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A Thousand Industries In A Thousand Days? State Business Relations and The Puzzle of Orissa's Industrial Performance

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Abstract

In this paper, we document the phenomenon of 'two types of industrialisation' in Orissa where a fast growing resource based manufacturing sector has co-existed with a stagnant non-resource based manufacturing sector. We attempt to understand this puzzle - when an abundance of policy initiatives by successive state governments have not led to a corresponding increase in non-metal based industrial performance. We argue that the explanation of this puzzle cannot be found in conventional economic determinants such as poor industrial relations, weak infrastructural development and the perverse effects of the resource boom or in the lack of government policies towards the industrial sector. Instead, it lies in the nature of state-business relations in Orissa, which have been characterised by a dependency of the private sector on the state for survival, and lack of real political commitment and poor support of the government officials for the growth of a vibrant and independent private sector, in spite of apparent signals through successive industrial policies that they are interested in the private sector's growth. We highlight the importance of commitment on the part of the government in fostering the growth of a vibrant private sector, which is independent of the state's patronage. We also argue that there is no viable alternative strategy to reduce the high incidence of poverty in Orissa, including the return to agriculture as the engine of pro-poor growth.

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1. INTRODUCTION

Economic growth in India has accelerated since the 1980s. However, not all states have shown higher rates of economic growth during this period, with Orissa being one of the few states that lagged behind in economic growth. In 1985, Orissa's per capita income was 91 percent of the national average, while in 2006; it came down to 61 percent. Thus, Orissa's level of per capita income is lower not only than the national average, but the state's living standards have been declining relatively over time. This is also reflected in head count poverty ratios - Orissa's head count poverty ratio of 46.6 (in 2004-2005) was the highest in the country (Panda 2008). The lack of economic development in Orissa is surprising, given its rich mineral and abundant water resources. Much of the debate on how Orissa can break out of its economic stagnation has concentrated on the possible role that agriculture and mining can play in Orissa's future economic development (Mishra 2010, Pattnaik and Shah 2010). In this paper, we look at a neglected sector in this debate: manufacturing, and particularly, non-resource intensive manufacturing. This sector has not been neglected by Orissa's policy makers – the number of industrial policies enacted by successive state governments in Orissa far exceeds the national average. Yet, in spite of the apparent activism of the state in industrialisation, there has been no resultant positive outcome in terms of widespread and employment intensive manufacturing growth based on high rates of productivity growth. We ask: why has this been the case in Orissa?

We first document in the next section stylised facts about Orissa's industrialisation, and argue that there has been two types of industrialisation: one, resource based, mostly reliant on metal based industries, where performance has been on par with the national average, and with comparable Indian states, and the other, non-resource based, where performance in terms of output, employment and productivity growth has been below par. In Section III, we examine possible economic explanations for the weak industrial performance, and find that none of them is convincing in explaining Orissa's weak performance. In Section IV, we turn to a political explanation of Orissa's lagging industrial performance, one that highlights ineffective state-business relations and lack of political commitment along with a weakly organised private sector as the causal factors. We provide conclusions and policy implications in Section V.

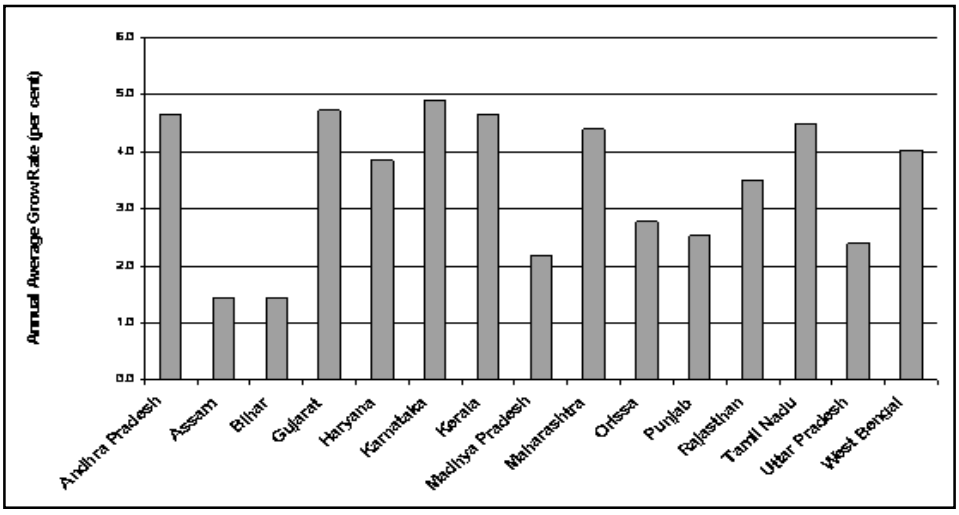
The arguments of the paper are based on extensive key informant interviews we held with leading business representatives and retired and current state government officials

who were involved with the key policies currently and in the past. We also undertook several firm level interviews with firms in key sectors in Orissa (the Appendix provides a summary of the sampling strategy and how the firms were chosen). Finally, we analysed secondary data relating to Orissa and the rest of India on state GDP, and industrial sector indicators.

II. STYLISED FACTS ABOUT ORISSA'S INDUSTRIAL PERFORMANCE

We begin this section by looking at Orissa's economic growth relative to other states in India. As is clear from Figure 1, Orissa's rate of economic growth at an average of 2.8 per cent per annum for 1985-2006 is higher than that of Assam or Bihar, but lower than most other Indian states. More strikingly, Orissa is one of the Indian states which are caught in a low growth trap – as is evident from Figure 2. In contradiction to the prediction of the neoclassical growth theory that poorer regions (in our case, Indian states) grow faster than richer ones is not found valid in India. Why Orissa is caught in a low growth trap is something we explore in the next two sections, but for the rest of this section, we look at Orissa's manufacturing performance in some detail.

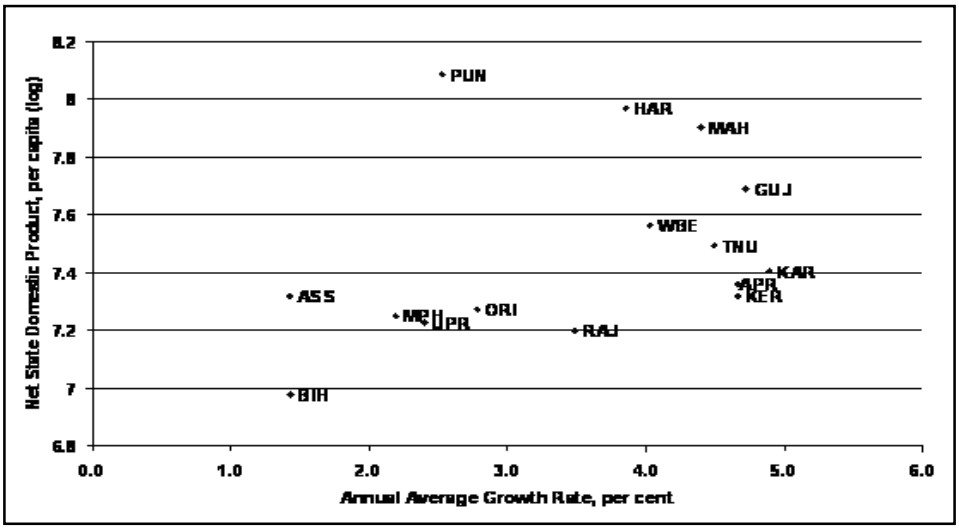
Figure 1: Growth Rates of Indian States, 1985-2006



Source: Central Statistical Organisation (CSO), National Accounts Statistics (NAS)

Turning to the contribution of the registered and unregistered sector to manufacturing in Orissa, we find that Orissa's percentage shares of manufacturing SDP (total, registered and unregistered) in India is the lowest when compared with other states (Table1). As the size of the states mentioned differs from each other, we need to look at the share of each state's population in total population. From table 1, it is clear that the state's share

Figure 2: The Lack of Convergence in Indian States



Note: Net State Domestic Product per capita, as in 1985, is on the vertical axis.

Source: Central Statistical Organisation (CSO), NAS.

in total population is low when compared to the other states. Can we still argue that Orissa's share of manufacturing SDP in India is the lowest? In that case, we need to look at the other factors which contribute to the poor performance of the manufacturing sector in the state of Orissa. The subsequent discussions focus on this aspect.

