



## **State Business Relations and Performance of Manufacturing Sector in Andhra Pradesh – A Case Study**

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## CONTENTS

	PAGE
Abstract	4
1 Introduction	5
2 Data and methodology	6
3 Mapping the politics of SBRs in AP and its impact on industrialisation	7
3.1 <i>Neelam Sanjeeva Reddy (1956-60 and 1962-64)</i>	8
3.2 <i>First Critical Juncture: Shaping SBRs under Kasu Brahmananda Reddy government (1964-71)</i>	10
3.3 <i>Pro-Active SBRs: Jalagam Vegal Rao (1973-78)</i>	11
3.4 <i>NTR Regime (1983-1989): Neglect of SBRs</i>	13
3.5 <i>Second Critical Juncture: Chandrababu Naidu Regime (1995-2004)</i>	16
3.6 <i>Congress Regime (2004 - ): continuation of pro-SBRs?</i>	28
4 Interaction of institutions and organisations in determining manufacturing Activity	29
4.1 Employment in the Manufacturing Sector	29
4.2 Labour Productivity in organised and unorganised sectors	32
4.3 Registered Manufacturing Sector	32
5 SBR and firm level perceptions	33
5.1 SBR and Infrastructure	34
5.2 Industrial Unrest	35
6 Conclusions and policy implications	35
References	38
Appendices	42

## ABSTRACT

In this paper, we make an attempt to enquire into the politics of state-business relations, how it has affected industrial development in general, and expansion of the manufacturing sector in the State of Andhra Pradesh (AP) in particular. In AP, SBRs have evolved gradually under different political regimes - from 'indifferent' SBRs during the initial decades passing through critical junctures in the form of 'active' and 'proactive' phases and finally reaching their zenith during Chandrababu Naidu's regime and continuing in the Congress regime. The SBRs in AP are seen evolving through different political regimes, and we have sought to capture their impact on the performance of manufacturing sector, based on both qualitative and quantitative sources. Examination of the secondary data reveals the dominance of registered manufacturing in AP's total manufacturing output. Firm level perceptions reveal that business associations play a major role in the dissemination of information, rather than in lobbying the government as might be the case in other states. Small firms are at a disadvantage compared to large and medium firms.

**Key-Words:** State-business relations, political regimes, institutions, manufacturing sector.

## 1 INTRODUCTION

The developmentalist role of the post-independent state has been a major factor in the industrialisation of India. The conscious government policy effort with public investment and the establishment of the public sector enterprises and of economic infrastructure projects have an obvious influence upon the industrial scenario in the States. Industrial development thus has been the result of conscious government policy effort with public investment playing a crucial role. However, with the recent major change in the industrial policy regime, the importance of private investment has increased enormously.

This raises the question why despite 'uniform' central policy framework some States perform better than other States in terms of industrialisation? Is it due to the differential policy interventions undertaken by the State governments or is it because of the relationship that exists between the State government and the business environment?

Given its expansion, the State's role in ensuring developmental success or failure deserves serious analytical attention (Sinha, 2005). In this context, effective state-business relations (SBRs) or public-private sector cooperation can play the role of an important determinant of economic growth at the macro level (Sen et al., 2007). According to Hariss, good SBRs are based on benign collaboration between business and the state with positive mechanisms that enable transparency, accurate and reliable information flow between business and government; ensure the likelihood of reciprocity; increase credibility of the state among the capitalists, and establish high levels of trust between public and private agents. They provide a transparent way of sharing information, lead to a more appropriate allocation of resources, remove unnecessary obstacles to doing business and provide checks and balances on government intervention. Further, effective SBRs lead to a more optimal allocation of resources in the economy, including an increased effectiveness of government involvement in supporting private sector activities and removing obstacles to investment (te Velde, 2006). Governments that engage in good SBRs are thought to have a higher likelihood of adopting appropriate policies and reforms, while enterprises participating in state-business discussions are more likely to support these initiatives (Bannock, 2005; Herzberg, *et al.*, 2005).

It is against this background that it becomes important to understand the nature and status of industrial development in the State of Andhra Pradesh (AP) with respect to the State's policy incentives or disincentives. Furthermore, we intend to concentrate on the role of the government in Andhra Pradesh, in initiating the processes of reinventing the industrial sector in general and the manufacturing sector in particular. The policy of re-industrialisation and re-emphasis on manufacturing assumed importance as the probable response to certain critical conditions – such as increasing inequality, massive poverty, rising unemployment and declining quality of life for a large number of people and so the crucial question is: can the state in post-colonial societies play a significant role in the processes of economic development as it did historically in the development of the now-advanced countries (Polanyi, 1957; Gerschenkron, 1962), while simultaneously projecting its image as pro-people and pro-poor (Basu, 1991)?

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

## 2 DATA AND METHODOLOGY

The SBRs in AP seen evolving through different political regimes and their impact on the performance of manufacturing sector is sought to be captured based on both qualitative and quantitative sources. The key informant interviews involving a large number of stake holders associated with policy making such as ministers, bureaucrats, former and serving, who held important positions like that of secretary, commissioner and managing director of industrial corporations (like AP Industrial Development Corporation Ltd. (APIDC), AP Industrial Infrastructural Corporation Ltd. (APIIC) ), members of the apex business associations (like Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI), Federation of Andhra Pradesh Small Industries Association (FAPSIA), Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP) form important source of qualitative information. The quantitative information dealing with the performance of manufacturing sector is drawn from data sources of National Accounts Statistics published by Central Statistical Organisation (CSO). Apart from the secondary data, this paper also draws its evidence from exhaustive field work completed in four research sites in Andhra

Pradesh (Sanathnagar, Jeedimetla, Gajularamaram and Nacharam). The data was collected during December 2008 and February 2009. (For methodology on secondary data and sampling for primary survey see appendix 1). The information collected through interviews is complemented by macro-economic data at the State level.

### 3 MAPPING THE POLITICS OF SBRS IN AP AND ITS IMPACT ON INDUSTRIALISATION

Andhra Pradesh, formed in November 1956 by the merging Telangana region, consisting of nine Telugu-speaking districts of the erstwhile Hyderabad State with eleven districts of the Andhra State, has been a strong bastion of the Congress party since its formation in 1956. It is only with the emergence and coming to power of the Telugu Desam Party (TDP) in 1983 that the dominance of the Congress in the State was challenged. The Congress dominance in State politics coincided with the Congress dominance at the centre as well, except for the brief span of Janata rule (1977-80) in the post-Emergency period. This means that there was a long period of harmony between the centre and the State at political party and governmental levels. It is therefore interesting to examine the impact of this on the process of industrialisation in the State and assess how far the AP State could make use of this for the above purpose.

