Opinion | The geography of industrial growth in a federal polity

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The Union government must maintain neutrality vis-a-vis India's various states and regions in driving industrial growth

Topics: Industrial Growth Politics India

The new political alignments that emerge after 23 May will influence, among other things, the pattern of industrial growth across Indian states. Whoever wins, it is almost certain that regional parties will exercise much power. Rapid industrial growth in their states will no doubt be a priority for them, as also for state governments led by national parties. This is the context in which we need to think about the future geography of industrial growth in a federal polity.

In a conference on Growth and Regional Development in India organized by the Institute of Human Development in New Delhi last week, Prof. K.V. Ramaswami of the Indira Gandhi Institute of Development Research presented an interesting paper entitled, Where Have All The Factories Gone: Growth And Concentration Of Sub-national Manufacturing Activity In India. The paper demonstrates that just six states—Tamil Nadu, Maharashtra, undivided Andhra Pradesh, Gujarat, Uttar Pradesh, and Bengal—account for close to two-thirds of all factories in the organized sector (64.3%) and a similar share of workers in the sector (62.2%). These states also account for over 63% of establishments and 59% of workers in the informal sector. Industrial establishments and workers are thus highly concentrated in these six states that constitute the core of industrial India.

What accounts for such concentration? Paul Krugman's work on new economic geography explains that differences in transport costs, economies of scale, factor mobility and market size, collectively described as "the economies of agglomeration", lead to concentrated patterns of industrial location (see Krugman's Geography And Trade, Cambridge, The MIT Press, 1991 and The New Economic Geography, Now Middle Aged presentation to the American Association of

Geographers, 16 April 2010). India is not an exception in this. Industrial agglomeration is the global norm.

However, alongside the concentration of industrial location, another dynamic is at work. The rise and decline of old and new industrial hubs. Though industries were scattered across several states at the time of Independence, the cities of Kolkata and Mumbai alone accounted for 42% of registered factory employment and 50% of total manufacturing output (C.R. Pathak, Spatial Variation In Urban And Industrial Growth In India, Indian Journal Of Regional Science, vol.vii No. 1, 1975). By 1961, manufacturing industry had spread to 89 industrial districts located mostly in Bengal, Maharashtra, Gujarat, Tamil Nadu, Uttar Pradesh and undivided Andhra. At the turn of the century, the same six were still the leading industrialized states, as noted earlier. However, Bengal had by now slipped to the fifth rank in share of organized sector factories and employment. Meanwhile, three new states had appeared as new industrial states with rising shares of factories and employment both in the organized and unorganized sectors—Karnataka, Haryana and Punjab.

This churn of old and new industrial hubs is partly endogenous, a peaking of the agglomeration process. With increasing concentration of industries in a hub, competition drives up the cost of labour and, especially, the price of land. Crowding, traffic snarls and demand for utilities drive up congestion costs in the core of the conurbation. Beyond a point, the negative “backwash effects" outstrip the positive “spread" effects and deglomeration sets in. Industrial units progressively relocate to the periphery and eventually move to a new location altogether.

To this endogenous process of agglomeration and deglomeration must be added historical and institutional factors, as emphasized by geographers. It is best illustrated by the case of Bengal. As the capital of the British empire in India, Kolkata and its hinterland emerged as a pre-eminent industrial hub in the late 19th and early 20th century, mostly led by colonial managing agencies. Agro-processing industries like jute, mineral-based industries such as coal mining and iron and steel, and ancillary engineering industries linked to the development of railways were the major industries. The shift of the capital to Delhi and political independence triggered Bengal’s gradual decline, which was further precipitated by several shocks. The unfortunate freight equalization policy of the new national government deprived the entire eastern region of its locational comparative advantage in mineral-based industries. Then the collapse of public investment, especially in railways, killed the state's engineering industry. Bengal was already in relative decline in the 1960s when a third shock, turbulence arising from militant political movements led to a massive flight of capital, from which the state is yet to recover.

Similar stories of industrial decline could be recounted for Uttar Pradesh and Bihar. At the same time, aggressive industrial development programmes pursued by state governments, usually supported by a friendly Union government, led to further industrial agglomeration in the old industrial states of Maharashtra, Tamil Nadu, Gujarat and undivided Andhra alongside the emergence of new industrial states such as Karnataka, Punjab and Haryana.

The political alignments that emerge after 23 May will be an important determinant of the future geography of India's industrial growth. Along with the dynamics of agglomeration and industrial policies of state governments, a critical third factor will be the role of the Union government. Its spatial allocation of investment in infrastructure and its guidance to public sector financial institutions that dominate the allocation of capital among the states will be important drivers. Is there some way of ensuring that the Union government maintains neutrality, without tilting the playing field in favour of one state or another?

One way of preserving Union government neutrality is to empower the Inter-State Council as a federal institution to oversee and ensure that financial resources flow to states transparently in accordance with reasonable criteria. The states can collectively push for its re-invention as a powerful federal body, like the GST Council.

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