Table 1: Percentage share of manufacturing SDP (registered and unregistered) in major states of India during 2004-05

States	Manufacturing	Registered Manufacturing	Unregistered Manufacturing	Share of state's population in total population
Orissa	2.05	2.48 (82.21)	1.14 (17.79)	3.57
Andhra Pradesh	5.91	6.12 (70.29)	5.48 (29.71)	7.37
Gujarat	12.40	13.65 (74.75)	9.77 (25.25)	4.93
Karnataka	5.61	5.89 (71.40)	5.00 (28.60)	5.13
Kerala	2.09	1.59 (51.69)	3.15 (48.31)	3.10
Maharashtra	16.61	18.05 (73.80)	13.58 (26.20)	9.42
Tamil Nadu	8.95	8.55 (64.90)	9.80 (35.10)	6.05

Note: Figures in the parenthesis refer to the percentage share of registered and unregistered manufacturing in total manufacturing by state

Source: NAS 2004-05

From Figure 3, it is obvious that in Orissa, while the unregistered sector dominated in the early eighties, it was the registered sector which took the precedence in the subsequent period. Given the fact that the share of the basic metal sector (iron and steel, ferro alloys) in total Net Value Added (NVA) of the factory sector component of the manufacturing is the highest in Orissa, the sharp increase in the share of registered manufacturing output in total manufacturing output can be explained by the increasing importance of the metal sector (Table 2).

Figure 3: Percentage Share of SDP by Registered and Unregistered Sectors in Orissa, 1980-81 to 2004-05

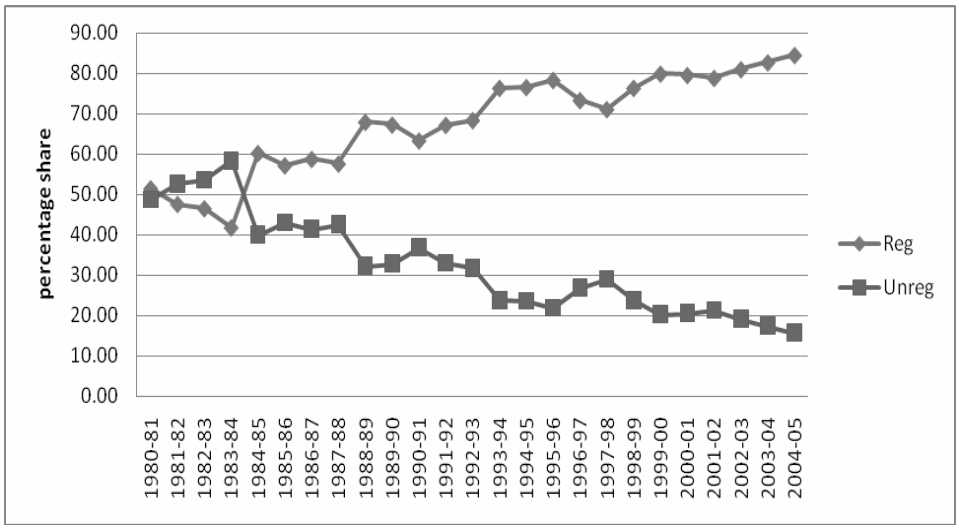


Table 2: Percentage shares of metal based industries in total NVA in Orissa, Gujarat, Andhra Pradesh, and Bihar, for the years 1980-81, 1985-86, 1990-91, 1995-96, 2000-01, and 2002-03

Year	Orissa	Gujarat	Andhra Pradesh	Bihar	All India
1980-81	54.3	4.7	6.3	44.9	14.7
1985-86	39.3	4.4	6.8	54.3	12.4
1990-91	70.1	3.3	11.1	56.7	12.4
1995-96	59.4	3.2	11.8	59.1	12.0
2000-01	71.0	6.5	7.9	2.3	10.2
2002-03	63.9	4.3	14.9	2.9	12.6

Source: ASI – Orissa, Gujarat, Andhra Pradesh, Madhya Pradesh, (EPW CD, Vol.II)

From table 2, it is clear that the share of metal based industries is not only high at 63.9 percent, it has been increasing over time. However, this is not the case in other states. Though AP os showing increase in share, the share is negligible at 15 percent (2002-03) as against 64 percent in Orissa. Share of basic metals in NVA at the all India level is around 12 percent on an average.

What story do the growth rates of NVA tell us? The metal based industries in the state of Orissa contribute the highest to the total manufacturing growth of NVA when compared to the non-resource based industries (Table 3). During the first period (1980-81 to 1989-90), the growth rate of NVA of metal based industries is higher in Orissa compared to the all India growth rate of NVA for the same. However, this high growth

Table 3: Compound annual growth rate of NVA for total, metal based and non-resource based industries in Orissa, per cent, Gujarat, Andhra Pradesh, Bihar, All India, for the period 1980-81 through 2002-03

States	1980-81 to 1989-90	1990-91 to 2002-03	1980-81 to 2002-03
Orissa			
Total	9.5	2.2	5.1
Metal based	12.2	2.1	6.5
Non-resource based	5.4	2.7	2.4
Gujarat			
Total	5.8	7.8	7.0
Metal based	-0.5	9.9	6.5
Non-resource based	6.0	7.7	7.0
Andhra Pradesh			
Total	7.5	6.6	7.5
Metal based	5.2	9.0	11.6
Non-resource based	7.7	6.2	7.1
Bihar			
Total	10.2	-14.0	-4.5
Metal based	11.6	-31.6	-15.2
Non-resource based	9.0	-8.5	-2.1
All India			
Total	6.2	4.8	5.8
Metal based	3.2	4.9	5.1
Non-resource based	6.7	4.8	5.9

Source: ASI – Orissa, Gujarat, Andhra Pradesh, Bihar, All India

rate of metal based industries could not be sustained in the state and we find that the growth rate of total, metal based and non-resource based NVA declined in the second period (1990-91 to 2002-03) over the first period. However, this is not the case in Gujarat and Andhra Pradesh - in both these states, the growth rate of NVA for the metal based and the non-resource based industries registered an increase in the second period over the first period. On the other hand, Bihar registered a negative growth rate of NVA for all the three sectors in the second period over the first period. Thus, Orissa showed high deceleration in the growth of metal industries during the nineties. This is not the case either at the national level or in the two states of AP and Gujarat.

Table 4: Percentage shares of basic metal based industries in total employment in Orissa, Gujarat, Andhra Pradesh, Bihar, for the years 1980-81, 1985-86, 1990-91, 1995-96, 2000-01, and 2002-03

Year	Orissa	Gujarat	Andhra Pradesh	Bihar
1980-81	25.2	3.7	3.7	24.8
1985-86	24.7	5.3	3.2	27.7
1990-91	23.4	4.1	5.8	28.7
1995-96	32.9	4.6	5.4	38.0
2000-01	39.4	4.4	3.4	3.7
2002-03	36.4	4.3	2.9	3.6

Note: BM: Basic Metal; NRB: Non Resource Based
Source: ASI – Orissa, Gujarat, Andhra Pradesh, Madhya Pradesh, (EPW CD, Vol.II)

In Orissa, growth rate of employment in registered sector showed a negative trend both for the total and non-resource based industries in the combined period. However, when we look at the growth rate of employment in the metal based industries, we find that despite the growth rate being positive has declined from 1.5 percent in the first period to one percent in the second period (table 5).

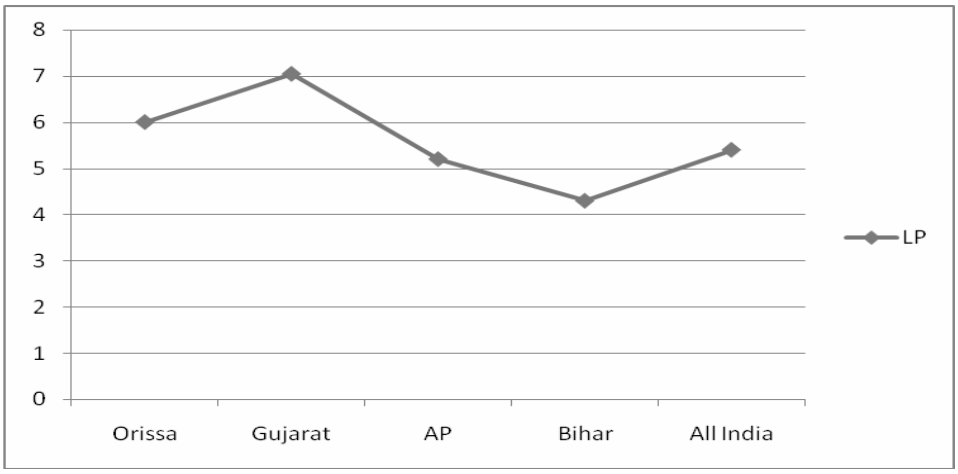
Table 5: Compound annual growth rate of total, metal based and non-resource based employment in Orissa, per cent, Gujarat, Andhra Pradesh, Bihar, All India, per cent, 1980-81 through to 2002-03

