative on the part of state government to invest in the creation of layers of classes and to see that they compete for their survival. Other states have the advantages of having strong capitalist classes because of various reasons including colonial and historical factors.[24] Thus Orissa can be successful in implementing and sustaining new modes of economic measures only when the social conditions for their existence have matured in society.

In the wake of NEP Orissa government has started offering huge subsidies to the big industrialists, business and entrepreneur classes in the form of tax subsidies and other policy preferences which is quite evident from the analysis of post industrial policies.[25] But GoO should keep in mind that such subsidies should not be at the cost of the welfare expenditure spent on larger chunk of masses that are poor and downtrodden. If we look at the plan outlay (see Appendix II) we can say that the expenditure in the social sectors have been increasing over the years which is a good sign. On the other hand, GoO has neglected the industrial sector which is quite evident from the plan expenditure of the government (see Appendix

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[24] For detailed discussion on regional differentiation of capitalist development in India see Krishna Bharadwaj (1995): "Regional Differentiation in India", Bagchi "Reflections on Patterns of Regional Growth" in T.V. Sathyamurthy (ed.), *Industry and Agriculture in India since Independence*, OUP, New Delhi. Bharadwaj and Bagchi argued that the regional pattern of development that was shaped by two centuries of colonial rule, the differential impact of land settlement systems, development of urban markets, proletarianization of peasantry, and so on, were so enduring that post-independence planning and state intervention could do little to alter the historical bias in regional development.
While exploring the influence of differential agricultural growth on industrialisation, or growth of non-farm enterprises, Raj, argued that regional variations in output growth and surplus-generation are bound to influence the potential for capitalist development in different regions. See K.N Raj (1976): "Growth and Stagnation in Indian Industrial Development", *Economic and Political Weekly*, Annual number, February, pp. 223-236.Banerjee and Ghosh argued that state and central governments have intervened more effectively to support capitalist private enterprise where the regional capitalist class was already influential (as in Punjab, Haryana, Gujarat, Maharashtra, Karnataka, Tamil Nadu, and Andhra Pradesh), and where it has traditionally played a more important political role with the rich peasantry. See D Banerjee and A.Ghosh (1988): "Indian Planning and Regional Disparity in Growth" in A.K Bagchi (ed.): *Economy, Society and Polity: Essays in the Political Economy of Planning*, OUP, New Delhi.
[25] For detailed discussion see chapter II.

II). The state is spending below 1 per cent of the total planned expenditure on the industrial and mineral sector.

Towards A Realistic FDI Policy

In the case of Orissa today, there is an urgent need for a new paradigm. Public investment flows are drying up in the post liberalisation period. The need for creating a vibrant climate for private investment is crucial, as is the need to improve productivity of all investments. The potential gains that can attend on a radical break with past paradigm of policy making are large. This is evidenced in the economic reform process, which despite tardy progress on many fronts, was able to release very considerable energies in the Indian economy. It is also a fact that such policy restructuring can play a catalytic role in galvanizing a previously under-performing economy, such as that of Orissa. An essential precondition of a good policy is an explicit recognition of the present economic circumstances and the dynamics of the economic context. After all, the only rationale of making a break with the past is the assessment that the outcome of earlier interventions was below par. Thus, the Industrial Policy needs to first, acknowledge the fact that notwithstanding the various package incentives and the "keeping up with Joneses", Orissa was unable to attract the private industrial investment that chose other destinations.

It is quite apparent that Orissa has not done enough of policy reforms to attract substantially more foreign investment. Moreover, it is not the financial incentives but the lack of adequate infrastructure, bureaucratic delays and above all, rigid industrial labour laws that have come in the way of attracting more investments.[26]But this view is not entirely true as there is no positive association between the extents of market oriented reforms and FDI inflows in Orissa.

[26] See Jeffrey D Sachs and Nirupam Bajpai (2001): "Unraveling the Mysteries of State-level Performance" http://www.rediff.com/money/2002/feb/27spec.html.

