

India's Industrialisation: Reaching Saturation?

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August, 2011

Thought Paper 2011/002

India's dreams of becoming a global manufacturing giant seem to have met with massive and rather unforeseen challenges. Local and foreign investment proposals came in droves in strong appreciation of the opportunities in the country. But, today, a closer look at the investment projects, in implementation or on the drawing board, there is huge disappointment with near total uncertainty about the conditions surrounding them. The situation is not so bad for small or even medium sized manufacturing units. It was not so good about them in the past too. But, they are still on course helped and driven by the expanding market. But, the large projects, most of them, whether related to manufacturing, infrastructure or real estate are passing through a very difficult period. Tatas or Adanis or Reliance have not been able to set up their Ultra Mega Power Projects, the massive steel projects of POSCO, Arcelor Mittal Steel, Tata Steel, JSW Steel, etc.. have either been given up or held on with the investors hoping against hope for some miracle to happen and change the day for them some time.

Most of these projects face similar issues. They have been unable to acquire land or the state governments have failed to hand that over them to them. If betel leaves growers have come against POSCO, villagers in Kalinga Nagar stood against Tata Steel and refused to sell their land for the steel project. The same problem forced almost all others either to abandon their projects or go slow on them. Freehold government land in the right place is not available easily in the size it is required. Therefore, the same has to be acquired to the extent necessary from the private land owners or settlers, which involves displacement.

The other related issue is lack of environmental and forest clearance and the support of the local population to these projects. In some cases, the investors wanted to rush through without doing a proper due diligence on these matters assuming a business as usual scenario at the state of conceptualisation of the project. In certain other, the investors are

finding new and tougher conditions, rules etc.. not witnessed earlier and are now finding it difficult to negotiate the higher degree of compliance requirement or altogether new sets of rules coming in at the advanced stages of implementation or planning . Impact assessment studies, in many cases, were taken lightly. Small organisations carried them out supporting the projects, with analysis that lacked content and analytical depth. It has been reported that many such studies for different projects were almost ‘photocopies” ! In many other cases, it is the people’s groups, call them NGOs or others, have mobilised the local population to resist industrial development and not letting the projects to come up. Lengthy negotiations and heated arguments leading to in many cases police actions (further complicating the problems) have failed to yield any constructive solution. There could be many reasons for that - from genuine concerns to extortion.

It is also evident and quite clearly be accepted that procedural delays – including cases of government files getting locked up in the cupboards of the concerned government departments or the regulatory bodies-have made things difficult for the prospective investors. It may not require much reasoning to argue that in many cases, basic corruption may be the reason why the process moved so slow.

But, there are many other reasons too. The centre - state dichotomy. The central government formulates policy and when it comes to implementation of an industrial project, it is the state government that rules. The central government today has very little or in certain cases no role to play at all except for environment and forest clearance or providing raw materials linkages , say in the case of a steel project. In the case of others, such as power, the government role still does exist, but, has been diluted over the years. Therefore, even when an investor has been able to conceive a good project and has got all the support of a well reformed central government, that cannot cross the barriers put by the state governments so easily.

One of the most important factors for delay, very often cited by the industry, is lack of capacity to understand the complexities of the laws related to environment and forest or land at lower echelons of the state bureaucracy. The files sit there for a long time and wrong positions are taken even if they move slowly requiring a movement back and forth many times, the fear of strong local resistance to any clearance they accord make them more nervous. The local population and the NGOs are today active pressure groups. Conflicts within local politics cannot also be ignored. In fact, diverse pressure groups and interests make the job more difficult for any bureaucrat.

Why are the people in backward and local areas reacting so sharply against the industrial projects? Let me take in the first place the case of land acquisition.

In the early days of industrialisation land used to be acquired by the state and provided to the investors. What the landowners got was literally a pittance. The government was not active enough to continuously monitor escalations in land asset value and bring in necessary legislation or administrative actions to revise the compensation levels on a continuous and transparent basis. Today, compensations talked about are not anymore the pittances of the past. In most cases, they are many times the current valuation of the land with additional support such as providing jobs to those losing employment or parting with their agricultural land. The situation does not seem to be improving even with these “farer than the market” packages. Why?