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

In the history of SBRs in AP it could be noticed that there is a certain degree of asymmetry between these factors. For the first decade after the State formation, the political leadership was not very enthusiastic towards industrialisation partly because

of its social roots and also because of the absence of a catalytic factor, that is, an active capitalist class, to exercise pressure on the regime. It is only since the mid-1960s that pro-business initiatives could be seen taking shape, though agriculture still constituted the focus of the economic policy making. It is only in the post-Green revolution period that we witness the emergence of an aggressive rural rich, along with an educated elite emerging from the rural landed classes with wider exposure to technology, management and industry within India and abroad, which could look beyond agriculture for opportunities of investment and enrichment and attempt to influence the policy regime in the State.

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

The Congress regime in the early decades of the State formation focused on agrarian sector and rural development. The series of land and tenancy reforms and the launching of the panchayat raj system and rural development programmes during the 1950s and 1960s point to the priorities of the regime. What in fact got a boost as a result of this were the agriculture and allied sectors, like the handloom industry. The Chief Ministers (CM) like Neelam Sanjeeva Reddy (1956-60 and 1962-64) were known not to be very pro-active towards the growth of the industry, especially with respect to the involvement of private industrialists. In fact, it emerges from the interviews with the administrators who happened to work with him that he considered industrialists to be greedy and corrupt, a reflection of the peasant outlook of the early generation of agrarian based political elite. As a result, it is not an exaggeration to suggest that the only industrialisation that we see in AP was largely due to the initiative of the Central government and to some extent the continuation of the State government's support to the existing public sector industries. During this period, the central government made considerable investment in industry in the State resulting in the establishment of large public enterprises.

Thus, a major part of the history of State was characterised by a system of patronage that essentially banked on contracts in irrigation, rural development sectors and Public Works Department (PWD) work<sup>1</sup>. The phenomenon of contractor class which enriched itself on the state's expanding developmental activities is an important aspect in the phase of transition of the agrarian landed classes to the

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<sup>1</sup> Interview with BPR Vittal, IAS (Retd), August 2009, Hyderabad.

urban economy. It is the nexus of the politician-contractor class that has been one of the key elements in the constitution of the ruling party support base.

The absence of enthusiasm for industrial development in the State can easily be assessed. The most visible factor in this of course was the absence a strong business class which could act as a driving force and put pressure on the government for a positive policy dispensation. On the contrary, as suggested earlier, in AP we witness the rise and expansion of a parasitical class that banked on political patronage and enriched itself on the government civil contracts. This was in contrast to the experience of Gujarat and Tamil Nadu which had historically seen strong industrial class impulses. In addition, the mutual political and economic security implicit in such a cozy relationship between the political elite and the contractor class seems to have inhibited the latter from making any moves into business that could involve risks.<sup>2</sup> Furthermore, the absence of initiatives on the part of the political elite for the first two decades despite the political access to centre and visibility of opportunities to industrialise the State contributed to the missing of the opportunity. In spite of the similarities between AP and Gujarat in terms of centre-State relations, the contrast in terms of industrialisation remains striking because of the agrarian outlook of the political elite in AP.

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<sup>2</sup> Interviews with most of the civil servants who served these regimes thus opined. Interviews with BPR Vittal, TL Shankar, IAS (Retd) and BV Rama Rao, IAS (Retd) and former Chief Secretary , Government of AP.

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

The credit for giving a positive turn to the state-business relations in the AP State goes to the Brahmananda Reddy's government (1964-71). It was during the 1960s, partly as a part of the all-India process, that institutions, meant to support and build up industrial base in the State, were set up and activated. An attempt to compare and contrast AP's industrial performance with States like Tamil Nadu and Gujarat were made and the reasons for trailing behind them were understood to be due to the absence of initiatives to attract private capital to the State.<sup>3</sup>

The AP Industrial Development Corporation Ltd. (APIDC) was set up in 1960 with the objective of promoting rapid industrialisation in the State. The role of APIDC in the industrialisation in AP in 1960s and 70s was significant. It had three roles: i) to provide industrial license to entrepreneurs through some sort of single window clearances; ii) to provide financing; and iii) promotions through road shows. The AP State Financial Corporation (APSFC), started in 1951, is an important body (Krishna, 1989). The AP Small Scale Industrial Development Corporation Ltd. (APSSIDC) was established in 1961 to promote the interests of small scale industry. The AP Agro industries Development Corporation Ltd. (APIIC) and the AP Industrial Infrastructure Corporation Ltd. (APIIC) were set up in 1968 and 1973 respectively.

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

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<sup>3</sup> Interview with TL Shankar, IAS (Retd), October 2008, Hyderabad.

### *3.3 Pro-Active SBRs: Jalagam Vengal Rao (1973-78)*

Jalagam Vengal Rao's tenure as CM (1973-78) is considered to be an important phase in the history of SBRs in AP. While taking forward the initiatives of Brahmananda Reddy government, he emphasised the importance of leadership and decision making styles in forging good SBRs. The major obstacle for it is the notorious red-tapism in the functioning of governmental organisations. To overcome this, he identified and entrusted the task to trusted and dynamic bureaucrats<sup>4</sup> who are seen as committed to this objective. One step forward in this direction is to give freedom to them from any kind of interference.

Initiatives like the Backward Area Development Programme aimed at the development of backward areas by identifying their industrial potential and providing them with appropriate incentives and linkages. Vengal Rao was also instrumental in strengthening APSFC, APIIC and APSSIC. These initiatives resulted in significant changes in the industrial scenario in the State.<sup>5</sup> As a result, for instance, a number of forest-based industries like paper mills came up in the private sector in the place of a small 10 ton capacity paper mill in the public sector in Rajahmundry.

At this juncture, we will focus on the most debatable subject in the phase of industrialisation in an economy: the existence of a very strong industrial licensing. AP occupied the last but one position in terms of industrial licenses issued to different states during late sixties, but after 1970, AP occupied the fifth and sixth positions with regard to the issue of ILs (see appendix 2). Thus, AP could attract sufficient new investments into the industries during 1970s due to the proactive decisions taken by the State government and leaders like Jalagam Vengal Rao. But, did this trend continue in the later years also during the tenure of other chief ministers? Our data on letters of intent (LOI)<sup>6</sup>, Industrial Entrepreneur Memorandum

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<sup>4</sup> Interview with Prof R K Mishra, Director, Institute of Public Enterprises, Hyderabad, October 2008.

<sup>5</sup> As part of this exercise and also to ensure transparency a committee, comprising of both ruling and opposition leaders was constituted to make recommendations. Interview with TL Shankar, IAS (Retd), October 2008, Hyderabad.

<sup>6</sup> LOI is the response to the application that the prospective entrepreneur has to make to the Secretariat of Industrial Approvals (SIA) to enable the entrepreneur to apply for other clearances such as land, power and capital goods or an import license (if applicable). After receiving various clearances, the entrepreneur applies for what is known as the Conversion of an LOI to an industrial license (CIL or IL), (Sinha, 2006).

(IEM) <sup>7</sup>and investment proposals (refer section 3.4 and appendix 4) reveals this aspect.