There are also some specific factors for the relatively small foreign capital inflow in Orissa vis-à-vis other states. It is a fact that Orissa is still largely agrarian economy with agriculture contributing nearly half of the GSDP in the eighties (Table.1.5).though the share of the agricultural sector in GSDP has declined from 47.5% in the eighties to 37.3% during the nineties, yet this sector continues to dominate state economy with 65 per cent of workforce engaged in this sector.[27]

However, GoO must acknowledge the fact that openness to foreign investment should be strategic and not passive or unilateral. History does not seem to support such an uncritical international integration as a proven route to growth and efficiency.[28] Inviting foreign capital is not sufficient to achieve rapid industrialisation which is quite evident from the total inflow of FDI in Orissa. GoO has also to acknowledge the fact that foreign capital can be attracted only when an economy has developed minimum level of infrastructure. Then it (foreign capital) can supplement the domestic resources with state of the art technology, access to international production and distribution networks. The terms of foreign investment will depend on the relative bargaining power of the foreign firm vis-à-vis domestic firms, backed by the state. Orissa's advantages are the extensive mineral deposits, availability of cheap labour, a long coastline and proximity by sea to South East Asia and Australia, the relative absence of political and social violence and the initiative in taking up reform of public sector provisioning.[29] GoO should try to utilize these advantages as most successful states have done.

But there is also an urgent need on the part of the state to remove the obstacles which Orissa has been facing like low level of economic development,

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[27] See Government of India (2001): Census Report 2001.
[28] See R Nagaraj (2003): "Foreign Direct Investment in India in the 1990': Trend and Issues", *Economic and Political Weekly*, April 26, pp.1701-1712.
[29] Orissa is the first state to reform its power sector and it has strongly set out industrial policy. Orissa is also the first state in India that has announced new agricultural and tourism policies.

low level of industrialisation and urbanization, high incidence of poverty, excessive dependence on agriculture, limited size of local market for manufactured goods, relatively poor infrastructure, unattractive business climate with widespread financial sickness in industry, delay in taking decisions and granting clearances and low levels of literacy.[30]Thus the amount of foreign investment inflows in Orissa would be determined by how far the GoO is successful in eradicating these bottlenecks.

There is an apparent paradox in the policies and attitudes of the GoO. On the one hand, the government is talking about how to improve the pace of industrialisation in the state and inviting a specialized agency like UNIDO to frame the industrial policy of the state[31], on the other hand, the government is not ready to augment the expenditure in the industrial sector. Thus if the government is really serious about inviting foreign capital, it should change its lackluster attitude.

New Role for the State

Since 1991, with de-licensing of industry, a reduction in the role of the public sector, trade liberalisation, and reassertion of the fiduciary responsibilities of the banking system, the role of the State government has changed qualitatively. From one of using its influence to obtain a license for a private sector promoter, or of obtaining central government sanction for a public sector unit, it has been converted into that of making the State the best possible location.

Most of the states have taken the advantage of the new opportunities and evolved a comprehensive and exploratory polices to speed up the process of economic development. Rudolph and Rudolph have referred to this development as the move from a command economy to a federal market economy. In the

[30] For a detail discussion of strength and weaknesses of Orissa see UNIDO (2002), Industrial Policy 2001 of Orissa, pp.7-9.
[31] The Industrial Policy 2001 of Orissa was formulated with the help of UNIDO.

federal market economy, according to Rudolph and Rudolph, the states command a larger share of economic sovereignty than they did under the conditions of a centrally planned economy.[32] Thus, a new role for "Chief Ministers as entrepreneurs" is in the offing. Many states have taken the advantage of the new development and made the effort to market the state abroad. Not surprisingly, recently Bill Clinton and Bill Gates visited Hyderabad and Mayawati, Chief Minister of Uttar Pradesh, went to the United States to woo the investors. This highlights a landmark development in the federal market economy set up where the state government has got a proactive role to play. But if we look at Orissa there is no such concerted effort on the part of the political leaders to market Orissa. Thus Orissa is not able to reap the benefit which has been unfolded because of transformation to federal market economy.

Conclusion

The above discussion clearly suggests that despite having excessive mineral deposits and relatively peaceful political and social environment Orissa has failed in attracting foreign investment which preferred to choose some other destination like Maharashtra and Gujarat which are industrially advanced state. In the reform era we observe that proposals for new industrial units prefer the already industrialized state. This confirms the hypothesis of the study that industrialization can attract foreign capital. Along with industrialization, however, the policies and attitudes of the government and the level of urbanization are important factors in attracting foreign investment which is quite evident from this study. Though Delhi is not considered to be industrially advanced state of India but it received second largest inflows of foreign investment in India. On the other hand, West Bengal which ranked as the fourth industrially advanced state of India

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[32] It has resulted in the displacement of public investment by private investment as the engine of economic growth and states have become the principal arena for private investment. For a detail discussion see Lloyd I Rudolph and Susanne H Rudolph (2001): "Iconisation of Chandrababu: Sharing Sovereignty in India's Federal Market Economy", *Economic and Political Weekly*, May 5, pp. 1541-1552.

received only 3 per cent of the total approved amount of foreign investment in India during August 1991 to January 2003.

