

INVESTMENT MELAS AND SUCH OTHER TAMASHAS

By Dr. M.N. Buch

Every year the State Government arranges a big investment mela, the last one being held at Khajuraho. The Government of India holds similar fairs, including the Pravasiya Bhartiya Fair. The Gujarat Government goes overboard with a huge meeting of potential investors held every year. The purpose of these melas is to bring together investors, industrialists, businessmen and the State Government, project the industrial and business potential of the State and persuade the potential investors to put their money into the industrialisation of the State. The objective is laudable and every year at the end of the melas it is announced that several Memoranda of Understanding worth several lakh crores of rupees have been signed between government and the industrialists. At the Khajuraho Mela government announced that the value of such MoU exceeded rupees two lakh crores.

What attracts industry to a State? In purely economic terms it is economies of cluster which are the main reason for certain States receiving huge amounts of investment and other States being left behind. The economies of cluster have the advantage of giving access to a trained labour force and managerial skills and existing infrastructure and support services in both the secondary and tertiary sectors so that the new industry gets the benefit of these services. In addition financial houses tend to congregate in places where there is a high business potential and new entrants do get benefit of such financial services. The disadvantage is that there is overcrowding, perhaps excess capacity in the chosen field, which puts existing industries which have already amortised their capital and have no cost of servicing such capital at an advantage, high cost of land and very high cost of technical staff. Nevertheless, industry would prefer to gravitate towards an existing cluster rather than go to green field areas. The advantage that green field venues have that the land is cheap there are tax concessions and government may be willing to bear the cost of infrastructure development.

Madhya Pradesh is a green field area. Land is plentiful and relatively cheap and agro climatic conditions are ideal. There is already a high potential of water resources in a State such as Madhya Pradesh. Therefore, new start-ups with upto date modern technology could be attracted to this State. As has been suggested by the latest Memoranda of Understanding industry is prepared to invest in the power sector, mining, forest based industry and similar projects which can use the rich stock of raw materials available in the State. Unfortunately the status of infrastructure in Madhya Pradesh is very poor even today. It has low density of railway coverage. The roads, though gradually improving, are still in poor condition and the network certainly cannot compare with what exists in Gujarat and Tamil Nadu. Without transportation facilities movement of raw materials, finished product and movement of goods and services is severely hampered. If an industry cannot get its required raw materials and it finds it difficult to move the finished product to market, why should an industry locate in such a region? This is where Gujarat, the Punjab, Tamil Nadu, Karnataka etc., score heavily over Madhya Pradesh. Till Madhya Pradesh is able to sort out the problem of power availability, road and rail communications and other basic infrastructure, one sees little hope of a major industry related investment revolution in the State.

Because most of the proposals for investment are in such exploitative sectors as mining, location of power plants at pithead, thermal power generation, etc., problem arises. All these activities are located in or around vulnerable or environmentally sensitive areas and would be subject to environmental clearance by the Ministry of Forest and Environment. Because the ministry has become proactive there are bound to be searching questions asked about the environmental acceptability of a project and this is bound to lead to huge delays in having projects sanctioned. In fact the likelihood is

that most of these projects will be rejected. A Memorandum of Understanding in the mineral sector, for example, is worthless unless there is a reasonable chance of obtaining environmental clearance by the present record of the Ministry of Forest and Environment the likelihood of such project being given environmental approval seem to be remote. Without environmental clearance the projects would be nonstarters, the MoU notwithstanding.

The record todate of a MoU being succeeded by actual investment is not encouraging. One is not sanguine about actual money flows against the current MoUs and, therefore, one is doubtful whether anything substantial will really be invested.

The investment climate is also dependent on how responsive government is to investment proposals. Notwithstanding the promises made at Khajuraho, our bureaucracy is sluggish, sunk in complacency, is unwilling to learn and certainly most unwilling to take risks. Such a bureaucracy certainly cannot facilitate investment in the State, because its deadweight rests heavily on any new initiative.

My prediction is only that a very small part of what government expects to be invested will actually flow into Madhya Pradesh. To ensure actual investment our bureaucracy and politicians would have to be reinvented in order to make them industry friendly. Therefore, my view is that of the promised amount only a small percentage will flow into Madhya Pradesh in the next five years. That makes the mela what it really is --- an excuse for dining and dancing, a good newspaper story for a day or two, an occasion to pat one's own back and then business as usual, with the State sunk in slothful slumber.