The subsequent CMs, especially during 1978-1983, were not known for any significant contribution to the SBRs in the State. It was a period in the history of the State, that despite a clear electoral mandate, the Congress party could not ensure a stable government. Frequent change of CMs (four CMs in a period of five years), continuous intervention of the Congress High Command, and encouragement to the factional fights rendered this period the most unstable period of the Congress rule in the State. As a result of the political uncertainty, which was the making of the Congress leadership, the SBRs suffered a serious setback. The conspicuous absence of political direction pushed the SBRs into 'a state of coma'<sup>8</sup>. The following analysis captures the situation vividly.

The analysis of comparative manufacturing sector backwardness of AP in 1964 in relation to some of the more important States in India reveals that Andhra Pradesh stands last amongst the seven States in terms of percentage share of productive capital, employment, gross output and value added (see Appendix 3). This slow growth in industries till the mid-sixties can be attributed to the fact that industrialisation in AP primarily confined itself to agro-processing industries during Neelam Sanjeeva Reddy's tenure. But, thereafter, shifts have been taking place towards foot-loose type products based on imported inputs from other regions producing for national markets (Rosen, 1988; Reddy, 1989). A scheme of incentives for setting up of industrial units was first introduced in the State in 1966 and was made more attractive in 1969. The Central Investment Subsidy Scheme introduced (CISS) in 1970 covered 14 districts. Further, the revision of CISS in 1976 resulted in structural diversification within the manufacturing sector. The changes in the sectoral income shares over a period of time are indicative of above structural changes taking place in AP (Table 1).

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<sup>7</sup> Industrial investment is registered separately for the de-licensed and licensed sectors. Investment intentions in the former sector are registered in the form of Industrial Entrepreneurs' Memorandum.

<sup>8</sup> Interview with Prof R K Mishra, Hyderabad, October 2008.

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

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

*Source: AP Statistical Abstract, GoAP, Hyderabad*

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

We have seen earlier that Jalagam Vengal Rao's tenure as CM (1973-78) is considered to be an important landmark in the history of SBRs in AP. But, the emergence of Telugu Desam party (TDP) under the leadership of NT Rama Rao ushered in a phase of negative SBRs in AP. NT Rama Rao (NTR) came to power in 1983. He signaled two important shifts in AP politics: one, the rise of anti-Congress and anti-Centre rhetoric; two, the regionalist populism. The TDP, as its rise is opposed to the politics of the Congress party, took a vehemently anti-Congress stance and which as a consequence translated into anti-Centre rhetoric as the Congress was in power at the centre. By widening the scope of anti-Congressism, the TDP along with other non-Congress parties and governments in the country sought to play a key role in the national politics by demanding a democratic rearticulating the centre- State relations.

The second important aspect signaled by NTR's political ascendancy was anchored to the Telugu cultural and identity politics. Thus, his first tenure in power (1983-89) was dominated by the rhetoric of cultural populist politics. In tune with this populist thrust, policies/ schemes comprising of Rs 2 per kilo of rice, subsidies to farmers, housing for the poor were emphasised. To sustain these schemes, when in the later years the expenditure on these schemes increased many fold, the regime sought to find a solution by boosting up the liquor sales.<sup>9</sup>

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<sup>9</sup> For an assessment of the impact of rice subsidy scheme on State government's indebtedness, Olsen (1989).

During NTR's tenure, the anti-centre politics and populist policies and uneven thrust on agriculture in their combined effect led to the neglect of the industry. Despite this, it may be observed that the manufacturing sectors like handloom industry which is a major employer in the State after agriculture was paid adequate attention essentially as a source of rural employment through Janata cloth scheme (Srinivasulu: 1994, 1996). It is sad to note that not only industrial development saw a setback but even cinema industry, to which he owed his popularity, was pushed into a crisis with the introduction of the 'slab' system.

This is clearly evident from the data on LOI and IL in the A P State (appendix 4). It is argued that the pro-business shift in the central government in India in the 1980s was reflected in those States where the political party in power was aligned with the central government (Rodrick and Subramanian 2004). As a consequence of this, States aligned with the central government benefited the most and AP unfortunately is not one such State.

The neo-rich agrarian class of the coastal Andhra region that emerged as a result of the political economy of Green revolution and constituted the principal social constituency of the TDP found the lack of enthusiasm on the part of NTR to be slowing down its transition to the non-farm sectors. For it was during the 1970s and 1980s that we observe a major shift of the agrarian families of the coastal Andhra to agro-processing, hotel, and film industry along with service sector. This potential with a proper political and policy direction could have been the basis of an energetic expansion of the industrial base of the State, unfortunately it were not to be (see table 2). What could instead be noticed was the response of the regime to a limited group of local industrialists and professional NRIs who could benefit from its patronage to expand into the education, hospital, pharmaceutical, media and service sectors.

Table 2: Average Annual Growth Rates of State Domestic Product from the Manufacturing Sector in AP during 1980-81 to 1992-93

Year	Manufacturing	Registered Manufacturing	Unregistered Manufacturing
1980-81 to 1983-84	5.97	8.52	2.71
1984-85 to 1987-88	4.70	6.02	2.70
1988-89 to 1992-93	1.88	1.58	2.50

Source: NAS

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

In addition, the very political and policy discourse of the TDP proved to be detrimental to a proper growth enhancing SBRs. Firstly, the TDP's emergence is premised on anti-Congressism and once in power, the TDP regime not only continued its anti-Congress stance but further expanded it by pursuing anti- centre (as NTR famously said "centre is a myth") politics in a vigorous manner thus displaying his national political ambition. Secondly, the social coalition the regime forged was defined essentially in caste-cultural terms (Other Backward Castes (OBCs), women and minorities) that beyond the populist cultural, it failed to take cognizance of the long term economic interests of coalition partners and implications of such a populist policy dispensation. Thirdly, the populist welfarist policy dispensation became such an obsession that the regime literally became blind to the (anti-) developmental implications of populist policies.

Thus the absence of a proper perspective on the SBRs has not only led to the loss of an opportunity to expand the industrial base of the State but also paved the way to its counter-point that is fast-track reforms by the subsequent regimes that pushed large sections of agrarian and artisanal sections and working people into a serious economic and social distress as evident in the large scale occurrence of starvation deaths and suicides in the State.

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

NTR came to power in the 1994 assembly elections with a huge popular mandate which was attributed to his populist agenda of subsidised rice scheme, power subsidy to the agrarian sector and total prohibition in the State among other promises. He was soon displaced by his son-in-law Chandrababu Naidu in the 1995 August coup which is often interpreted as an internal affair of the NTR's family and party. An analysis of the drama seen in the proper context and in relation to the subsequent developments clearly shows that it was not a simple event of change of guard of the TDP but a contestation that involved different social classes, especially the entrepreneurial class which successfully directed the crisis to a finale; one of the *dramatis persona* being the owner of the leading Telugu dailt *Eenadu*. (The role of *Eenadu* is worth noting). In other words, the leadership crisis in the TDP was effectively used by the disgruntled capitalist class which was restless with the populist policies and obsessive self-image driven governance of NTR.