There is a widespread belief that new economic policy and the resultant transformation of the Indian economy from a centrally planned economy to a federal market economy has led to the erosion of role of the state. But far from this being the case the state has actually a more proactive role to play which is quite evident from the recent development in the Indian political system where federal units have shown more leverage in economic matters and in deciding and attracting foreign as well as domestic investment. This confirms the second hypothesis of the study that new economic policy has provided the state government with the proactive role to formulate a more independent policy.

Conclusion

The present system of industrialization in Orissa is inadequate and the state has to take adequate steps to further the processes of industrialization in the resource rich state of Orissa. Can it be done with the help of foreign capital? Orissa has all the necessary attributes to be one of the most advanced states of India, but since independence Orissa has remained one of the most backward states of India. Despite being endowed with extensive deposits of natural resources and human capital Orissa is unable to attract FDI. Although Orissa is predominantly an agro-based economy, a major source of augmenting economic activity as well as generating greater income with high degree of employment, eventually lies in the growth of industrial sector. Agricultural restructuring, that would relieve the farm sector of both the factors and techniques of production operating within a traditional socio-economic framework, is surely the most sensible way out of the development impasse in the state. Nevertheless, the role of industrialization is certainly of crucial importance, as for as optimum utilization of natural resources and generation of gainful local employment are concerned. The advantage of industrialization is that it is going to give a boost to the backward economy of Orissa.

Even after the past fifty years of planned development, Orissa continues to be one of the less developed states plagued by acute and persistent poverty. Still nearly 50 per cent of the population of the state is living below the poverty line. High dependence on the low productive primary sector has resulted in significant fluctuations in the growth rate from year to year with a bad crop year pulling it down. Orissa is prone to multiple hazards. One calamity or another hits the state every year. Before recovering from the trauma of super cyclone of October 1999, the state was hit by a severe drought in the year 2000-01 followed by unprecedented floods during rainy season in the year 2001. During 2002 also the State has been hit by one of the worst droughts. 32,824 villages (32,580 villages and 244 wards) covering 29 districts have been declared as drought affected on the basis of the crop cutting experiments undertaken during the year 2002-03 (kharif). The visitation of such severe natural calamities in quick succession has further exacerbated the financial crisis faced by the State Government. Under such circumstances, it will be extremely difficult to restore the financial health of the state without infusion of substantial resources from outside sources and prudent utilization of the available resources.

The share of primary sector in Net State Domestic Product continues to be highest though it has declined from 50.2 per cent in 1980-81 to 30.3 per cent during 1997-98. On the other hand, the contribution of secondary sector and services sector increased from 19.5 per cent and 30.3 per cent to 28.6 per cent and 41.1 per cent respectively during the same period. Sectoral analysis thus reveals that there has been a substantial shift from primary sector to secondary and services sectors.

Though the share of agricultural sector in GSDP has declined from 50.2 per cent in 1980-81 to 30.3 per cent in 1997-98, yet this sector continues to dominate State economy. Though the contribution of agriculture to GSDP has gone down in a perceptible manner, the percentage of work force engaged in agriculture has remained almost unchanged. Agriculture provides employment to around 65 per cent of the workforce directly or indirectly as per 2001 census. Hence, the benefit of modernization and growth has been shared by few and more than 1/3rd of population has been deprived of this benefit of growth, which goes against the trickle down theory. Thus, what may be suggested is that, structure of work force must be changed by institutional arrangement and taking state towards rapid industrialization. Since agriculture is mostly rain fed, erratic behaviour of the monsoons causes fluctuations in agricultural production in the absence of adequate irrigation facilities. Owing to the large contribution of the agricultural sector to GSDP and its linkages with other sectors of the economy, these fluctuations influence the overall growth rate of the state's economy to an appreciable degree.

The new Industrial Policy 2001, formulated in the context of ongoing globalization as well as economic liberalization, reflects the State Government's commitment to growth and development of industries. The objectives of the new industrial policy are to create a business climate conducive to stimulating private sector investment in industry and infrastructure projects, with a view to raising income, employment and economic growth in the State and reducing regional disparities in economic development.