Among all the asset classes in India, land has exhibited highest levels of appreciation so far in the past so many decades. In many cases, they have appreciated 100 percent in a year. Now, let me assume that a plot of land has a valuation of Rs.100,000 at a given point in time and the owner is paid Rs. 300,000 for the same. In three years, the nominal value of the money (not adjusted for inflation) he receives grows to Rs. 388500 approximately. If the

land value appreciates to a level of say Rs.400,000 at the end of the third year, the landowner would realise the sense of capital loss at that time. As years pass by, the land seller will feel more and more disheartened to see land prices moving continuously faster making him feel losing everything from the transaction. This is the best case scenario considering a very high rate of interest and assuming a prudent and intelligent investor who puts his money safely in a bank.

The other worry is, in most cases, imprudent villagers spend away the money they receive in buying appliances, living luxuriously and even turning alcoholic. When the money is spent away in a few years time, the land seller resorts to other means such as collective violence and coercion.

Let me assume now that the transaction has also involved a perpetual income loss which will be definitely a case if the land was productive. Here is the relevance of providing alternative employment. The problem in this case is that while the income loss is immediate, potential earnings from a promised job are a matter of the future and remains uncertain as there is always a possibility of a breakdown of contract. Even if this is unlikely to happen in reality, mistrust gets built up. The land owner is also not very confident of any fruitful employment due to real or perceived lack of skill. Further, with today's level of automation and management practices, the industrial units are far less labour intensive and create much fewer jobs per unit of capital invested than in the past. Therefore, the number of jobs that can actually come about from direct employment will be much smaller. The extent of employment and business opportunities which emerge as a consequent of an industry, regionally or locally, can be very large and that can be the core of any development drive. But, this space is undefined and is subject to intense competition. It is perfectly possible that the opportunities in trade or other service areas will actually be grabbed very quickly by outsiders who already have a fair degree of experience and knowledge.

Therefore, alternative employment offer schemes also do not work. And, if one has to pay for that upfront, on the valuation of the future stream of incomes to the land sellers, the price could be going up beyond the means of the investors. Since the land owners have no way to evaluate this risk, they will be expected to resort to hard bargains, to the point the investors find their project prospects going into the oblivion.

The investors are also wary of promising engagement of the militant locals. Irrespective of what they are asked to do, these locals come from a position of strength, having tasted victory at the time the project came into being. This can lead to deadly trade union problem and local law and order disturbance. Recent years of history has pointed to a sharp rise in militant and violent trade unionism. In many cases, the leaders have been ruthless and resorted to ghastly acts of violence.

Therefore, in the backward areas, especially adjacent to a forest or in the middle of it, setting up industrial projects will be a matter of tough order. Then what is the alternative?

The second best options are to come to developed areas. Let me assume at this moment that there is no apparent geographical disadvantage in setting up a project in that area. With this, we are excluding categories such as the case of a steel plant in Punjab or Haryana where there is no raw materials such as iron ore or coal.

The areas which have industrially prospered have other kinds of problems. There is no land even to talk about and whatever is available that can accommodate only industrial units of small and medium size. The land availability is going down drastically and such areas cannot even partially meet the demand from the investors today, let alone those who will be joining the queue in the days to come. Some of the major industrial states where land acquisition has not been a major issue, such as Tamil Nadu, Karnataka, Maharashtra, Gujarat, etc.. will

find themselves soon saturated, burdened with additional problems such as water shortages etc..

If land is not available in non-forest areas and there is strong concern, and rightly so, for protection of the environment and the forest, it will be nearly impossible to have industries set up in such areas. Also, the vast stretch of the forest and semi-forest areas where industries could come up and land is available are controlled by extremist violent forces, call them Naxals, Maoists or whatever. The growing number of incidents of security personnel being ambushed and killed presents a grim scenario and literally wipes out any possible industrialisation in several states of the country which would have been fairly well placed for industrial development.

Industrial development is closely linked with the access to natural resources. For all the reasons discussed above, mining will become absolutely challenging. Further, the massive scope of corruption in allocation of mining leases, much of which has been unearthed recently, raise a very big question. How will the mess be cleared and whether anyone today can plan investments based on these mining industries' output. If iron ore mining is to be suspended, for whatever reasons, the question will come what will happen to the steel industries already set up based on the expectation of a seamless supply of this critical item? If anyone looks at whatever is happening in Karnataka, the economics and the politics of it, will turn the pages backward to take a harder look at their own investment intents.