States	1980-81 to 1989-90	1990-91 to 2002-03	1980-81 to 2002-03
Orissa			
Total	1.6	-2.4	-0.9
Metal based	1.5	1.0	0.7
Non-resource based	1.6	-3.8	-1.6
Gujarat			
Total	-0.2	0.5	-0.04
Metal based	1.5	1.0	0.6
Non-resource based	-0.3	0.4	-0.1
Andhra Pradesh			
Total	2.5	2.0	2.3
Metal based	0.3	-3.3	1.2
Non-resource based	2.6	2.3	2.3
Bihar			
Total	0.1	-15.3	-8.8
Metal based	1.6	-27.8	-16.1
Non-resource based	-0.5	-13.3	-7.8
All India			
Total	0.3	0.5	0.4
Metal based	0.2	-1.2	-0.4
Non-resource based	0.3	0.7	0.5

Source: ASI – Orissa, Gujarat, Andhra Pradesh, Bihar, All India (EPW CD, Vol.II)

While growth and employment performance in Orissa's non-resource based manufacturing may have been disappointing, it is possible that labour productivity in this sector shows a different pattern. Here, labour productivity is nva growth – employment growth. During the period 1980-81 to 2002-03, labour productivity of the total registered manufacturing sector is the highest for Gujarat (Figure 3). In case of metal based industries, AP stands first in terms of labour productivity (Figure 4).

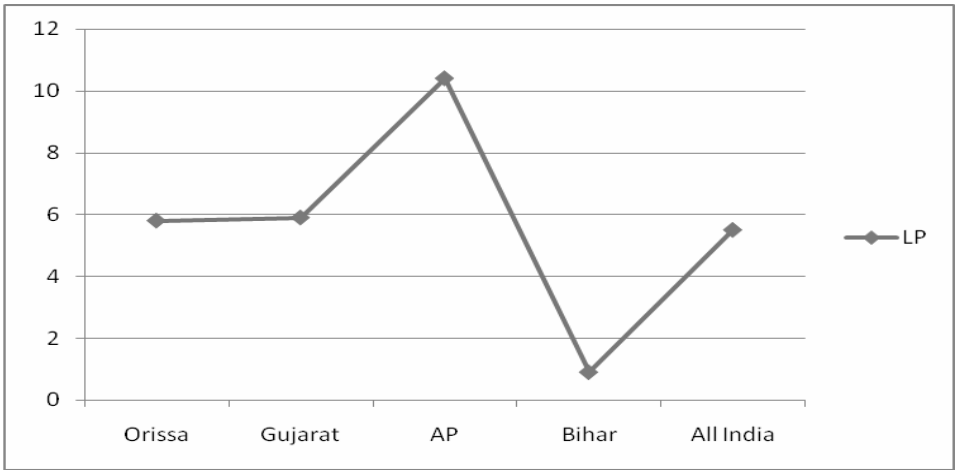
Figure 3: Labour Productivity of Total Manufacturing in Orissa, Gujarat, AP, Bihar, and All India, 1980-81 to 2002-03



Source: ASI – EPW CD

Most of the firms in this sector are producing Ferro-alloys or steel or both, and most are also exporters. Another piece of evidence that large manufacturing units in the metal based sector doing well in the state comes from comparatively higher levels of gross fixed capital formation in the formal sector of the state in question when compared to the country as a whole. It also needs to be remembered that highly capital intensive production such as steel, in which Orissa has a comparative advantage, involves a long gestation lag. Therefore, the contribution of the metal based sector to Orissa's industrial output can be expected to increase in the future.

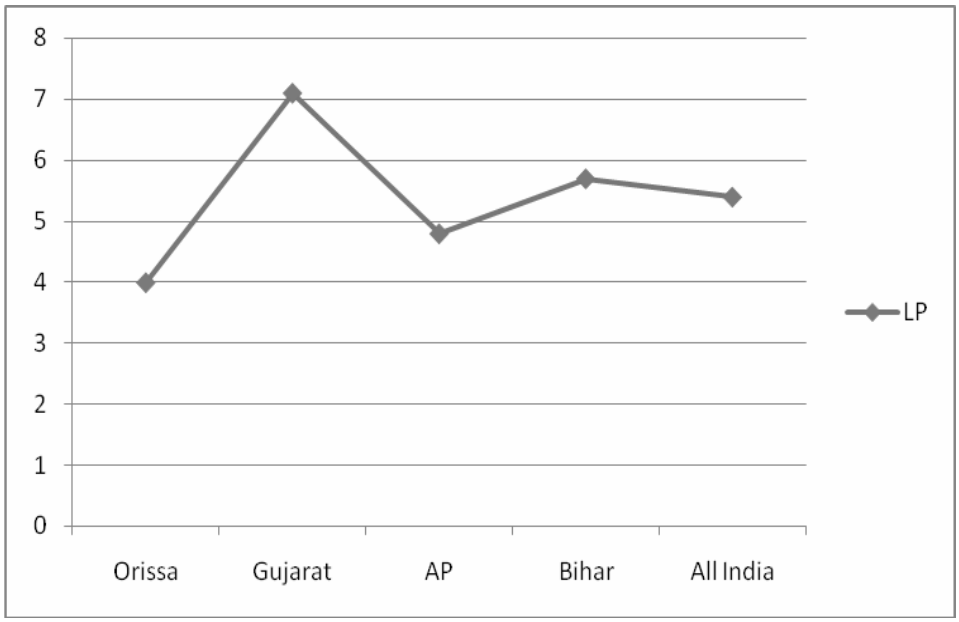
Figure 4: Labour Productivity of Metal Based Industry in Orissa, Gujarat, AP, Bihar, and All India, 1980-81 to 2002-03



Source: ASI – EPW CD

For the non-resource based industries, it is clear from Figure 5 that the labour productivity is the lowest in Orissa on an average while it is highest in the state of Gujarat.

Figure 5: Labour Productivity of non-resource based industry in Orissa, Gujarat, AP, Bihar, and All India, 1980-81 to 2002-03



Source: ASI – EPW CD

What is evident from the preceding discussion of Orissa's manufacturing performance is that there have been two types of industrialisation in Orissa. The first type of industrialisation is resourced based, comprising steel and Ferro alloys, which are highly capital intensive and dominated by large private and public sector firms. This type of industrialisation has been very successful in Orissa, with high rates of output growth, and labour productivity levels better than comparable states and the All India average. The second type of industrialisation has been non-resource based, mostly dominated by small and medium firms, where performance in output, employment and labour productivity has been disappointing and below All India averages. We need to understand why the second type of industrialisation has succeeded while it is fairly apparent why the first type of industrialisation, based as it was on the state's abundant natural resources and the early involvement of the public sector in this industrialisation, has succeeded. We explore the reasons for Orissa's weak industrial performance in the non-resourced based sectors in the next two sections.

III. POSSIBLE DETERMINANTS OF WEAK NON-RESOURCE BASED MANUFACTURING PERFORMANCE IN ORISSA

In this section, we look at factors that are standard in the literature on industrialisation both in India and elsewhere which are seen as prime culprits for weak industrial performance. These are i) poor industrial relations; ii) poor infrastructure; iii) a Dutch Disease syndrome; and (iv) lack of policies for industrialisation.

Poor Industrial Relations?

We look at conventional measures of poor industrial relations such as the number of strikes, number of lockouts, absenteeism rate, union density, contract labour usage and a measure of the bias of labour regulations towards workers across Indian states, to see how Orissa fares relative to other states. We normalise strikes and lockouts by the number of factories to make the data comparable across states – more industrialised states are expected to have more industrial disputes. The absenteeism rate is defined as the ratio of man days lost due to absence of workers from work to total man days and union density is the number of workers who belong to an union as a ratio of total permanent workers in that state (in percentage terms). Contract labour usage is the share of contract workers in total workers (including permanent workers) and is usually taken to be a measure of labour market flexibility (Ramaswamy 1999, Ahsan, A. and C. Pagés 2007).