In order to achieve these objectives, the strategies to be adopted by the State Government include measures to develop infrastructural facilities like power, railways, telecommunication, ports, airport and road network by roping in private sector. Equally important is the need to create atmosphere conducive for industrial development, provide support export oriented units to boost export earning, provide incentive to industries generating large employment opportunities and rehabilitate sick industries. All the more, priority is attached to improvement of quality, productivity and skill development. In view of resources constraint in the public sector, it is necessary to encourage private and foreign investment in a big way for rapid industrialization in the state. With introduction of new Industrial Policy, there has been a surge in investment proposals in the private sector, particularly in the areas of steel, power generation, aluminum, sugar and oil refining. But the GoO has not been able to materialize all these investment proposals. The major hurdle, as we have noted, is the procedural delay which keep the investors away from investing in Orissa. Though various reform measures have been initiated to overcome the procedural delay including bureaucratic restructuring to speed up the clearance of proposals, there is still a long way to go before investors consider Orissa as a favourable investment destination.

Sustaining high growth of output and employment in an environment of macro-stability requires high rate of domestic savings, supplemented by adequate mobilization of resources from outside the State. This necessitates a significant and sustained reduction in revenue and fiscal deficit of Government which has increased from 7.8 per cent of the GSDP in 1995-96 to 27.3 per cent of the GSDP during 2001-02. To reduce the debt burden, selective disinvestment in public enterprises may have to be pursued. Public savings have to be increased and deficit reduced through measures for augmenting states own tax and non-tax revenues. Steps have to be initiated to curb low priority expenditure and to enhance the financial efficiency of public enterprises. The Ninth Plan assigned a significant role to the private sector. Economic liberalization has led to progressive dilution of the regulatory regime of the pre-liberalization era thereby creating an opportunity for large private sector participation in the process of development. This will greatly help in accelerating growth of the economy and in reducing poverty.

While FDI is desirable and useful in many ways for economies like Orissa, it may, however, not come in areas in which it is most needed. The interests of foreign investors and MNCs by and large, will not coincide with that of the economy concerned because their objective is to maximize profits and they would thus like to invest in areas where the returns are highest.

FDI, by and large, tends to be capital intensive and involves high technology and if the same is oriented to produce for the local markets, it will not only displace the local production but will increase the magnitude of unemployment as well. If this happens, then in a state like Orissa where the problem of unemployment and poverty are acute, FDI will aggravate the problem of joblessness and its adverse manifestations and repercussions on the economy in a variety of ways.

Therefore, it is extremely important that FDI should be attracted in selected areas keeping in view the local priorities. In areas where indigenous competence and talents are available, steps should be taken to make use of the same. It should be ensured that the facilities, which are available to foreign investors and which are already being enjoyed by them, are also made available to indigenous investors so that the level playing field is the same.

The constraints upon industrialization in low-income states or regions are well known. These states and regions suffer from structural and institutional weaknesses, while their infrastructure, human and material resources are insufficiently developed. Massive investment of both domestic and foreign resources are required to bring about structural and institutional changes, to establish the requisite physical and human infrastructure, and to meet basic social needs in education, health and housing.

Since the poorest people in developing regions like Orissa live for the greater part in rural areas, industrialization of those areas would constitute an important part of any industrial development programme. Such an approach would not only offer additional employment opportunities but would also help to meet the basic needs of the rural population.

The main way for a natural resource-based economy to achieve competitiveness in non resource sectors is through the accumulation of human capital, by improving the skills of its work force, through investment in education and skills development. And the principal method of promoting industrial and economic development is to encourage transfer of modern technologies into the state through promotion of investment from outside the state within the country and also by foreign direct investment.

But in order to attract FDI or to woo the foreign investors it is necessary on the part of the state government to develop a minimum level of infrastructure. FDI tends to be beneficial for Orissa economy if it meets the following criteria:

- Foreign investment should provide new capital rather than buying out an existing company.
- It should also transfer new technology, rather than using an out-dated technology.

- It should generate employment opportunities to the local people.
- It should create jobs which are consistent to the skill of local workforce and it should prepare to train the local people
- It should not be detrimental to the interest of local business and industries. In this respect industry which intends to export is better than the one which want to produce for local market.
- It should use local inputs and should be prepared to support its development.