Chandrababu Naidu's regime, in tune with the desire of this social class which was instrumental in bringing him to power, played a pro-active role in building an image of AP being an industry-friendly and pro-business State. Naidu brought about a remarkable shift in the style of functioning of the office of CM. Unlike the earlier CMs, Naidu was forthcoming with a direct and almost one-to-one dialogue with the industrialists, thereby conveying the message that his government was business-friendly (table 3).

Table 3: Average Annual Growth Rates of State Domestic Product from the Manufacturing Sector in AP during 1993-94 to 2005-06

Year	Manufacturing	Registered Manufacturing	Unregistered Manufacturing
1993-94 to 1996-97	8.39	7.82	9.71
1997-98 to 2000-01	1.72	1.32	2.52
2001-02 to 2005-06	6.37	7.15	4.79

The decline in the growth rate of registered manufacturing sector during the late nineties and early 2000 can be attributed to the growing sickness of certain categories of small scale industries. The apparent reasons for the high occurrence of sickness among the small scale units may be due to defective financial planning, obsolete technology, power and energy shortage and also the problems related to the supply of raw materials. Also, during this period Chandrababu Naidu concentrated on the growth of IT sector in the State. Thus, In AP, the tertiary rather than the secondary sector has become the engine of growth. One of the major sources of the high growth of services in SDP has been the recent emergence of the IT sector in Telangana<sup>10</sup> region (Chakravarty and Alivelu 2009). Though the policy regime changed under reforms, which deregulated and got rid of bureaucratic controls, the responsibility for the necessary reforms was left to the States. The requirements for the licenses, permits and inspections at the State and local level continued to be onerous as the enterprises faced difficulty in procuring land, electricity and water connection. Secondly, there was a credit squeeze in 1996, based on the quality of the credit, which also seemed to have dissuaded industrial producers from plans to expand their production and import technology (Vaidyanathan, 1995).

Theoretically speaking, effective SBRs result in a decline in ambiguity surrounding the firms, positively influencing their performance. In this regard, a measure that we can include is a firm's opinion about getting a clearance for a proposed initiative. The

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<sup>10</sup> Andhra Pradesh consists of three regions – Telangana, Coastal Andhra and Rayalaseema

higher the problem of uncertainty, the lower would be the effectiveness of SBR. Furthermore, we also make an attempt to include the percentage of senior management's time spent on addressing government regulations/officials/and paper work. Good SBRs are expected to lower the administrative constraints faced by the firms (Qureshi et al, 2007).

***Settings of Industrial and Related Procedures:***

*Large vs. Small Firms Experience*

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

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

With regard to the senior management's time spent on addressing government regulations/officials/ and paper work, large and medium, on an average, spend 30 to 40 percent of their time on the above issues. Most of them have their own consultants from within the office cadre. For the small firms, there emerges a different picture. On an average, they spend nearly 60 to 80 percent of their time on governmental procedures. To sum up, good SBRs are expected to lower the administrative constraints faced by the firms. But, this appears to be true only in the case of large and medium firms and not in the case of small firms.

In this context, we can observe that capital formation assumes overriding significance in the milieu of the policy making by the State and central governments.

During the nineties and early 2000, as is evident from appendix 5, the creation of assets occurs more in the private sector compared to the public sector, both at the State level and All India level. This signals the pro-business attitude of the State government encouraging the private entrepreneurs to invest in the industrial sector. It can also be seen that though the capital formation in the private sector hovers around 65-70 percent, role of private sector is lower than the country average indicating the need for further push (see appendix 6).

Here it becomes important to note that the shift brought about by the launching of the second generation of economic reforms, involving the reduction of subsidies, downsizing of public employment and privatisation of PSEs in which the States are crucial actors. The committee under the chairmanship of Subramaniam constituted by the NTR government to go into the question of crisis of PSEs in AP came in handy to Naidu. The committee in its report submitted in June 1995 recommended far reaching changes: closure of 9 PSEs; partial disinvestment in 10 PSEs; privatisation of 2 PSEs; restructuring 7 PSEs.

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

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

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

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

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

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

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

Naidu's pro-SBR strategy consisted of two aspects: one, creating a pro-business discourse and two initiating strategic and institutional changes. This is reflected in the investment proposals granted to the State of AP during his regime continuing well beyond into the congress regime (appendix 7).

The formal institutional changes attempted included creation of single-window clearance<sup>11</sup> that sought to avoid the bureaucratic delay; simplification of approval of projects; institutionalising wide range of incentives like tax holidays and exemptions, creation of infrastructural facilities, provision of subsidies for land, water, power, transport, etc; relaxation of labour and contract laws (exemptions from labour inspections, permission for three shifts, etc). The determination to pursue reforms are made amply evident through the reversal of the populist thrust of the earlier regime and the initiation of unpopular measures like the unbundling of the Andhra Pradesh State Electricity Board (APSEB) recommended by the AP Electricity Regulation Commission set up in 1999 to review the working of SEB.

How efficiently government is organised is as crucial as the organisation of the private sector for SBRs. To measure the role of government in state-business relations, we consider the firm's perceptions about the efficiency of government in delivering services (for example, availability of road and railways, availability of warehouses, availability of industrial estates) on a scale of 1 (= very inefficient) to 5 (= very efficient). As well as this, the provision of telecommunication facilities, supply of electricity, supply of water etc., also become crucial in the judgment of SBRs.

*Efficiency of Government and Service Delivery*

The majority of the entrepreneurs rate the performance of the government in delivering services like roadways as satisfactory (3 on a scale of 1-5). They also felt that there is improvement in the service delivery of roadways over the last five years. On a scale of 1-5, the performance of roadways was rated as 2 five years ago, now, it is 3. However, a few small entrepreneurs do not agree to the above opinion and rate the service delivery of roadways as inefficient (2 on a scale of 1-5) now and also five years back. This is true especially for the small exporters. They judge the performance of roadways based on the costs incurred in moving the products from one place to the other. They find it extremely difficult to export their commodities as

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<sup>11</sup> Quite to the contrary, the single window system did not seem to have worked the way it was intended on the ground. This comes out very clearly from the interviews not only with business association leaders but also with some bureaucrats and academics.

Interviews with B. G. Sastri, Former President of FAPCCI, B V Rama Rao, IAS (Retd.) October 2008, Hyderabad and Prof R K Mishra, Director, IPE, Hyderabad.

they have to incur huge expenditure in transporting their commodities. One small entrepreneur expressed extreme difficulty in this aspect. She said that as she had to bring edible oil from Vijayawada to Hyderabad and then export it, she had to face huge transportation costs in moving her product from Vijayawada to Hyderabad.

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

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

#### *Firms and Infrastructure*

Almost all the firms depend on the State electricity board for power supply and are of the opinion that there is no problem with respect to electricity supply. During summer, when there are power cuts, management operates shift system and runs the production process accordingly. All those industrial firms in Gajularamaram industrial estate set up by ALEAP can avail free power up to the capacity of 13 HP, over and above that they have to pay for the power.