We also measure de jure worker bargaining power or pro-worker labour institutions by the commonly used Besley-Burgess (2004) measure of labour regulation. Industrial relations in India fall under the joint jurisdiction of the central and state governments. The key piece of central legislation in industrial relations is the Industrial Disputes Act (IDA) of 1947, which sets out the conciliation, arbitration and adjudication procedures to be followed in the case of an industrial dispute. The IDA applies only to 'permanent' workers directly employed by the formal sector firms and not to the workers supplied by contractors (intermediaries) or workers employed on a 'temporary' basis. The IDA specifies a multi-tier conciliation cum adjudication system, where the tiers are created and maintained by state governments. For this purpose, each state has amended the regulation many times since 1947 (particularly the details and operational aspects of it) in response to their local conditions, and because of that there emerged a natural variation of the IDA across the states, which Besley and Burgess (2004) code each state amendment to labour laws as neutral, pro-worker or pro-employer. For neutral amendments, they assign a score of zero, for a pro-worker amendment a score of +1 and for a pro-employer amendment a score of -1. They then cumulate the scores over time for the period 1947-1997.

We present the indicators of industrial relations for Orissa and other states in Table 6. When we normalise the strikes and lockouts with the number of factories, we find that Orissa stands first in strikes, while West Bengal occupies the first position as far as the lockouts are concerned. The share of contract workers is high (third in ranking), and the absenteeism rate is low (tenth rank) in Orissa compared to the fifteen major states.

Table 6: Indicators of Industrial Relations, Orissa and other major Indian States

State Name	Strikes/ factories	Lockouts/ factories	Absentee-ism Rate	Union Density	Contract Worker Share	Besley-Burgess measure
Andhra Pradesh	1.92	3.28	6.96	1.23	0.15	-2
Assam	2.79	0.70	5.94	0.83	0.08	0
Bihar	3.91	No lockout	6.32	8.68	0.46	1
Gujarat	4.76	0.57	9.36	n/a	0.26	0
Haryana	No strikes	No lockout	11.58	0.88	0.31	-1
Karnataka	4.71	1.43	6.55	1.07	0.08	2
Kerala	2.68	2.47 1	1.46	4.64	0.04	-1
Madhya Pradesh	3.10	No lockout	12.63	1.46	0.16	2
Maharashtra	1.40	0.32	10.76	2.52	0.15	0
Orissa	12.61	3.00	8.15	2.49	0.27	1
Punjab	1.68	0.70 1	1.29	1.09	0.19	0
Rajasthan	2.74	2.15	11.23	3.22	0.21	-1
Tamil Nadu	5.29	1.94	7.66	1.06	0.09	-2
Uttar Pradesh	1.04	0.93	9.27	2.52	0.22	0
West Bengal	3.61	25.45	8.94	2.68	0.06	4

Notes: Contract worker share is for 1999; strikes/factories is strikes*1000/ factories and lockouts/ factories is lockouts*1000/ factories, and the figures are for 2000-01

Sources: The absenteeism rate and union membership data by state are obtained from the annual Labour Yearbooks published by the Ministry of Labour, Government of India (Ministry of Labour 1998-99 and 2004-05) and the Annual Survey of Industries and are for various years (due to the lack of availability of data for any given year). The contract labour share is obtained from the Annual Survey of Industries. The data on strikes and lockouts is obtained from Indiastat.com and the number of factories from ASI

Orissa's absenteeism rate at 8.15 is significantly lower than in more industrialised states such as Maharashtra (10.76) and West Bengal (8.94). Orissa's union density at 2.49 percent is lower than those of Kerala (4.64%), Maharashtra (2.52%) and West Bengal (2.68%). The share of contract workers is particularly high in Orissa at 27 percent (for

1999), indicating a fairly high degree of labour market flexibility. The Besley-Burgess measure for Orissa (at +1) suggests pro-worker labour regulations on the book, but only mildly so. Overall, Orissa's industrial relations are better than many other states in India, some of whom are more industrialised than Orissa, and cannot be seen as the main constraint for Orissa's weak industrialisation.

Our firm surveys also support the findings from the secondary data analysis. In our interviews, irrespective of their size and market orientation, all firms observed that there is hardly any problem related to labour. The entrepreneurs who have some exposure of the other states also claim that labour is quite cheaper in Orissa. In fact the stipulated minimum wage in the organized manufacturing in Orissa is much lower compared to many states in India.

Poor Infrastructure?

Table 7 provides three different measures of infrastructural constraints for the major Indian states. In terms of road length per 100 square (sq) kilometres (kms), Orissa stands third next to Kerala and Assam. Constructing high quality roads of international standard has come to reality in the soil of Orissa because of the potential will of the Government of Orissa. The State is connected to other neighboring states like West Bengal, Tamil Nadu, Andhra Pradesh, Chhatisgarh, through all weather high standard roads. Major roads of the state are covered by Pradhan Mantri Bharat Jodo Pari Yojana (PMBJP). Further, the approaching roads to the main roads have qualitatively improved (india.gov.in). The qualitative improvement in the roadways of Orissa has been acknowledged by the entrepreneurs in our firm level survey.

We also look at the cost of power supply which is a better measure of the constraint relating to electricity than the oft used per capita electricity consumption which is likely to be endogenous to industrial development. We find that cost of electricity in Orissa is the lowest in the country. But the transmission and distribution losses are the highest (around 47 percent), second in rank amongst the fifteen major states. Overall, our finding here is that poor infrastructure cannot be the main reason for Orissa's poor manufacturing performance, though it could be a contributing factor.

A Dutch Disease Problem?

Orissa has a large mining sector and it is possible that Orissa may be experiencing a variant of the Dutch Disease problem related to an economy with a booming resource sector. As W.M. Corden and J. Peter Neary (1982) argued, when a country catches Dutch disease, the tradable sector (in this case, the manufacturing sector) may get crowded out by the resource and the non-tradable sectors. There are two ways that this can happen. Firstly, if the income from the mining sector is spent on domestic nontraded

Table 7: Indicators of Infrastructural Constraints, Orissa and other major Indian States

States	Road Length per 100 square kms.	Transmission and Distribution Losses (per cent)	Cost of Power Supply
Andhra Pradesh	74.94	26.81	360.7
Assam	246.03	42.78	589.1
Bihar	78.41	51.70	377.1
Gujarat	73.29	26.87	365.4
Haryana	64.85	39.22	411.9
Karnataka	104.34	33.83	374.6
Kerala	368.67	32.21	347.3
Madhya Pradesh	53.64	44.55	324.9
Maharashtra	88.62	37.28	357.5
Orissa	137.32	47.34	184.9
Punjab	90.88	27.70	285.2
Rajasthan	42.34	43.06	368.2
Tamil Nadu	131.34	16.06	309.8
Uttar Pradesh	101.46	37.62	383.6

Notes: Cost of power supply is in Paise per Kilowatt Hours and is for 2001

Sources: Cost of power supply is from Planning Commission (2002). Transmission and distribution losses is obtained from Indiastat.com (2001-02), Road length per 100 sq.km is drawn from Indiastat.com and is for the year 2003-04

goods, the real exchange rate will appreciate, leading to a decline in manufacturing exports (Corden and Neary call this the 'spending effect'). Secondly, resources (capital and labor) would shift into the production of domestic non-traded goods to meet the increase in domestic demand and into the booming mining sector, leading to the contraction of the tradable manufacturing sector (Corden and Neary call it the 'resource movement effect')..

With regard to the first effect of a resource boom, given Orissa's relative small share in total national income, it is unlikely that the spending effects from the mining boom will be such that there will be a real appreciation of the rupee from the spending associated with Orissa's mining exports. Even if this was to occur, it would affect all manufacturing exports and not just from Orissa. With regard to the second effect of a resource boom, given the low labour intensity of the mining sector, it is unlikely that the recent expansion of the mining sector in Orissa can explain a movement of labour away from manufacturing to mining, leading to an increase in real wages in the economy and making manufacturing in Orissa uncompetitive.

Indirect evidence that the Dutch Disease cannot be considered to be a factor behind Orissa's weak industrialisation is the high poverty rates in Orissa. If the Dutch Disease was to operate in the Orissa context, real wages would be higher in this state than many other parts of the country, both from the spending effect (as the higher spending on non-tradables would lead to higher wages in the non-tradable sector, leading to higher real wages in manufacturing) and the resource movement effect (as manufacturing firms would have to bid for a reduced supply of labour available in the tradable sector). This would imply that Orissa's poverty rates will be lower than comparable states. However, this is not the case as Orissa's urban poverty rate of 48.4 per cent in 2004-2005 only lower than that of Madhya Pradesh among the 15 major Indian states and its rural poverty rate at 53.23 per cent the highest in the country in the same year (Dev and Ravi 2008). More direct evidence is provided by a comparison of Orissa's real manufacturing wages with other states. Among the fifteen major states, Orissa stands at thirteenth rank in terms of real manufacturing wages over 2000S. This clearly shows that Dutch disease is not the prime factor behind Orissa's weak industrialisation, then what could be the reason behind the poor performance of manufacturing sector in Orissa?

