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Reforms key to TN's growth story

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Here is a tip. Rope ladders and spittoons will be in big demand in Tamil Nadu over the next couple of years as the state gears up to sign several big ticket investment projects during its first ever Global Investor Meet next week. Why rope ladders and spittoons? State laws -- mostly archaic-- demand factories have rope ladders, whitewash registers and spittoons.

When the state flaunts its achievements and tries to woo investors at the meeting, it has work cut out on its hands to tidy up its rules and laws to make them investor-friendly . "The investment cycle has just begun. We need a two pronged strategy to attract capital now: Replace old archaic laws with relevant statutes, and change your mindset and go to the investor rather than wait for him to come to you," an industry captain said.

The investor meet comes at a time when manufacturing output in the state (as a percentage of GSDP) declined from 20% in 2004-05 to the current level of 16.6% owing to a steep deceleration in growth in recent years. Tamil Nadu received 3.5% of total industrial investment proposals received into India between 2008 and 2012, as against states like Gujarat, Madhya Pradesh and Andhra Pradesh which received nearly 9%-10% each.

Nationally, as per the Economic Freedom of States in India, 2014, report, published by the Cato Institute, Tamil Nadu held the top spot in terms of economic freedom till 2009, until it was displaced by Gujarat in 2011. Delays in obtaining construction permits, time taken to start a business and irritants faced in payment of taxes seem to be the key contributors that resulted in the downgrading of the state.

This is a rather unfortunate downturn, given the state's positive past record. "Tamil Nadu is among the few states in India to have recognised the importance of manufacturing early on. This is reflected in the higher share that the state enjoys in the overall national mix both in terms of number of factories and the total share of people employed in the manufacturing sector. Manufacturing provides employment, upgrades skills, and has a multiplier effect on the economy that is greater than those that can be generated by the services sector," Madras Chamber of Commerce and Industry said in a report.

Every job created in the manufacturing sector creates three additional jobs in related activities, says National Manufacturing Policy 2011. NASSCOM says that every IT job created leads to creation of 3.5 ancillary jobs.

Much of the momentum was lost in the last few years because of power deficit, lack of land availability, labour troubles and lack of access to administrators by industrialists.

POWER PROBLEMS

While the state has done well recently to tide over the power crisis which lowered its growth rate below the national average, much more needs to be done. "Legacy issues at Tangedco is impacting new power projects in the state. Because of the poor credit ratings that the state utility has, producers who work with the utility access capital at higher rates thereby making power generation an unviable business," a CEO of a solar manufacturer said.

HIGH LAND COSTS

Despite attempts to disperse investments to other parts of the state, very little capital formation has happened outside Chennai. Industrial activity is concentrated around Chennai. Besides, hidden costs in land registration add to the already burgeoning land costs. "Ideally state should pool in land resources and create a land bank as it did in early 2000s. Set up a time-bound investment flow for projects and monitor them so that the promises made are kept," an official with an automobile company said. "There is an official cost and an unofficial one [bribes]. Sadly the unofficial costs are rising," he said.

LABOUR

Lack of flexibility in hiring labour for temporary work and challenges associated with complying with the numerous provisions of the Factories Act, 1948 are the two biggest constraints faced by businesses across sectors. Add to this is the rising trade unionism. "Ideally, only registered trade unions should be allowed to function. Today, in the industrial corridors of Sriperumbudur and Oragadam, militant labour outfits are on the rampage. The state should stub out these elements. We are completely okay with registered unions like CITU, LPF or ATP but not fringe outfits which use collective bargaining to destroy industrial harmony," a HR head at a telecom component making unit said. The HR executive also said it should be mandatory that a trade union should have employees as representatives and outsiders can at best be consultants.

THE WAY FORWARD

With problems defined, the state should work at getting its house back in order. Experts recommend that the state stick to its core strengths of auto, leather, textiles and ITITES and keep improving efficiencies so that commerce can flourish rather than aim for new and unknown sectors. "Aim for leadership in a few, and after attaining that increase your leadership margin and then look out. We have done well in the first, now we should look at working on the second leg," a government official said.

The Madras Chamber of Commerce and Industry has recommended introduction of a single business act for speedy processing of clearances required while starting and running a business. The Act will promote combined application forms, self-certification, deemed approvals and introduction of credible time-limits for processing of applications and all the basic approvals relating to starting and running a business. The chamber has also sought simplification of labour laws including legalizing fixed-term employment and work on setting up common effluent

treatment plants for the textile business. The IT industry wants it to be classified under the Essential Services Act like in Karnataka, Kerala and Andhra Pradesh. "It's a small carrot, but has a potential to turn big. This demand is lying pending for several years," sources said.

ATTITUDE CHANGE

Industry leaders also want the government machinery to shed its vindictive attitude towards business and embrace them. "How on earth will you explain the show-cause notice for demolition of IT SEZs in OMR which are inside government allocated land. A number of IT companies received demand (both formally and informally) to pay up and regularise. Suddenly, after a negotiated settlement, the notices stopped coming," a source said.