The firms are satisfied with the provision of water facilities by the government. In the industrial estates of Jeedimetla and Sanathnagar, firms have formed into a society and society provides water to various firms. In Gajularamaram, where ALEAP has its industrial estate, there is no water connection and the entrepreneurs procure water through water tankers.

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

*Andhra Pradesh: Vision 2020* (Government of A P: 1999), a document prepared by international management consultancy firm McKinsey in 1998, was presented as the official statement of the long-term policy direction of the regime.<sup>12</sup> Identifying nineteen growth engines across different sectors of the economy, it promised to move the State economy from agriculture to a diversified economic growth path. It also saw governance reforms that ensure efficiency, transparency, accountability and speed as essential ingredients of the vision. It is necessary to note that the document found favour with the educated middle classes as much with the corporate world thereby generated a positive public response and provided ideological legitimacy to its reforms.

Naidu regime brought about a perceptive informality, hitherto unknown, in its relation with the business houses, associations and leaders. Frequent interactions of the CM and his officials with the businessmen in the Secretariat, in the social gatherings and business association meetings and the CII and FICCI conferences were to find regular reporting in the media. Media was used to send the message of new dispensation of the regime. Media, given its corporate connections, willingly participated in this discourse by giving prominence to this dimension of the regime. What role do these organisations play in the State of Andhra?

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<sup>12</sup> For critical analyses, see D N Reddy (ed), 1999.

### *Business Associations and their Interaction with the Government*

Firm analysis at the field level shows that all the firms (large, medium and small) are members of business associations. The majority of them are members of Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI). This observation contradicts the argument that there is no business case for large firms to join business associations (BA) as they could lobby government directly. Though the large firms have more access to the government and bureaucrats and can approach the government directly, they take membership in the BAs. This membership keeps them informed about the various initiatives and policies undertaken by the government. The large firms, in fact, by being members of BAs cater to the needs of the small firms by giving them guidance on policy matters, helping the BA in organising the workshops and sharing their work experiences with the other firms in the association. The women entrepreneurs have membership in Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP). There exists a cordial relationship between the associations and the government. The associations are made part of the budget discussions. The presidents of these BAs interact with the government officials as and when the necessity arises.

In terms of the services, providing information on government regulations is the most significant service provided by business associations to the firms covered in the sample. This view was echoed by all the firms in the sample. Most of the firms accorded 4 and 5 on a scale of 1-5 where 1 (very inefficient) and 5 (very efficient). The members are also happy with regards to the performance of FAPCCI in terms of conducting workshops, training programmes etc., to enhance the capabilities of the members. FAPCCI publishes its newsletter regularly and the information is uploaded on the website for the benefit of the members. The issues deliberated with the government are informed to all its members on a continuous basis. The meetings are conducted regularly and as and when a particular issue arises, a separate meeting is again convened. Our findings also reveal that providing information on government regulations appears to be the most effective service of the FAPCCI. But, when it

comes to the issue of lobbying the government, the members of FAPCCI strongly feel that that the service provided by the association in this regard is not satisfactory. Again, on a scale of 1-5, firms accord 2 in this regard. When we pondered over this issue with the FAPCCI committee members, they said that they try their best to help the members.

#### *Women Entrepreneurs and ALEAP*

However, members of ALEAP are at an advantageous position as the women entrepreneurs feel that the association lobbies with the government wherever necessary. This association was established in 1993 with an aim to bring together women entrepreneurs trying to help each other and work in collaboration for welfare maximisation. ALEAP developed the First Women Entrepreneurs Industrial Estate in India at Gajularamaram, Ranga Reddy district of AP. The estate has all the required infrastructural facilities to transform women into outstanding entrepreneurs. It is a state level organisation with an objective of uplifting women and empowerment through establishing small and medium enterprises. ALEAP's members are mostly first generation entrepreneurs and ALEAP through its strong support network with government and non-government organisations, provides the expertise and other required facilities for entrepreneurship development. The association is also developing another industrial cluster for women entrepreneurs in Food Processing at Vijayawada. They have their own counsellors who give them advice on various business activities. Their Centre for Entrepreneurs Development (CED) provides entrepreneurship abilities to the women and contributes to State's economy. On the one hand, the small firms which are part of FAPCCI feel neglected; on the other hand, small firms in ALEAP are quite satisfied with the services provided.

ALEAP also conducts training programmes, workshops and entrepreneur development programmes. The recent achievement of ALEAP is that some of the lady entrepreneurs are sent to the Indian School of Business for a course on entrepreneurial development. As an association, ALEAP has strong reach and tie-ups with retail outlets and supply chain stores. ALEAP members have been recognised by large scale industries as strategic vendors in manufacturing their products. To quote

the efforts put in by ALEAP in helping the women entrepreneurs, one small entrepreneur informed us she bagged a contract from Bharat Heavy Electrical Limited (BHEL) to supply tubes to the company because of the initiation of ALEAP. In fact, she displayed her product (she is a manufacturer of light weight grills which she supplies to the apartments around the estate) at an exhibition organised by ALEAP wherein the large scale industries visited the exhibition. When BHEL showed interest in her product she pursued with them and bagged the contract from it. The company, in turn, gave specifications for the manufacture of tubes. As she is technically not equipped with knowledge, she is planning to take help from her husband who is an engineer and also employ skilled workers. While FAPCCI does not provide any financial assistance to its members, ALEAP, on the other hand, endeavors to provide financial assistance to its members in the form of ALEAP Credit Guarantee Association (ACGA). Members of the association will be provided financial assistance from Andhra Bank without collateral security.

#### *Small Firms and FAPSIA*

Yet another association that caters to the needs of the small firms is the Federation of Andhra Pradesh Small Industries Association (FAPSIA). This was established in 1992 and disseminates information in the form of annual reports, monthly newsletters, training courses and seminars. The association claims that it plays a major role in influencing the budget and government spending plans. The incentives for SSIs take the form of discounts, subsidies on power, tax refund, reimbursement of local taxes, special incentives to women entrepreneurs etc. Despite these initiatives, why is it that the small entrepreneurs feel neglected? This is one area which needs to be probed further.

To conclude, the effect of SBR works primarily through provision of information on government regulations and lobbying government. FAPCCI which has a large membership in comparison to ALEAP is successful in provision of information on various aspects to its members and does not play much role in lobbying the government. ALEAP, though successful on both the parameters, owing to its limited

membership confined to lady entrepreneurs, indicates that the main activity of these associations is dissemination of information. If the business associations play an active role in lobbying the government, then the SBRs become more meaningful.

Organisational changes in the government-business relations include the rise in the prominence of the APIIC as the nodal agency for facilitating the project preparation, land acquisition, providing infrastructural facilities, etc. Officials with pro-corporate aptitude and dispensation are identified and assigned the responsibilities and made duly accountable. Their job was to produce the results.

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

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

Behind this showcasing of the IT and so-called Cyberabad as the face of AP 'shining', there was a gross neglect of the rural economy and the manufacturing artisanal and modern industrial sector. The projected development could not assuage the

grievances of the majority of the population dependent on agriculture and allied occupations. Their anger caused him an electoral defeat in 2004 [Srinivasulu: 2004.]