Table 6: Real Manufacturing Wages in Orissa and other major Indian States

State Names	Real Manufacturing Wages
Andhra Pradesh	495
Assam	55
Bihar	37
Gujarat	535
Haryana	230
Karnataka	359
Kerala	184
Madhya Pradesh	175
Maharashtra	571
Orissa	135
Punjab	244
Rajasthan	164
Tamil Nadu	676
Uttar Pradesh	374
West Bengal	573

Note: average over 2000/01 to 2002/03

Sources: Nominal wage data from ASI, CPI for industrial workers (Base: 1982=100) from Ministry of Labour, Govt. of India, Various Issues

Lack of Policies towards Industry?

Can a lack of state involvement in Orissa's industrialisation be seen as a cause of the state's weak non-resource based manufacturing performance? The role of the state in industrial policy has been seen as critical for successful industrialisation in countries such as South Korea, Japan and Taiwan for East Asia and within India, for Andhra Pradesh, Gujarat and Tamil Nadu. What has been Orissa's experience with state intervention and in industrial policy activism?

Orissa is probably the only state in India which has brought in as many as eleven industrial policies and a number of promotional agencies in an attempt to promote and facilitate industrial growth in the state. While not all of them are significant, we will discuss some of the major industrial policies categorising them under four broad periods: i) 1947-1980; ii) 1980-1989, iii) 1990-1995, and iv) 2000-2009.

1947-1980

Although the separate province of Orissa was formed in 1936 bringing together various Oriya speaking tracts from Bengal, Bihar, Madras and Central provinces, the state of Orissa in its present form came into being in August 1949 with the integration of all the 26 princely states with it. Post independence, Orissa was ruled mainly by Congress party till 1967 when for the first time there was a non-congress coalition government ruling the state. Thus, the political regime in the state of Orissa can be divided into two sub-periods, 1947 – 1967 and 1969 to 1980. During the first sub-period, stalwarts like H K Mahtab, Nabakrushna Choudhury and Biju Patnaik ruled the state till 1963. The last few years of the first sub-period and during the second period, the state had witnessed as many as 7 Chief Ministers (CM) and 8 different governments. With factional politics, group fighting, desertions and defections topping the political agenda, the leaders could hardly find any time to think about the growth and development of the state.

Though four different industrial policies were enacted during 1968-79 (February 1968, August 1971, April 1977 and July 1979) by various governments, there were hardly any policies worth the name. These policies mainly aimed at providing concessions for setting up and promoting industries of various types. The concessions and assistance were sought to be provided in the form of obtaining industrial licenses, preparation of project report and providing technical guidance, financial assistance through OSFC and IDCOL, sales tax, octroi duty, power, land, water and assistance in the marketing of products, etc. However, due to political instability on the one hand and lack of political will and bureaucratic inertia on the other, the project of industrializing Orissa remained on paper and could not take off. Moreover, the lukewarm attitude of the political class towards small-scale industries and the absence of any lobbying power

with the central government in Delhi were seen as the reasons behind the poor industrialization in the state.

During the transitional years following independence, H K Mahtab (1946-50, 1956-61), focussed mainly on social reforms and nation-building activities that earned him the title of the architect of modern Orissa for the pivotal role he played in the merger and integration of former princely states. Given his background and social roots, Nabakrushna Choudhury (1950-56) focussed on abolition of zamindari system, tenancy reforms and rural development, etc. Though not much attempt was made in the area of industrialization, the construction of the multipurpose Hirakud Dam, the Rourkela Steel Plant, Aluminium industry at Hirakud, the Ferro-manganese industry at Joda were some of the notable achievements made during the regime of H K Mahtab and Nabakrushna Choudhury. In addition to existing industries like rice mills and textiles, a number of cement, ceramic, textile, paper making and engineering units were set up during this period.

Compared to H K Mahtab and Nabakrushna Choudhury, Biju Patnaik came from a different background. Being an ace pilot and industrialist by himself, he had immense interest in science and technology and was favourably disposed towards industry. The fact that he had set up a number of private industries on his own, and had donated 1000 pound to the UNESCO for instituting a prestigious Kalinga Prize in Science given away by the UNCESCO every year speaks volumes about his interest in industry, science and technology. On coming to power as CM of Orissa in 1961, he had set up the Industrial Development Corporation of Orissa Limited (IDCOL) and the Orissa Small Scale Industries Corporation (OSSIC) to promote industrialization in the state. Though there was no industrial policies enacted by his government, in addition to setting up the Paradeep Port, Paradeep-Daitari Express Highway (140 Kms) linking the Paradeep port to the mining areas, he had also brought in a number of industrial and infrastructure projects.

Being an industrialist, Biju Patnaik tried his best to bring about an industrial revolution in the state. During his short stint as Chief Minister (1961-63), Biju Patnaik was instrumental for setting up a number of public and private sector undertakings. In addition to setting up the industrial belts in Choudwar and Barbil, the Cuttack-Jagatpur Mahanadi Highway Bridge, the Bhubaneswar Airport, Orissa Aviation Centre, the MIG Factory at Sunabeda, the Orissa Textile Mills, the Thermal Power Plant at Talcher, the Balimela Hydel Power project, the Orissa University of Agriculture and Technology, Regional Engineering College at Rourkela, he had set up a number of private undertakings such as the Kalinga Airways, the Kalinga Tubes, Kalinga Iron

Works, Kalinga Refractories Ltd. etc. As a young and dynamic congress leader, he was also associated with prestigious projects like Hirakud Dam and the Rourkela Steel Plant. He had also brought in a scheme of setting up Panchayat level industries for dispersed industrial development over all areas. These industries were set up to utilise local resources at panchayat level to meet the local demands. But due to the marketing problems, lack of infrastructure and entrepreneurship the panchayat industries could not thrive.

1980-1989

While the earlier congress governments except Biju Patnaik (1961-63) had neglected the industrialization in the state due to their own compulsions and priorities, coming to power in June 1980, the congress government under the leadership of J B Patnaik decided to bring in an industrial revolution in the state. In keeping with the central objective of removing poverty under Mrs. Gandhi's slogan of *Garibi Hatao,* an all out effort was made by the government to promote economic growth and development in the state. It was in this context that the Government came out with the **Industrial Policy Resolution** in 1980 that recognized the accelerated growth in the industrial sector as one of the prerequisites for sustaining long-term objectives of employment generation and integrated development of rural economy. The major thrust of the industrial policy was on labour-intensive village and cottage industries. Identifying the complementary relationship between large and small industries, the policy underlined the need for the growth and development of ancillary industries in the state. It also aimed at creating new awareness and enthusiasm among young and new entrepreneurs for undertaking industrial ventures.

The policy offered large number of incentives mainly in the form of subsidies for factory sheds, capital investment, power, etc. to the prospective entrepreneurs. In addition to the existing Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL), the Industrial Infrastructure Development Corporation of Orissa (IDCO) was set up in 1981 with an objective of providing industrial infrastructure like factory sheds, water, power, communication and housing facilities, etc. through creation of industrial estates in various places. Industrial Estates were created not only in Bhubaneswar, Cuttack or Rourkela but in many of the industrially backward districts with provision of all required facilities. Besides the incentives, administrative measures were also taken to expedite assistance to large and medium scale industries through IPICOL, whose role was considerably expanded during the 1980s. Similar measures were initiated for small scale industries through the District Industries Centres (DICs).

As regards industrialization in Orissa, the year 1980 must be seen as a watershed as it marked the beginning of a new era in the history of industrialization in the state. Prior

to 1980, industrially, Orissa used to be counted as one of the most backward state in the country. By 1980, Orissa had managed to set up only a few large and medium industries mostly under the public sector. As regards small scale industries, it had a very limited number of rice mills, oil mills and a few sick panchayat industries. There were some districts in Orissa called as industry-less districts. It is in this context that the industrial policy resolution of 1980 was announced with a slogan to set up "thousand industries in thousand days" investing thousand crores of rupees. This encouraged many young educated unemployed people to come forward and set up industries thus laying the foundation for industrialization in the state. Considering a revolution in the industrial sector in Orissa, many private entrepreneurs from outside the state had also come forward to set up industry in the state. Many local entrepreneurs too tried to set up small and medium industries. This heralded a new era in Orissa's industrialization and created new hopes and aspirations.