The expected 'trickle down' effect of development has not percolated among different strata of society. Therefore, a multi-prone policy of growth with equity and justice has to be followed. It is need of the hour to evolve a beneficiary oriented approach to mitigate poverty and employment. Since the economy of Orissa is primarily agricultural in nature, industrialization alone may not suffice to absorb the entire surplus population released from agriculture. Hence a village growth strategy with industrialization as a major thrust has to be evolved. Thus, the GoO should design its policies in such a way that it helps in capturing the benefit, avoid the danger and maximize the contribution of FDI. The attraction of foreign direct investment will be vital to industrial progress of Orissa.

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Appendix-I

Orissa's Principal Exports

	Commodities	1997-98	1998-99	1999-00	2000-01	2001-02 (P)
1	Metallurgical Products	109506.82	102000.74	127868.97	158819.44	134916.36
	%	58.08	53.89	58.03	59.67	63.96
2	Engineering, chemical & allied products	22614.38	18938.64	20446.85	11831.58	9594.46
	%	11.99	10.01	9.28	4.45	4.56
3	Mineral Products	28089.5	31135.1	28199.69	46938.57	36630.1
	%	14.9	16.45	12.8	17.64	17.36
4	Agriculture & forest products	739.55	1728.06	968.68	580.94	217.66
	%	0.39	0.91	0.44	0.22	0.1
5	Marine products	25527.09	28576.17	32937.77	31312.89	7306.23
	%	13.54	15.1	14.95	11.77	3.46
5	Handloom & textile products	1953.23	1478.38	1034.88	721.38	874.95
	%	1.04	0.78	0.47	0.27	0.41
6	Handicraft products	49.69	65.45	78.16	84.65	95.35
	%	0.03	0.03	0.04	0.03	0.05
7	Computer software, Computer hardware & other electronics goods	42.26	5363.76	8793.25	15854.45	21313.99
	%	0.02	2.83	3.99	5.96	10.1
8	Others	5.9	0.31	9.91	2.9	2.44
	%	0.01	-	-	-	-
	Total	**188528.42**	**189286.6**	**220338.16**	**266146.8**	**210951.54**
	%	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

P: Provisional
Source: Directorate of Export Promotion & Marketing Orissa, Bhubaneswar.
Note: Percentages are to the total export value.

Appendix-II

Sector-wise Plan Outlay and Expenditure in Orissa

Sectors	Outlay		Expenditure				
	Ninth Plan (1997-02)	Tenth Plan (2002-07)	Ninth Plan	1997-00	2000-01	2001-02	2002-03 (outlay)
Agriculture & allied activities & forest	562.88	1165.94	562.20	373.19	145.33	115.18	135.72
%	3.75	6.14	5.59	5.29	5.67	4.70	4.38
Rural development	881.62	897.91	949.37	682.48	236.05	230.20	115.35
%	5.88	4.73	9.44	9.67	9.21	9.39	3.72
Irrigation & flood control	3388.58	4109.21	2382.59	1839.95	510.57	496.35	607.79
%	22.59	21.63	23.69	26.07	19.93	20.26	19.61
Energy	4628.89	2864.88	1264.26	835.68	361.15	347.60	1003.54
%	30.86	15.08	12.57	11.84	14.10	14.19	32.37
Industry & mineral	114.14	109.33	145.35	133.92	16.50	18.29	4.94
%	0.76	0.58	1.45	1.90	0.64	0.75	0.16
Transport	1278.73	1959.91	594.79	452.47	134.02	124.79	303.30
%	8.52	10.32	5.91	6.41	5.23	5.09	9.78
Science, technology & environment	85.11	43.11	82.04	60.59	25.20	12.83	14.81
%	0.57	0.23	0.82	0.86	0.98	0.52	0.48
General economic services	549.27	2254.30	242.08	89.80	95.78	119.81	95.32
%	3.66	11.86	2.41	1.27	3.74	4.89	3.07
Social services	3427.48	5095.90	3741.03	2588.35	1009.62	943.62	651.49
%	22.85	26.82	37.20	36.68	39.41	38.51	21.02
General services	83.30	499.52	92.92	46.25	27.84	41.78	167.74
%	0.56	2.63	0.92	0.66	1.09	1.70	5.41
Total	**15000.00**	**19000.01**	**10056.63**	**7056.43**	**2562.06**	**2450.45**	**3100.00**

P: Provisional

Source: Planning and Co-ordination Department, Government of Orissa, Bhubaneswar.