### 3.6 Congress Regime (2004 - ): continuation of pro-SBRs?

The Congress came to power in 2004 by articulating the agrarian and rural crisis. In tune with its electoral promises, agriculture was high on the Congress agenda. As a consequence, agricultural development and irrigation attracted huge attention. But this has not resulted in the neglect of the industry (table 5).

Table 5: State wise status of Industrial Entrepreneurs Memorandum Implemented in India August 1991 – October 2006 (Rs. Crores)

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

Source: *Indiastat.com*

Though AP's performance, in terms of investment proposals implemented, is satisfactory, the government has to think seriously about how to attract more investors into the economy. In the new industrial policy, 2000-05, for creating an appropriate organisational structure to achieve speed in decision making in matters concerning industrial projects, the State Investment Promotion Board (SIPB) was formed. The SIPB will meet once in a month for the purpose of taking a final decision regarding investments and promotion of industries in the State. However, the majority of the investment projects in the State remain in the announcement State in contrast to the claims of successive governments on promoting an industry-friendly environment (*The Hindu*, 6-11-09).

In its Industrial Policy of 2005-2010, the State government provided 15% investment subsidy on fixed capital investment subject to a maximum of Rs.15.00 lakhs to SSIs and an additional investment subsidy of 5% on fixed capital investment

limited to Rs.5.00 lakhs for Scheduled Castes and Scheduled Tribe (SC/ST) entrepreneurs. The government also extended cent per cent exemption in stamp duty for lands allotted to SC/ST entrepreneurs. To boost more industrialisation in the State, women entrepreneurs were also given incentives in this industrial policy.

One significant initiative by the Congress regime that has a direct bearing on the SBRs is its pro-Special Economic Zone (SEZ) initiatives. With 57 notified and 99 formally approved SEZs, AP has acquired a dubious distinction of being one of the leading States in terms of the number of SEZs. The pro-active role of the government could be gauged from the fact that of these 30 SEZs have been developed by the APIIC and couple of them by other government agencies. While as many as 95 SEZs are related to the IT and IT-enabled services sector, the number of multi-purpose SEZs is just eight. Most of these IT/ITES SEZs instead of attracting new companies have only resulted in the relocation of the old ones for availing tax incentives. With serious doubts raised about their role in advancing industrialisation, they assumed notoriety as land acquisition gave rise to allegations of land scams and large scale displacement of rural population in these areas resulting in local protest movements.

#### 4 INTERACTION OF INSTITUTIONS AND ORGANISATIONS IN DETERMINING MANUFACTURING ACTIVITY

In this section, we focus on the performance of the manufacturing sector in the State during the period 1980-81 to 2005-06.

##### *4.1 Employment in the Manufacturing Sector*

At the all India level, manufacturing sector employment has increased both in the rural as well as in the urban areas in 2004-05 over 1993-94. and the State of AP corresponds to the national picture (Table 5).

Table 5: Employment in the Manufacturing Sector in Some Selected States: Rural and Urban  
(per thousand work participation rates by the usual status)

States	2004-05 Rural	1993-94 Rural	2004-05 Urban	1993-94 Urban
AP	86	69	195	191
Orissa	111	64	140	166
WB	135	161	276	302
Maharashtra	56	50	242	249
Gujarat	78	92	372	310
Tamilnadu	140	129	309	299
Karnataka	62	67	217	231
India	81	70	246	236

*Source: NSS Report No. 409, 515 (Vol. 2)*

However, at the All India level, AP stands in the second to last position in terms of employment in urban areas, while it stands at fourth position, in terms of rural employment in 2004-05. The better position of rural employment in AP is due to the growth of construction activities. We can always argue that there is an increase in employment when it is coupled with the increase in the wage rates. Most of the authors like Goldar, 2000, Venkatramaiah et al, 2003 contend that the organised industrial sector experienced a rise in employment growth in early 2000, but that is due, mainly to decline in real wage growth. So the above increase in employment in the manufacturing has to be taken with a pinch of salt.

Table 6: Percentage Share of Unorganised Manufacturing Employment in total by some States classified by Rural and Urban, 2001

States	Rural	Urban
Andhra Pradesh	9.9 (3)	7.0 (6)
Bihar	5.2 (6)	0.7 (14)
Gujarat	2.3	7.1 (5)
Haryana	0.7	1.8 (11)
Karnataka	5.3 (5)	5.8 (7)
Kerala	3.5	1.7 (12)

Madhya Pradesh	4.1	3.6 (9)
Maharashtra	5.2 (6)	13.2 (2)
Orissa	8.6 (4)	1.0 (13)
Punjab	1.4	3.1 (10)
Rajasthan	2.7	3.8 (8)
Tamil Nadu	0.7	13.5 (1)
Uttar Pradesh	15.4 (2)	13.1 (3)
West Bengal	18.4 (1)	11.1 (4)

**Source: NSS, Report No. 479; Unorganised Manufacturing Sector in India: Employment, Assets and Borrowing, 2000-01 Note: Here, India as a whole has been considered as 100, Figures in the parenthesis indicate ranks**

In urban areas, Tamil Nadu takes first position, while AP stands at the sixth position in its share of unorganised manufacturing employment in the country (Table 6). On the other hand, in rural areas, while West Bengal stands at the first position, AP stands at the third position. Economic reforms were expected to encourage employment in the informal/unorganised sector; but activities within the unorganised sector which are expected to be relatively better paid – as they draw their growth momentum from the demand side factors – do not seem to have generated job opportunities on a large scale in urban areas (Arup et al, 2006)

When we take into consideration total employment in the manufacturing sector, manufacture of tobacco and tobacco products generate the highest share of employment in 2001 when compared to the other sectors (appendix 8). The dominance of beedi-making activity has resulted in more employment generation by this sector. Table 7:

Compound growth rates of manufacturing employment: organised and unorganised (in percent per annum)

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

Source: Population Census and Annual Survey of Industries

Rate of growth of employment of the manufacturing sector as a whole increased in the second period over the first in the State (Table 7). However, it is the unorganised sector which has actually contributed to the increase in the rate of growth of employment and the rate of growth of employment in the organised manufacturing shows a decline in the second period over the first in AP. Have economic reforms reduced employment growth in the organised sector? It is possible that economic opportunities have not increased in the post-reform period in spite of higher growth. Furthermore, the lower growth in organised employment can be attributed to the slowing down in employment in the public sector enterprises. The closure of many sick units could have resulted in the decline in the growth of employment in the organised sector. The increase in the unorganised sector employment is due to the expansion in construction activity and the beedi industry in the State.

#### *4.2 Labour Productivity in organised and unorganised sectors*

Labour Productivity (O/L) in the registered manufacturing sector shows an increase during 1987-88 to 1992-93 (Appendix 9). This trend continued till 1996-97 and thereafter registered a steep decline in 1998-99. Then O/L started fluctuating and then registered an increase in 2003-04 (Appendix 10).