During the second term of J B Patnaik (1986-89), there was further change in the Industrial Policy of Orissa announced in April 1986. The major features of the 1986 industrial policy were (a) exemption from sales tax on certain items, and (b) classification of districts into different zones. The exemption of sales tax was applicable to raw materials of new medium and large industries, to products of all existing and new Khadi, Village and Cottage industries, new electronic units and to the products of new small units for a period of five years. This provision replaced the earlier practice of sales tax loan up to a limit of Rs. 1 lakh. With a view to giving special importance to the industrially backward and underdeveloped districts and providing incentives on a graded basis, all the 13 districts were divided into 3 different zones such as zone A, B and C. While Zone A comprised of 3 industrially backward districts such as Kalahandi, Phulbani and Bolangir, Zone B comprised of 6 industrially less backward districts such as Keonjhar, Mayurbhanj, Balasore, Dhenkanal, Koraput and Ganjam, Zone C comprised of 4 industrially least backward districts such as Cuttack, Puri, Sundergarh and Sambalpur. Under the industrial policy of 1986, maximum incentives were provided to Zone A districts and minimum incentives to Zone C. While this had a good impact on the industrialization of industrially backward districts and there was a good response from prospective entrepreneurs from these areas, the withdrawal of incentives from the relatively industrially advanced districts had a negative impact on the industries in these districts.

1990-1999

The first half of the 1990s saw the return of Biju Patnaik to power at the state government. Earlier, we discussed the efforts and initiatives made by Biju Patnaik during his short stint as Chief Minister during 1961-63. While it is quite clear that he had made

important contributions to the industrialization of the state during a short period of one and half year, in this section, an attempt is made to present the policy initiatives taken by Biju Patnaik government during his second term as Chief Minister of Orissa from 1990-95.

The 1990s were a period of economic reforms that had set in motion the process of liberalization, privatization and globalization. In keeping with the reform process, the Government of India had announced the new Industrial Policy in July 1991 with a view to bringing in deregulation, scaling down of public sector's role and encouraging foreign investment through dilution of restrictions on foreign equity participation. The Industrial Policy of Orissa 1992 was formulated in this backdrop and with the basic objectives of encouraging the flow of investment and promotion of entrepreneurship in the state. While financial assistance to the potential entrepreneurs in the form of subsidies and post-production benefits was envisaged, the main thrust of the policy was on creating an environment conducive to smooth setting up and successful functioning of industries. Beginning with the identification of suitable investment proposals, all steps were taken to provide expeditious clearance for setting up of industries through a system of single window. A separate dispensation system was envisaged for the foreign and NRI investors whose proposals received special attention and 'fast track' treatment. Export-oriented and import substitution industries, leather industries, industries producing pig iron, sponge iron, Ferro-alloys and steel, electronics (both hardware and software), agro-based, marine-based and food processing industries were the thrust areas.

The policy encompassed simplification of procedures, provision of an attractive and easily administered system of subsidies and tax incentives, marketing support for tiny and small scale industrial units and institutional safeguards to prevent industrial sickness as well as rehabilitation of sick industries. Further it encouraged equity participation in setting up industries which are of special advantage to the state. It also contained measures to breed successful entrepreneurs and improvement of infrastructure including training of appropriate categories of manpower either at state cost or in collaboration with user industries.

The entire state was classified into three different zones, i.e. A, B and C with different capital investment subsidy at the rate of 30, 20 and 10 per cent respectively of the fixed capital investment subject to a limit for new industrial units as well as for expansion, modernization and diversification. Unlike in the past, the zones were created not on the basis of districts but on the basis of subdivisions which was found to be more scientific and convenient. As regards incentives, the policy had provision for sales tax exemption and exemption from octroi, electricity duty, stamp duty and registration fees. The policy also provided for allotment of subsidised industrial sheds to SSI units.

Coming to power for the third time in 1995, the J B Patnaik government came out with an industrial policy in 1996 with a view to improving the investment climate and promoting opportunities for growth of industries and related sectors. The main objective of the industrial policy 1996 was to attract and facilitate large investment in infrastructure and industries both from inside the country and abroad, generation of employment in large scale industrial/commercial activities development of backward regions/areas through industrial/mining ventures and strengthening the rural economy through agro-based industries, small scale industries (SSIs), village and cottage industries, etc. It also aimed at stimulating/strengthening of local entrepreneurial base through skill development.

The main strategies of the 1996 industrial policy of the government of Orissa were: (a) strengthening physical and social infrastructure like power, railway and road network, ports and airports, (b) developing the telecommunication facilities, (c) facilitating large investment in resource based industries like power, steel, alumina etc. and revival of viable sick industries, (d) providing greater support to export-oriented industries, agro/food processing industries, and also providing support to industries generating large employment, and (e) improving the investment climate and simplifying the rules and procedures for growth of industries in the state.

As regards incentives, the new industrial units were allowed capital investment subsidy at the rate of 20, 15 and 10 percent of the fixed capital for Zone A, B and C respectively. The special class entrepreneurs setting up new industrial units with project cost not exceeding Rs. 1 crore were entitled to interest subsidy at the rate 2 per cent on term loans availed for setting up the units. In case of sales tax, maximum eligibility period for exemption/deferment of sales tax was fixed differently for different zones, at 7, 6 and 5 years in Zone A, B and C respectively. While the new SSI units were eligible for exemption, new large and medium scale industries had the option to defer payment of sales tax on finished products for specified number years from the date of commencement of production.

In pursuance with the objectives of promoting agro-based and food processing industries including commercial agriculture and horticulture activities, the Agricultural Promotion and Investment Corporation (APICOL) was set up in March 1996 with a view to strengthen the rural economy. By the end of 1997-98, APICOL had promoted 27 agro and food processing industries in the State with an investment of Rs.23.72 crore. There were proposals for a number of mega projects. However, not many materialized as the industrial environment was not very conducive then. Unlike the current situation of rising demand for metals and high prices, the demand and price of metals like steel,

aluminium and ferroalloys etc. was very less. Still a lot of effort was made by the state to set up industries specifically to add value to the huge reserve of natural and mineral resources in the state. The major mega projects set up during the period are: Refinery and Petrochemical Complex at Paradeep set up by Indian Oil Corporation, Birla Aluminium projects at Koraput and Rayagada, Sterlite's Aluminum Factory at Lanjigarh and Aluminum Smelter and Thermal Power Station at Jharsuguda and Naba Bharat Ferroalloys in Dhenkanal etc.

2000-2009

Mr. Naveen Patnaik, who all through his life stayed away from Orissa, was catapulted to the centre-stage of Orissa politics after the death of his illustrious father Biju Patnaik in April 1997. He was first elected as a member of the Lok Sabha in the by-election in 1997 from Aska Parliamentary Constituency in Orissa. With the split in Janata Dal in December 1997, Naveen Patnaik founded the Biju Janata Dal (BJD) which in alliance with the BJP led NDA performed well in 1998 Lok Sabha Elections and he was made the Union Minister for Steel and Mines. Two years later, with the BJD-BJP alliance sweeping the Assembly polls, Mr. Naveen Patnaik was sworn in as the Chief Minister of Orissa in March 2000. Widely perceived as a 'clean' and an 'honest' person who never hesitated to sack many political heavyweights on charges of corruption, Mr. Naveen Patnaik is seen as a very dynamic, progressive and pragmatic politician with pro-industry image determined to do everything possible for the growth and development of the state.

Mr. Naveen Patnaik took over the reins of administration at a time when the super cyclone in October 1999 had caused widespread damage to all sectors of the State's economy including industry. With the state finances in a difficult situation and the expectation of the people running high, the economic reforms and the liberalization process initiated in the 1990s provided an opportunity to leverage the natural resources to attract investment and industrialize the state. This also posed new challenges for the policy-makers calling for a profound redefinition of the way Government can effectively engage with business to foster economic growth and development in the sate.

It was against this backdrop that the **Industrial Policy 2001** was brought in with a view to win the trust of the industry by demonstrating the commitment of the Government to attract investors and to create a positive image of the State as a desired destination for industrial investment. With a mission to create a business climate conducive to accelerate investment in Industry and Infrastructure projects, and to raise income, employment and economic growth in the State, the policy aimed at encouraging private initiatives in areas where it enjoys a distinct comparative advantage. It also aimed at inviting private

investment for the development and operation of quality infrastructure and promoting the image of Orissa as an attractive destination for investment and tourism. It intended the state to play a proactive role in selected sectors such as minerals, agro and marine-based industries, industries based on medicinal herbs and minor forest produce, craft-based products, tourism, electronics, Information Technology and Biotechnology. It also intended to leverage the potential of the state in creating Special Economic Zones (SEZs) to build technologically advanced manufacturing industries in a concentrated manner.

