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With 2% share of investments last fiscal, Punjab faces an uphill task

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The Punjab government is banking on industrial growth to lift the state's sagging economy. Chief minister Captain Amarinder Singh has travelled to Mumbai to talk to corporate bigwigs to investment in the state. And, his government is giving final touches to new industrial policy, promising a raft of incentives and business friendly environment.

But the government, which took over six months ago, faces an uphill task if the Reserve Bank of India's (RBI's) latest figures on investments are any indication. Punjab, according to the RBI study on private corporate investment released two weeks ago, has been lagging behind most states in attracting new investments in projects.

The RBI data shows the state had 2.1% share in private corporate investments in financial year 2016-17. Its share mainly fluctuated between 0.3% and 1.7% during the last 10 years, except in 2012-13 when it went up significantly. In comparison, states such as Gujarat, Maharashtra, Madhya Pradesh, Karnataka and Telangana have done far better. These five states got over 52% of investments made by the private corporate sector last year.

Blame tax breaks for flight of industry

Punjab, which held two much-hyped investors' summits during the previous SAD-BJP government to woo top industry honchos to the state, blames the long-term tax breaks bestowed by the Central government on industrial units in hill states of Himachal Pradesh and Uttarakhand among others in 2003 for drop in investments and languishing industrial growth.

"The tax breaks for industrial units in hill states sparked off a rush of investors. The local industry in Punjab lost the competitive edge and several existing units shifted businesses or preferred these two states for their expansion projects," said an industry department official.

Last month, the central government extended the tax exemption granted to hill states till March 2027, albeit as refund, under the new Goods and Services Tax (GST) regime, prompting the state government to request the Centre to extend similar incentives to the border areas and Kandi belt. A study conducted by US-based Cato Institute in 2012 had ascribed the state's slow rate of industrialisation to other factors such as power shortages, high land prices, corruption and fiscal problems also. Though the state is now power surplus, its fiscal problems have only got worse.

Focus on MSME industry, govt plans clusters

However, director, industries and commerce, DPS Kharbanda, while attributing the flight of capital to hill states to “tax holiday”, said the state government is coming out with an investor friendly industrial policy to attract new investments and give fresh impetus to existing ones.

The new industrial policy, to be formally unveiled after the Gursdaspur Lok Sabha bypoll, proposes to give power at Rs 5 per unit and exemption in stamp duty, electricity duty and external development charges, besides relief in the state GST.

Kharbanda said the department will take cluster-based approach, focusing on the micro, small and medium enterprise (MSME) industry. Already, it has proposed 18 clusters for tractor parts, hand tools, foundry, surgical equipment, sports goods, printing and packaging, plywood units, plastic goods, hand tool, sheet metal, knitted outwear and sewing machines. The process of identifying land for nine of these is underway.