

CLUSTERS AND CORRIDORS IN ANDHRA PRADESH

- Sameer Sharma IAS

Today global forces are creating unprecedented opportunities for growth. Many growth opportunities have also emerged from India's ongoing economic reforms. A.P. is trying to capture these opportunities and capitalize on its many strengths to create strong and rapid growth by transforming itself from being primarily a controller of economy to a facilitator and catalyst of its growth.

Global forces are throwing open new avenues to growth: The world economy is becoming increasingly integrated. Realising that significant economic growth can now come from participating in world markets, nations are increasingly opening up their economies and doing away with barriers—trade, regulation, and other—which hamper the flow of investment or goods between markets. Companies are constantly looking for new markets in which to sell their products and new regions in which to locate their businesses so that they become more and more competitive. Investors are searching the world for profitable investments, providing capital to anyone who has the best returns to offer. Tremendous advances in knowledge and information technology are driving this process even faster: companies (and governments) can now make quantum leaps in productivity and efficiency, leapfrogging several stages of development their predecessors had to undergo.

India is opening its doors to growth: Realising that it too can make this quantum leap, India has started its transition into an international, market-based economy: it has initiated the opening of its economy to foreign investors and, to some extent, its markets to the products of foreign companies. It is gradually removing barriers to trade and industry. Along with these changes in the economic sphere have come changes in the political one: power is increasingly devolving from the Centre to the states, allowing India's states to become more self-reliant in the true spirit of federalism.

Andhra Pradesh has achieved some breakthroughs: In its quest to achieve strong economic growth, Andhra Pradesh has already made some significant advances. The State has attracted private investment in infrastructure; for instance, two private power plants, India's first fast-track IPP (Independent Power Producer) projects have come up at Jegurupadu and Kakinada. The State is increasing its attractiveness to investors by simplifying procedures (for example, establishing the State Investment Promotion Board to hasten the approval of investment proposals). And it has fast built a reputation as a key Information Technology centre in India. Finally, Andhra Pradesh has initiated pioneering programmes such as Water Users' Associations, Electronic Government, and Janmabhoomi, to ensure participatory governance and transparency, improve services, and simplify procedures.

Andhra Pradesh has many strengths to build on: Andhra Pradesh has many advantages it can build on to realise its growth aspirations. The State ranks among the top five Indian states in terms of cultivable land. It has ample water resources: 60 per cent of Andhra Pradesh has ample rainfall and two major rivers of the country, the Krishna and

the Godavari, flow through the State. It has the second largest mineral reserves in the country: massive deposits of coal, limestone and bauxite are to be found here.

FOCUSSING ON SELECT GROWTH ENGINES

To achieve 9-10% growth targeted, AP is trying to stimulate economic growth by focusing on specific sectors that offer high growth opportunities. These are the growth engines of the economy: dynamic and fast growing manufacturing enterprises. These are the primary growth engines of the economy because they will contribute a sizeable part of the State's GSDP and employment. The growth engines are:

- agro-industry
- mining based industries
- garments
- leather products
- pharma
- small scale
- aqua

The focus on these growth engines does not mean that other important sectors such as engineering-based industries or financial services will not flourish. On the contrary, they will continue to grow, benefiting from the State's overall approach to and investments in improving the economy in general.

How were these growth engines identified? How will they create economic growth? What does the State Government need to do to facilitate the development of the growth engines?

IDENTIFYING THE GROWTH ENGINES

Each growth engine satisfies at least one of the following criteria: it builds on the State's strengths; it has the potential to create great economic impact; it can capture opportunities created by global trends.

Builds on the State's strengths: In a globally competitive world, each region has to exploit its comparative advantage to maximise economic opportunity. Western Australia, for example, has exploited its significant mineral wealth to develop one of the most competitive, technologically advanced mining industries in the world. New Zealand has used its large pasture lands to great advantage to build an efficient, cost-competitive, large-scale and export-oriented dairy industry that corners as much as 30 per cent of the world dairy trade. Malaysia has used its low labour costs to become a key centre for global electronics assembly. And Singapore has effectively used its strategic location (at the centre of the world's major shipping routes) to become a major trading centre and an international logistics hub, linking Asia to the rest of the world.

Has the potential for significant economic impact: The growth engines need to be large and high growth industries. Furthermore, to ensure that growth is equitable, they

should have the potential to generate large-scale employment. China, for example, has focused on the manufacture of export-oriented, labour intensive goods like garments, leather products, and toys. With exports amounting to nearly \$50 billion(1999), these industries are now a key element of China's economic growth. More importantly, they have generated large-scale employment for China's vast pool of workers.

Builds on opportunities created by global trends: The expansion of global trade has created tremendous opportunities. Singapore, the Netherlands, and the US recognised this trend early and built major trade and logistics centres in their countries. By taking advantage of India's increasing participation in global trade and its geographic position, Andhra Pradesh will similarly innovate to create India's premier logistics centre.