What about the labour productivity in the unorganised sector in AP vis-à-vis the other States? (Appendix 11). When we compare the State of AP vis-à-vis the other States, we observe that the GVA per annum both by rural and urban workers is low in AP. Thus, while labour productivity in the organised sector showed an increase, the labour productivity in the unorganised sector is not encouraging.

#### *4.3 Registered Manufacturing Sector*

Considering the importance of manufacturing sector within the industrial sector in general and registered manufacturing in particular, we decide to narrow down our focus.

We now take stock of the situation concentrating only on the latest year<sup>13</sup> (2003-04) for which the ASI data are available at the State level. It is important to mention here that we have considered net value added figures for output, total persons engaged for labour and the value of fixed capital for capital.

Share of Net Value Added (NVA) and the productive capital of chemical, food products and basic metals constitute around 47 percent of the total manufacturing in 2003-04 (Appendix 12). Though the share of NVA of tobacco is low when compared to that of the food and beverages sector, it generates employment almost double its share of NVA. Further, non-metallic mineral products generate the highest share of employment as compared to the other sectors.

## 5 SBR AND FIRM LEVEL PERCEPTIONS

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

### *Transaction Costs and Rent Seeking : Firms' Experience*

Almost all the firms except one large and one medium (with a niche for themselves) have said that they have to pay bribes for the inspections to take place. At the same time, they do agree saying that there is no harassment from the government inspectors. To quote, "It's a part of the system and we have to accept it" are the words uttered by majority of them. To answer the question of whether the number of visits come down once the payments are made, the reply is that the mandatory visits do take place even after payment. The only hassle they face is that some of the inspectors may delay the process of giving a final decision after the visits if the bribes are not paid on time. In fact, one small entrepreneur said that she makes it a point to visit the officials on the occasion of festivals and give them bouquets, sweet

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<sup>13</sup> We have considered the industrial categories having shares of five percent and above.

boxes or even greeting cards to keep them in good humour.

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

### *5.1 SBR and Infrastructure*

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

Physical and social infrastructures are important for economic growth and higher human development. Economic infrastructure like transport, communication and power facilitates accelerates the growth of economic activities and contributes to the national or State GDP (Dev and Ravi, 2009). In AP, the contribution of the transport and communication sector to total GSDP at current prices was 6.31 percent in 1960-61 and it increased to 7.94 percent in 2004-05<sup>14</sup>.

The total road length in AP in 1956-57 was 17086 kms; on average, this was 6.21 kms per 100 sq. kms and 0.55 kms per 1000 population (Dev and Ravi, 2009). The total road length increased to about 71.32 per 100 sq.kms of geographical area as on 31<sup>st</sup> March, 2003 (Appendix 13). This is again due to the policy initiatives adopted in the State Industrial Policy 2000-05<sup>15</sup>.

With regard to post offices and telephone connections, in AP, there were around 21 post offices and 4121 telephone connections per lakh population as on March 2005. Despite improvement in infrastructure in the State, the infrastructure index presented in the report of the Tenth and Eleventh Finance Commission for major

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<sup>14</sup> Directorate of Economics and Statistics, Government of AP, 2005

<sup>15</sup> Infrastructure facilities such as roads, electricity, water, drainage etc., to be provided at the door step of the proposed industry in the areas identified by the State Government as industrial areas. Government also facilitates creation of allied infrastructure such as telecommunication facilities including internet connectivity and information kiosks, transportation links from industrial areas to towns (bus service), Housing complexes nearer to industries, container depots and exhibition halls by promoting private participation.

Indian States shows that the index value for AP for 1995 was almost close to all India (i.e.100) and it was ranked 10 among the fifteen major States. In 2000, the index value and rank of the State had improved marginally to 103 and 9 respectively (Dev and Ravi, 2009)

### *5.2 Industrial Unrest*

Yet another important measure of the existence of good SBRs is the absence of industrial unrest. Appendix 14 and 15 show that there is no industrial unrest in the State of AP. This is further complemented by the primary survey analysis.

#### *SBRs and Industrial Relations in AP*

In the State of AP, all the firms said that cordial relations exist between the management and the workers. Trade unions do exist, employees are members of the trade unions, but, whatever problem arises, they are sorted at the firm level itself. No firm has cited a major problem associated with labour. This is in tune with our secondary data analysis on industrial unrest. However, our interaction with the Centre of Indian Trade Union (CITU) President reveals that there is a decline in the role of the trade union due to contractualisation of labour and suppression of trade union rights. The President<sup>16</sup> strongly feels that the government is playing the role of pro management rather than pro worker. To cite an example, the contract labour act has been amended to recruit contract labour even in core sector. Further, the minimum wages which used to be revised once in two years has been amended and made once in five years. Earlier, seven members were required to form a registered TU, but, now, 100 or 10 percent of the total work force is required to register as a TU. As a consequence, the TUs are not strong enough to fight with the management for their rights.

## 6 CONCLUSIONS AND POLICY IMPLICATIONS

In AP, SBRs have evolved gradually under different political regimes – from 'indifferent' SBRs during initial decades (Sanjeeva Reddy period), passing through

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<sup>16</sup> Interview with Sri Veeraiah,, CITU, August, 2009

critical junctures (during K. Brahmananda Reddy and Vengal Rao tenures) in the form of 'active' and 'pro-active' phases and finally SBRs reaching a high point during Chandrababu Naidu's tenure and there after continuing in the Congress regime. The shift in the political regimes' approach to the SBRs is positively correlated to the political economy of change in the post-green revolution period. Two critical factors in this process are the emergence of a market savvy agrarian class and the emergence of a modern middle class as a result of the expansion of the modern education; the proclivity on their part to look for alternative avenues of investment played a key role. The government's initiatives, both institutional and financial, seen since the 1960s corresponded to this scenario.

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

Our primary survey analysis shows that out of the various services provided by the business association, providing information on government regulations is the most useful for the firm. Incidentally, we find that joining a business association is particularly useful for the large and medium scale firms. The survey clearly brings out the fact that the apex business organisation, FAPCCI, does not do much with

regard to lobbying the government. However, the efforts of ALEAP in this direction are laudable. But, owing to its limited women membership, it is not able to cater to the needs of large section of the manufacturers. In this context, it becomes highly essential, on the part of FAPCCI to lobby with the government apart from dissemination of information to its members hence becomes cheaper on the part of the firms. With respect to the firm's perceptions about the various facilities, such as roadways, power, water and telecommunications provided by the government, majority of the firms are satisfied with the facilities provided by the government. Both the secondary and primary data reiterate that there exist cordial relation between the management and the labour leading to the conclusion that there is no industrial unrest in the State. However, our interactions with the trade union leaders indicate that the rigid laws associated with the formation of trade unions and the contractualisation of labour may be the reason behind the absence of industrial unrest in the State.