In the more recent context of a mass movement to fight corruption, whereas allocation of natural resources including land for industrialisation has drawn strong attention, in a stronger policy regime in the presence say of a Lok Pal in whatever form it is will literally close the process, as it will not only be hard to take a decision with inherent risk in it of going wrong

somewhere, but more importantly there will be fewer to do so. The honest especially will stay miles away.

If industrial capacity does not grow adequately, its impact will be seen in the form of sustained high inflation, due to industrial capacity constraints, infrastructure bottlenecks and high input costs. Slowly, this will lead to erosion of household savings, which has already been seen now. This will consequently pull down demand for industrial goods to ultimately bring the industrial or more generally the economic growth to a halt. The implications of these conditions are well known to any graduate in economics and need not be gone into details.

Many disturbing things are happening together cause a chain of clearly synchronised negatives. The global economic slowdown and financial turmoil in the western developed nations, inflation in the country, political and social movements and high costs of capital have already blown the wind out of many projects conceived in the recent few years. Many of them were at advanced stages and a lot of money has already been sunk in them. The fight over compensations to farmers and the position taken by various bodies in providing justice to those who lost land cheaply, however justified these cases are, are caught in a bind. The builders have a contract with the buyers which will not allow them to renegotiate. At the same time, the never ending demands of the farmers do not provide sufficient hope for early settlement of the cases. They have to wait, having blocked their capital in the first place on whatever they have spent and also at the same time face the most unexpected condition of a high interest regime making all their projects almost completely unviable.

The worry is not that there was a dispute. The problem is where is the benchmark for such a contract and how much one is assured that his investment will be safeguarded by the legal system. At this moment, the picture is worrisome to say the least. Most of us who have been

closely associated with promotion of the country's image in international investment forums talking about our strong legal system and the culture of adherence to contracts, are cutting sorry figures as uncomfortable questions are being thrown back at us mercilessly.

There are many more issues which need strong attention and all of them cannot be discussed in this short thought paper.

The question that is before us today, do we hope to see the end of the tunnel in the normal course groping around for a while or that we need to do something else so that the industrial potential of the country is realised to the maximum possible.

Let me look at a few feasible options and ways to get out of the mess.

There are two ways land can be made available very quickly. One, most of the old business units, especially and more prominently the public sector undertakings (PSUs) have huge plots of land available with them. In most cases, these are far beyond their current and even future requirement. For example, Bokaro Steel Plant of Steel Authority of India Ltd. Has tens of thousands of acres of land lying unused. A conservative estimate will show that in the land they have in their operation area, they can accommodate a 100 million tonnes steel plant. What they have today is only a 4 million tonnes plant and the entire country's steel production resting at about 70 million tonnes! The township area is excluded. The government may ask these units to go for a rationalisation of land provided to such units and the state government may be asked to take over the surplus land and allocate the same to new units.

A large portion of the expenditure under rural development can be relocated to the technical education system. There is a massive shortage of skilled technical manpower. While the private sector has taken some strong initiatives in the recent period, the fact remains that

these institutes cannot be run like MBA money making machines. The government is not doing enough mainly due to lethargy in the system, inadequate funds and importantly lack of adequate teaching faculty. While funds can be skimmed off from the MGNREGA allocations, teachers can be found by simply reengaging retired ones on fresh contracts. Teaching capacity building can also be enhanced by adequate training.

The government should have an institutional mechanism to monitor land values and continuously develop innovative and more specific compensation packages for land acquisition. The one size fits all kind of blanket rehabilitation and resettlement policies will not solve the problems efficiently. A package for Jharkhand mining area may be different from one in Assam or Maharashtra. But, the policy should remain strong and sensitive to changes in ground reality but firm in its approach. The government cannot bring the concerned parties back again and again on the negotiating table once the contracts are signed with mutual agreement.

The problem about land has so far been seen only in the framework of shortage. It is not untrue. But, it is not pure shortages which one is worried about. It is the ensuing and increasing conflicts in the absence of any socially acceptable developmental model or policy framework. Industrialisation cannot be seen merely as pure profiteering with savings generated by millions of households and taking control over natural resources. This typical social activist understanding of exploitation is correct to a limited extent. But, this is not the full content of the story. It is only one of many negatives. A functional and efficient market has the ability to correct the same. But, for all these dark sides, industrialisation cannot be shelved.