Emphasizing deregulation and simplification of rules and procedures, rationalization of labour laws, and accelerated development of physical and social infrastructure through public-private partnership, the policy focused on speedy and hassle free clearance of medium, large and mega projects with attractive incentives. It also intended to encourage and ensure growth of small-scale industries through cluster development approach and by providing market support through preference in government procurement.

The important features of the Industrial Policy 2001 were Single Window system of clearances, involving (a) faster and one-point project clearance, and (b) single point dissemination of project related information to help the prospective entrepreneurs take expeditious investment decisions. Under the single window system, the government intended to create two contact points, i.e. SHILPA JYOTI in IPICOL for Medium and Large Projects and SILPA SATHI in the Directorate of Industries and District Industrial Centres (DICs) for tiny and small units. In addition, the policy even intended to offer Escort services, if needed, by these two contact points for interaction with various agencies and authorities concerned. In contrast to the practice of having large number of separate application forms for clearance purposes, the policy introduced a Composite Application Form along with statutory fees for all clearances connected with the proposal. This was to be received by 'Shilpa Jyoti' or 'Shilpa Sathi', which would facilitate required clearances from the concerned Departments or the authorities of the State Government and other agencies.

The policy proposed to come out with Comprehensive Brochures containing all the key information about geophysical conditions, availability of land, physical and social infrastructure etc. of different locations to be made available to prospective investors through the 'Shilpa Jyoti' and 'Shilpa Sathi'. The intention was to provide at one-source answers to all the queries that an entrepreneur or investor may have, about the location. The policy also intended to come out with a 'Data Bank' and 'Land Bank' for the use of prospective investors. While the data bank was to have information on possible projects, locations, resources etc., under the land bank scheme, tracts of government land were

to be identified by IDCO in consultation with Collectors in potential locations throughout the State and earmarked for industries. These tracts were to be exclusively reserved for location of industries. Concerned Revenue Authorities were to make available land from the 'Land Bank' to IDCO and entrepreneurs to establish industrial and infrastructure project.

In continuation with the Industrial Policy Resolution 2001 which had put in place a robust policy framework for promotion of investment and industry in the state and which to a great extent succeeded in attracting industrial investment including creation of an enabling environment, the Industrial Policy of Orissa 2007 was brought in with an objective to reinforce and further the process of industrialization. This precedes the Industrial Facilitation Act 2004 which was brought in by the Government of Orissa to facilitate the setting up and smooth functioning of the industries.

The main objectives of the policy are to transform Orissa into a vibrant industrialized state; to promote orderly and environmentally sustainable industrial growth; to promote Orissa as a manufacturing hub; to maximize linkages between micro, small, medium and large industries and make concerted efforts for development of ancillary and downstream industries; to promote IT/ITES, biotechnology, agro, marine, food processing, tourism, textiles and apparel, and automotive industries that offer maximum linkages for employment generation and exports; and to arrest industrial sickness and promote revival and rehabilitation of potentially viable sick industries especially in the Micro-Small Medium Enterprises (MSME) sector.

In order to achieve these objectives, the government intends to create an enabling environment for development of industrial and related social infrastructure of international standards. It also intends to create competitive scientific and technical manpower, promote ancillary and downstream industrial parks, and provide special incentive packages for promotion of thrust, priority and MSME sectors. The policy intends to pursue a multi-pronged approach for industrial promotion by providing infrastructure and institutional support and pre and post-production incentives. Promoting industrialization in general, the Industrial Policy 2007 intends to make directed efforts to incentivise investment in the thrust and priority sectors with a view to maximising the triple objectives of value addition, employment generation and revenue augmentation. In order to maximise the outcome and impact of the current industrialization process, special efforts are underway to promote maximum possible forward and backward linkages between large, small and medium enterprises through development of ancillary and downstream industries.

For promoting the micro enterprises, the policy focuses on promoting linkages between micro enterprises and micro finance institutions by providing product development incentive through design and technology support. While OSIC has been asked to set up raw material banks to facilitate raw material supply and distribution, the policy intends to intensify cluster development project with special emphasis on promotion of Common Facility Centres (CFCs) through community based public private partnership (PPP) initiatives.

For small and medium enterprises, the policy focuses on modernization of existing SMEs, greater flow of institutional credit including revival of the Orissa State Financial Corporation (OSFC), creation of marketing support under Government purchase programme, and development of special industrial parks for ancillary and downstream industries.

As regards the large scale industries, the policy aims to leverage the concentration of metal industries for promoting manufacturing industries. It also intends to leverage the coastline advantage to promote port-based industries such as ship building, chemical and petrochemical complexes, leather etc. It intends to maximise supply chain linkages with SMEs by facilitating ancillary and downstream industries.

In order to monitor the progress in the industrial activities, IPICOL has been entrusted with the responsibility to act as a nodal agency and within it an Industrial Information Service Unit (IISU) would be set up to cater exclusively to investment related information. Further, to give the Industrial Policy Resolution, 2007 a coordinated direction, the "Team Orissa" has been created in which the Chief Minister happens to be the Captain and the principal goal of the Team is to provide necessary synergies and convergence of all governmental efforts.

IV. TWO TYPES OF INDUSTRIALISATION': AN ALTERNATE EXPLANATION

We have seen in the previous section that standard explanations of weak industrial performance do not have much validity in the Orissa context. Orissa's industrial relations have been good, infrastructure at par and in some instances, better than other Indian states, and there has been no dearth of industrial policies and good intentions on the part of Orissa's political leaders to industrialise the state. So why has Orissa not industrialised? As we argued earlier, the question is misleading to a large extent as Orissa has industrialised, but this industrialisation has been skewed towards a single industrial sector – metal based industries. So the more precise question that should be asked is why Orissa has not industrialised in non-metal based industries and particularly, in labour intensive industries, given the high level of surplus labour available in Orissa's

agricultural sector. In this section, we go beyond standard explanations of poor industrial performance to look for a political explanation of Orissa's industrialisation malaise.

We argue that the cause of Orissa's weak industrial performance can be attributed to ineffective state-business relations. By ineffective state-business relations, we mean the lack of 'the maintenance of benign collaboration between the agents of the state and business' (Harriss 2006). Effective state-business relations (SBRs), on the other hand, are a set of highly institutionalised, responsive and public interactions between the state and the business elite. Effective SBRs lead to credible commitment on the part of the government to certain policies can minimise uncertainties on future policy actions in the minds of investors, and by doing so, increase the rate of investment in the manufacturing sector. Effective SBRs can also lead to a higher rate of investment by creating an institutional environment where the state provides effective public administration (or the lack of corruption) and secure property rights. A well organised private sector with strong and representative business associations can provide accurate information on current and future investment opportunities and potential problems to its members, invest in training of the workers of member firms, help in enforcing industry quality standards and voice the demands of its members to industry ministries and state investment agencies.

Our interviews with key informants in the government (and past members of the bureaucracy) and the business sector highlighted the ineffective nature of state-business relations in Orissa. For example, our interviewees in the private sector stated that an important reason why the small and medium enterprises have not been able to grow is that they are heavily reliant on the government who is perhaps their largest customer. However, an endemic problem that they faced in their dealings with the government is that they would be habitually paid late for the goods and services they supplied to the government, with delays often running into months on end. This would mean their working capital would be tied up for months, leaving them little scope for investment and expansion. The government's fiscal compulsions may explain the recalcitrance on the part of the government to pay its suppliers – until recently, Orissa had one of the worst public finances, which meant that the government would seek any opportunity possible to pay for its large expenditures on government salaries (Ravishankar 2008). Nonetheless, the lack of a set of buyers outside the government for many private sector firms in Orissa along with a lack of voice among private sector associations in articulating their concerns to the state on the delay in payment for their goods and services implied a lack of a positive institutional environment for the growth of small and medium private firms in Orissa.

Another example of the ineffectiveness of state-business relations in the state relates to our finding on the manner an apex industrial estate created by the government to foster the formation of viable industrial clusters in Orissa slowly degenerated into a site for mushrooming private educational institutes and trading activities. When the Mancheshwar industrial estate came up in the early 1980s, the whole area was beautifully developed. This estate was constructed strictly for the manufacturing outlets of small and medium size initiatives. Today, the roads inside the estate are in a pathetic condition. On being persuaded by the business associations like the Utkal Chambers of Commerce and Industry (UCCI) and others, it has been repaired quite a few times in between. But according to the entrepreneurs we interviewed in our firm surveys, it is very difficult to maintain these roads for a long time. Though this industrial estate is strictly meant for the manufacturing purposes, some people are using the space as a go-down for cement. Half a kilometre from this estate is the East Coast Railway's unloading station in Mancheshwar. The entire cement that comes to Orissa is unloaded in this station and the cement traders load the spaces in the Mancheshwar industrial estate which is sometimes rented and sometimes their own, supposed to be used for the manufacturing activities only. The manufacturer-owner gets thirty thousand rupees rent for his/her go-down. If their income from manufacturing is around 20000 rupees, naturally they will prefer to rent the space as a go-down. All these are happening quite openly, sometimes even with the support of the local bureaucrats. As a consequence, the roads have got spoilt badly. "If every day tons and tons of cement are being transported by 400 trucks through these roads from the station to the go-downs and another 400 trucks carrying those cements from the go-downs to the market, what else can be imagined to happen to the roads?" said an entrepreneur in the Mancheshwar industrial estate. One must remember that the land of Mancheshwar industrial estate have been given to the entrepreneurs at a very nominal rates during the call of 1000 industry in thousand days with the aim of developing industries.