Overall, our findings support the view that an organised private sector and effective state business relations are helpful for firm performance, and state business relations have improved over time in AP. The political environment of the State provides a market friendly atmosphere and signals the pro-business attitude. The SBRs in the State will become more meaningful if the small firms are also promoted on par with the large and medium scale firms and if the following policy implications are made.

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

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## APPENDICES

### **Appendix 1:** Data and Methodology for Secondary and Primary Data

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

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

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

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

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

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

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

		Total Factor Productivity	
		Higher than the State Average (H)	Lower than the State Average (L)
Labour/ Capital ratio	Higher Than the	Machine tools Percentage share in the NVA:	Food products Percentage share in the NVA:

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

**Appendix 2: Industrial Licenses issued to different states in India 1965-76**

Year→ State↓	196 5	196 6	196 7	196 8	196 9	197 0	197 1	197 2	197 3	197 4	197 5	197 6
AP	24	19	11	4	6	13	37	30	29	61	61	51
Gujarat	39	33	29	23	16	39	66	57	78	89	97	83
Tamil Nadu	59	29	18	7	12	36	51	36	64	99	141	61
Maharash tra	134	109	100	66	80	112	162	131	183	265	255	143
Punjab	24	31	16	14	7	39	45	52	44	107	109	52
West Bengal	64	42	48	34	62	46	81	54	47	107	74	56
Bihar	61	53	23	12	7	22	24	18	9	24	15	17
Orissa	5	8	2	2	3	4	7	4	0	12	10	7

Source: Reproduced from Raychaudari, 2007

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

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

Source: Naidu, 1965

**Appendix 4:** Letters of Intent and Industrial Licenses (IL) issued to different states in India, 1983-1991

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

Source: Indiastat.com

**Appendix 5: Gross Fixed Capital Formation by Type of Institutions**

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

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

**Appendix 6: Real Fixed Assets Per worker by States (Rs)**

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

Source: ASI and NSS 5

**Appendix 7: Some Selected State wise Granted Industrial Licenses and Investment, Employment Proposals in India during August 1991-February 2008**

State	No.s Granted	Proposed Investment (Rs. In crores)	Proposed Employment (Numbers)
AP	511 (11.74)	14976 (11.56)	89395 (9.63)
Orissa	37 (0.85)	5444 (4.2)	11882 (1.28)
WB	101 (2.32)	4155 (3.21)	20706 (2.23)
Maharashtra	586 (13.47)	18748 (14.48)	132898 (14.31)
Gujarat	465 (10.69)	23385 (18.06)	75630 (8.14)
Tamil Nadu	850 (19.54)	13723 (10.6)	149108 (16.06)
Karnataka	270 (6.21)	10502 (8.11)	75861 (8.17)

Source: Indiastat.com

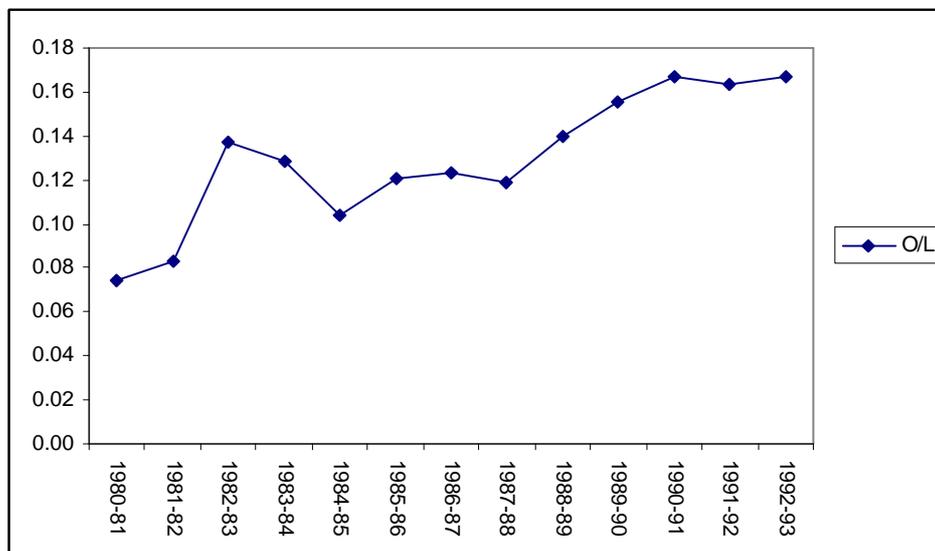
Note 1: figures refer to the Letter of Intents and Direct Industrial Licenses  
2. Percentages are given in the parenthesis

**Appendix 8:** Total Employment in 1981, 2001

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

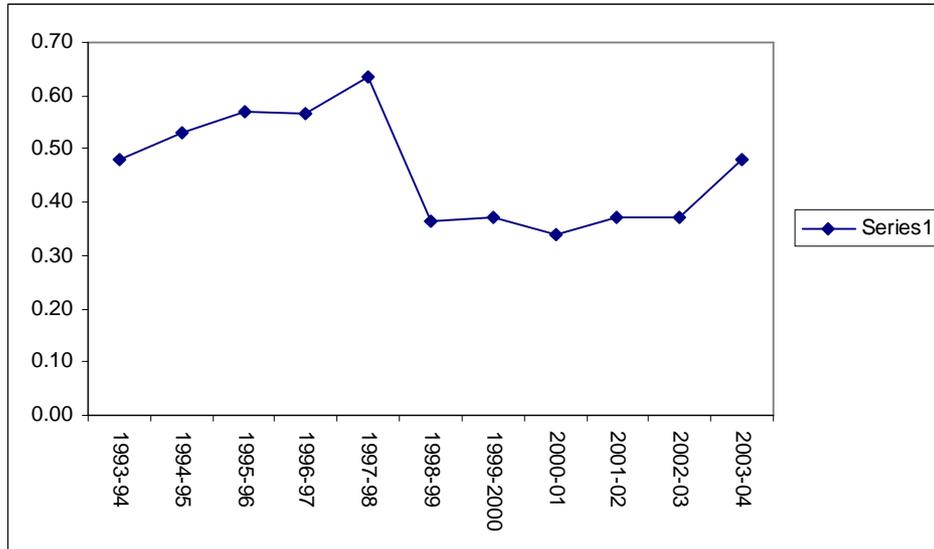
Source: Census of AP, 1981, 2001

**Appendix 9:** Labour Productivity in AP during 1980-81 to 1992-93 in Registered Manufacturing



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

**Appendix 10:** Labour Productivity in AP (1993-94 – 2003-04) in Registered Manufacturing



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

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

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

**Appendix 12:** Relative Share of Number of Factories, NVA, Fixed Capital and Number of Employees of Select Factory Sector (2-Digit Classification) 2003-04 (Percent)

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

*Source: ASI, Government of AP, 2003-04*

**Appendix 13:** Road Length per 100 sq. km of area for select states of India

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

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

**Appendix 14:** Number of Strikes normalised by the number of factories for some selected states in India

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

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

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

**Appendix 15:** Number of Lock Outs normalised by the number of factories for some selected states in India

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

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

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