

Response Paper:

**Relaxing Regulations to Support the Growth and Development of Industries**

**Case for Bangalore, India**

As discussed in class, industrialization has played a key role in development and growth of cities. Establishment of industries and the subsequent availability of jobs attracted people from other parts of the county to the city that directly benefited the tax base of the local government. To this day, attraction of industries is considered a primary factor in hastening the development of a region and often governments tend to bend backwards to accommodate the needs of a particular industry that is considering relocation. I wish to explore this behavior by examining the city of Bangalore, India.

As of today, Bangalore is a leading hub of information technology and software industry in India. Riding on the wave of globalization, it has rapidly emerged as the destination for outsourcing industries that deal mostly in the IT sector. Several factors like friendly climate, presence of high-quality education institutes, and skilled manpower can be attributed to Bangalore's success. But above all, the role of the government cannot be totally ignored in the region's economic success. The administration has paved the way for creation of an economic development agency, Software Technology Parks of India (STPI), to enhance the IT growth sector.

The government established Karnataka State Electronics Development Corporation (KEONICS) to advance the electronics industry in the state. This new corporation served to promote the region and "entered directly into production, setting up its own plants and operating joint sector projects with Indian and foreign industrial houses, promoting private enterprises through marketing support, and running manpower training centers" (Heitzman, 2001). The success of the STPI scheme led to a private initiative called the Information Technology Park, 'the first such development in India', which was a joint collaboration between the state government and private enterprise from India and Singapore. (Krishnaprasad, 1996). The provision of high-quality telecommunications network to high-density industrial parks coupled with added benefits in terms of entry tax exemption, power tariff concessions, clearances from the pollution control board and concessions on the company registration charges. Apart from attracting outside industries, Bangalore also seeks to incubate startups and encourage entrepreneurial growth. "Karnataka State Industrial Investment & Development Corporation Ltd., and Karnataka State Financial Corporation formulates a special package for

providing financial assistance to the Information Technology Industry” (Karnataka state IT Policy, 1998). This package has the following features: 1) Equity contribution in small and medium enterprise; 2) Reduced margin money from the promoters; 3) Reduced interest rate; 4) Seed Capital/Venture Capital assistance in deserving cases.

Such blatant incentives for industries was unprecedented in erstwhile socialist India where business interests and private industries were often mired in bureaucratic delays and red tape. State-run industries or public sector units were often given priority however after the reforms were initiated in 1991, focus rapidly shifted to private industry and they were actively courted by local governments, often bordering on excessive facilitation to attract them to their region. As observed above, the state and local government played a major role in attracting and nurturing technology industries in Bangalore. This benefited Bangalore tremendously as it soon began to be called as the ‘Silicon Valley of the East’ (Patni, 1999). After Texas Instruments decided to establish its regional headquarters in Bangalore, other MNCs like Intel, Sun, Microsoft, Oracle, etc. followed and this provided the region a much-needed impetus to further pursue its economic development objectives. Presence of technology industries attracted a highly skilled workforce to the region and lent a cosmopolitan atmosphere to the city. During the IT boom in the late nineties, property values in and around the city surged letting the government invest in more infrastructure for the companies. Due to the government’s proactive and friendly stance toward IT industries by relaxing otherwise stringent zoning laws, many MNCs entered the Indian market through Bangalore.

In addition, Bangalore region was also home to more than 100 research universities and technical colleges, some of them the best in the nation. Institutions (mostly state-sponsored) like Indian Institute of Management - Bangalore (IIM-B), Indian Institute of Science (IISc), Indian Institute of Information Technology - Bangalore (IIIT-B) and Institute of Bioinformatics and Applied Biotechnology – Bangalore (IBAB) are considered premier incubators of highly trained talent of the Indian subcontinent. This aggregation of education and research institutions can be likened to clusters located in close proximity to enhance development and innovation. Presence of these institutions also attracted the industries that looked toward them for expanding their workforce.

But not everything was as rosy as it seemed. Often regulations and land-use zoning laws were relaxed to make way for the large technology parks. Setting up high-end infrastructure necessary for technology industries was often done at the cost of other basic amenities like

laying out arterial roads, developing open spaces, and providing efficient means of public transportation. Most of the technology parks were established outside the limits of the city creating urban sprawl without the support of an efficient public transit system. This also led to creation of satellite townships; sometimes isolated from the urban fabric of the main city. Although Bangalore benefited and continues to benefit tremendously from global exposure, recently glorified by Thomas Friedman's bestselling narrative, *The World is Flat*, the underlying tensions in a rapidly evolving region were suppressed. The focus on technology industries however relegated other manufacturing and service industries to the background and previously successful industries like automobile assembly plants, hospitality industry, etc. were routinely ignored in the new development schemes. The government's zeal to further IT-capable jobs may signal neglect for its primarily rural population. Bangalore, MSA area wise is only 28% urban and most of its population is based in manufacturing and agricultural industries. The economic development plans thus were not completely contextual and gave an impression of externally imposed direction without consulting the populace. The technology drive recessions can undermine the entire region's economy and make it susceptible to drastic measures due to specific set of industries.