Underpinning the high degree of ineffectiveness in state-business relations is a lack of political commitment on the part of politicians and bureaucrats towards the growth of small and medium firms. Thus, while several industrial policies have come into law, there has been no real commitment to implementation, nor has there been an interest on the part of the political elite in interacting with the economic elite in ways that could be considered synergistic or collaborative. An important reason for this has been the fact that historically there has been no capitalist class of any independent stature in Orissa, or a rural elite that was interested in investing the surplus obtained from agriculture into manufacturing as was the case in Andhra Pradesh. Our interviews suggested that the political elite did not see the creation of a vibrant and independent private sector as an important objective of industrial policy in the state, and viewed the business sector as being in a dependent relation with the state.

The lack of genuine political commitment towards the growth of a vibrant private sector may explain why grandiose plans to industrialise the state as evident in the policies of Biju Patnaik and J.B. Patnaik did not really have any discernible effect on industrialisation. This is also evident from the fact that in spite of policies aiming to provide infrastructural support and increased incentives helped in accelerating the industrialization process in the 1980s, many of those industries established during the period have become sick and even some of them have been closed over the years.

Another example of the incongruity between policy announcements and observed outcomes is the 'a thousand industries in thousand days' policy initiative of J.B. Patnaik. Whether this policy initiative can be seen as a 'critical juncture' in the process of industrialization in the state is debatable. If measured by success rather than intent, the policy initiative can be considered a failure. While there may have been genuine commitment to the policy by the Chief Minister of the day, our interviews suggested that the lower level government functionaries in charge of implementing the policy did not see it in the same manner, and that this policy may have only served to deepen the dependent relation that the private sector had with the state government, as the former was increasingly beholden to the latter for subsidies, credit disbursements and the like. There was a supply side problem in that the state did not have enough of a facilitating environment from which entrepreneurs could come from. Given the fact that agriculture constituted and still constitutes the mainstay of people's occupation, with a predominantly agrarian economy, historically speaking Orissa had no background in industry. People being dependent mostly on rain-fed agriculture and the educated young men and women aspiring to take up government jobs, there was hardly any entrepreneurial culture among the people. Not only that there was an aversion to private jobs, setting up industries and getting self-employed was an idea quite alien to them.

In the above context, if the target of having thousand industries in thousand days were to be accomplished, there was no option but to compromise with the standards and practices. As such, it was observed by some of the entrepreneurs that there were problems in most of the feasibility reports for setting up industries. While this was ignored and given a go bye with a view to maximizing the target accomplishment, the result was inevitable. It so happened that while some of the entrepreneurs managed to get industrial licenses to set up industries, the industrial policy allowed a number of fake entrepreneurs with fake feasibility reports who did not have genuine interest in industry. It is quite obvious that they could not sustain and survive.

Another factor that underpinned ineffective state-business relations in Orissa was a systematic bias by successive governments towards large firms in the resource based manufacturing sector and in mining. This systematic bias towards the resource based sectors may have been due to a belief. Our firm interviews suggested that the management of small firms had to resort to bribing government officials to get any work done. For the large scale firms, it is different as large entrepreneurs often have strong pull at the top level through various channels. State agencies such as IPICOL were also seen to be partial towards large industry. This bias towards large firms in the resource based industries and in mining clearly explains the very different outcomes in industrialisation that we have seen, occurred in the state in the resource and non resource based sectors.[5]

V. CONCLUSIONS AND POLICY IMPLICATIONS

In this paper, we have tried to understand the puzzle of Orissa's weak industrialisation in non-resource based sectors – when an abundance of policy initiatives by successive state governments have not led to a corresponding increase in non-metal based industrial performance. We have argued that the explanation of this puzzle lies in the nature of state-business relations in Orissa, which has been characterised by a dependency by the private sector on the state for survival, and lack of real political commitment by politicians and government officials towards the growth of a vibrant and independent private sector, in spite of apparent signals through successive industrial policies that they were interested in the private sector's growth. The absence of a strong capitalist class or a prosperous rural elite interested in investing in the manufacturing sector also contributed to the lack of a well organised private sector that could demand stronger commitment on the part of the state towards manufacturing growth based on small and medium enterprises.

The growth rate of NVA for the metal based industries was as high as 12.2 percent during 1980-81 to 1989-90 while it registered a mere 2 percent during 1990-91 to 2002-03. As against this, the growth rate of employment of the metal based industries decreased from 1.5 percent in the first period to 1 percent during the second period.

[5] A look at the industrialization process in Orissa during the last one decade of Naveen Patnaik's rule (2000-2010) shows that there has certainly been an upturn in industrial growth in Orissa mainly based on mineral resources. The mega investment proposals forthcoming from investors both domestic and foreign in the industrial and infrastructure sectors point toward the same. With the state government declaring heavy industry and infrastructure as the trust areas, majority of new investments are heavy industries consisting of steel, alumina and power projects. Of the 71 MoUs signed between 2002-08 involving an investment of Rs.280106.95 Crore, 49 are in steel (Rs.183,180.45 Crore), 4 in Alumina (Rs. 29,925 Crore), 3 in Cement (Rs. 2,180 Crore), 13 in Power (Rs. 63,306 Crore with 15590 MW), 1 in Auto Ancillary (Rs. 365 Crore) and 1 in Titanium (Rs. 1,150 Crore). All these projects are in various stages of implementation.

What then of the future for Orissa's economic development? Is an alternate strategy for economic growth and poverty reduction feasible, whether based on agriculture or on the state's mineral resources? While a development strategy based on mineral resources has been the current fashion in policy circles in Orissa, it is clear that it has significant negative impact on the tribal population, who form the bulk of the poor in the state, through displacement and the destruction of forest wealth. A further emphasis on resource based industrialisation such as the development of steel and alloys based industries does not seem to be the way out, given the weak multiplier effects of such industrialisation and that such a strategy has not led to the growth of small and medium firms through ancillarisation (UNIDO 2001). Would then a return to agriculture as the key engine of pro-poor growth in the state be the preferred strategy? While some emphasis on agricultural development is desirable, given that agriculture still remains the main source of livelihoods in the state, agricultural growth in Orissa is constrained by factors which are largely outside the realm of policy such as the large proportion of marginal holdings among farmers, the high number of tenant farmers and the declining soil productivity, all contributing to a fall in agricultural productivity over time (Sarap 2008). It is highly unlike that an 'agriculture first' strategy can be a realistic option to bring about rapid poverty reduction in the state. It seems then the viable strategy for inclusive growth for Orissa, as with the rest of the country, is in broad-based manufacturing growth, and especially a pattern of manufacturing growth which is employment-intensive. For this, a synergistic state-business relation needs to emerge, one which is based on trust and mutual respect, and where there is credible commitment on the part of the state to foster a dynamic private sector, and for business to remain independent of the state and its patronage.

APPENDIX: SAMPLING METHODOLOGY FOR FIRM LEVEL INTERVIEWS

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 are then 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. Secondly the sectors are 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 considering two indicators gives us four categories viz. HH, HL, LH and LL (see table below). From these four fold classifications we choose those sectors which constitute at least five per cent of the total manufacturing net value added of the state.

		TFP	
		Higher than the state average (H)	Lower than the state average (L)
Capital labour ratio	Higher than the state average (H)		
Capital labour ratio	Lower than the state average (L)		

Based on the net value added and the above specified methodology the sectors that we selected in Orisssa are Manufacture of Food Products and Beverages (15; NVA 5.17)); Manufacture of Paper and Paper Products (21; NVA 4.74)); Manufacture of Non-metallic minerals (23; NVA 6.94); Manufacture of Basic Metals (27; NVA 72.13). From the above sectors, a sample of 16 firms has been considered out of which 5 are small, 4 medium and 7 are large scale.

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