Also, duplicating the success of Bangalore, other cities in India and Asia have initiated similar incentives to attract technological industries. In more recent times another city in South India, Hyderabad, backed by vociferous regional development strategies with strong political backing, has become the darling of the foreign investors and home to many industries. Concentrated and specific Investment for setting up technology parks is seen as a quick means to attract industries away from Bangalore. Other cities have also been willing to offer greater tax breaks, large parcels of land, low interest rates for financing in order to compete with Bangalore. Thus competition has increased and the head start that Bangalore enjoyed in attracting high-tech industries is rapidly eroded.

In terms of urban planning, due to the rapid influx of migrants, Bangalore is currently experiencing severe infrastructural problems and has even resulted in boycott of the annual IT exposition by resident companies as a form of protest (Indiainfo, 2005). The economic and cultural divide has actually widened and the focus on high-end technologies in comparison to erstwhile agrarian economy has placed the region in a confused state of flux. "Two faces of the same city are now emerging. The first portrays a vibrant, innovative and highly modernized industrial arena, a true success story in a developing nation sorely in need of capital investment

and domestic enterprise. The second shows mushrooming shanty towns, inadequate public services and huge disparities in income, health and opportunities, between those who have access to the high-tech industry and those who do not" (*India-2001 Country Assistance Strategy (CAS)*, University of California at Berkeley International Health Project). Urban sprawl and clear demarcation between different classes of society has brought out underlying social tensions to the fore. Infrequent anti-globalization demonstrations are common and frustration of the lower-income class of people clearly not equipped with technology skills is manifested often in political and social turmoil that wrecks havoc on the region's economy.

Has government assistance in attracting industries been instrumental in Bangalore's growth? Would the region have developed as much if the government did not choose to create a 'friendly destination' for technology industries? The reactions to these questions are mixed at best. Companies that seek to relocate primarily seek a better quality of life, labor force, transportation, and favorable business climate as pivotal factors as compared to state tax incentives and marketing assistance. But the government is bound by political need and increased competition to 'do something' even if it is ineffective and create unintentional consequences (Rondinelli and Burpitt, 2000). Similarly, Bangalore's government chooses to compete with other regions by offering often similar incentives and later claimed success when firms chose Bangalore to relocate.

But often at the heart of their decision was Bangalore's quality of life and presence of high quality academic institutions that provided for a skilled workforce. The generally amicable weather in otherwise tropical India was a welcome relief for most multinationals and Bangalore's tag as India's Garden City further reinforced the better quality of life. The government incentives while not completely failing to have an effect effectively help in reducing the firm's cost burden and would make disadvantaged locations lucrative but this wasn't the case in Bangalore which was already considered a favorable city. However, the government incentives in making the transition easy might have created a 'multiplier effect' that attracted subsidiary industries. Whereas in times of competing *similar* cities, these incentives can help the firms make an informed decision and can tilt the balance in favor of the city (Walker and Greenstreet, 1990).

Often the cost of relaxing the regulations in favor of one industry is passed on the other not-so-favored industry. This has happened when the erstwhile prosperous industry has declined leading the government to seek a different focus. However, the costs might also have

social consequences in addition to economic. The expectations of granting a technology company a tax holiday in hope that they will provide for additional jobs in the region might prove to be unfounded because of the apparent mismatch of skills required. The previously agrarian population might need a major retraining period to be able to work in a drastically different technology industry. Hence the jobs might end up going to migrants, creating distrust (for the government) in the eyes of the locals. Thus social costs might accrue. Only if an industry helps in establishing a wide array of subsidiary and supporting set of industries should the community be expected to share the costs. The political and economical arguments for tax breaks and incentives might not be apparent if direct benefits do not accrue to the local population. Being the fastest developing city at an annual rate of 4.4%, and afflicted with high poverty rate due to shifting population trends, Bangalore is prone to the common urban problems. Faced with urban sprawl, the telecommunications infrastructure still has not caught up with the growing needs. The technological parks such as STPI, Electronics City has concentrated network connections but infrastructure within the city is still at developing stages. This creates an impeding factor for small businesses and startups not located within the industrial parks thus creating a perceived class differential among firms.

In conclusion, it can be summarized that the role of the government in Bangalore has succeeded in generating economic growth but not as much economic development. Economic development decidedly features betterment of quality of life for the population at large; both local and migrant. Bangalore's inherent features were such that it would have naturally attracted highly skilled industries such as technology and IT companies due to the presence of academic institutions and favorable climate (also deciding factors in the development of Silicon Valley). Other regions in India have attempted to duplicate the 'Silicon Valley' model without much success because they lack the necessary and required qualities that technology companies look for. Bangalore was blessed with the existing infrastructure of high quality academic institutions and skilled manpower. The growth cycle in such companies is relatively short and due to rapid advances in the industry, the companies cannot afford to wait out until the region develops human and intellectual capital and they rather move to a region that already has those factors in abundance (Mathur, 1999). Government incentives in form of relaxed regulations may help attract and develop certain manufacturing industries but the need for technological industries is entirely different and not subject to generic industry-attracting incentives.

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