HOW THE GROWTH ENGINES WILL STIMULATE GROWTH

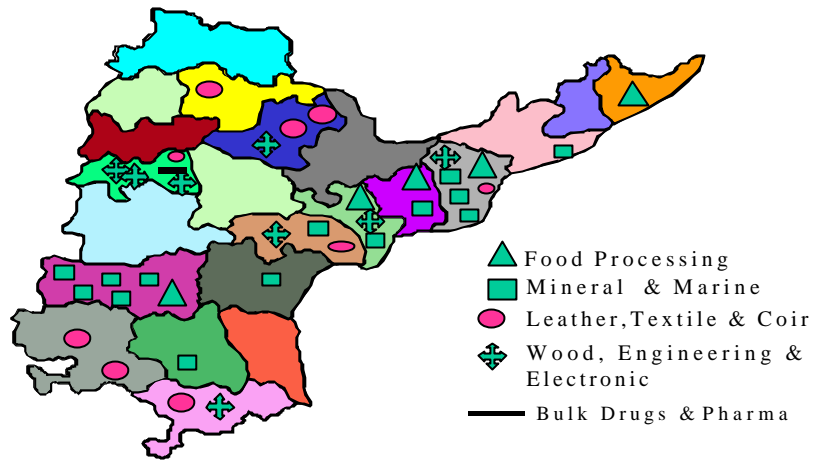
The focus on growth engines will stimulate economic growth by rapidly increasing the productivity of Andhra Pradesh's labour; creating a more substantial exports thrust; and building on regional strengths. Located in all the three regions of Andhra Pradesh, their growth will ensure regionally balanced development. To maximize the use of scarce resources, they will be concentrated in centres or 'clusters' connected by 'growth corridors'.

Growth will be propelled by 'clusters' of development connected by 'growth corridors': Andhra Pradesh's growth engines will best be developed by focusing efforts in geographically concentrated 'clusters'. Clusters are groups of mutually reinforcing and supporting industries. Italy's textiles cluster, for instance, comprises not merely fabric and garment manufacture but also supporting industries like textile machinery and design, all located within a compact 200-300 sq. km. Competitive industries develop not in isolation but in such clusters that allow close co-operation between companies and so boost their competitiveness.

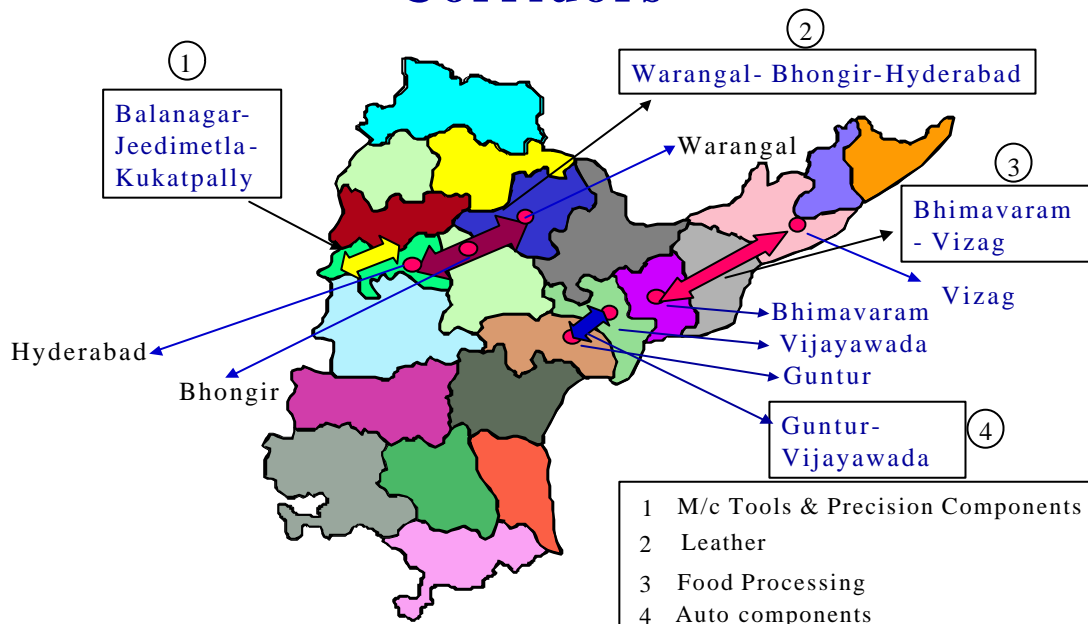
While comparative strength of a region in factor inputs initiates cluster development, access to markets increases the economic size of the cluster propelling investment. Thus virtuous cycle shapes the character of the cluster. Further growth in the cluster would require a platform for innovation to move up the value chain.

The clusters created will need to be connected by 'corridors' of transport and communications infrastructure. Roads, telecommunications links, industrial estates, ports and airports should form parts of the corridor. These corridors will reinforce trade between clusters. The clusters and corridors approach makes it possible to make the best use of scarce resources by concentrating them initially on select areas, and creating critical mass and high quality. The development of these clusters and corridors will spearhead the development and spread of economic activity in all parts of the State. Major clusters in the State will be Hyderabad, Karimnagar, Warangal, Tirupati, Visakhapatnam, Vijayawada, Anantpur and Nellore (Vision 2020- Mckinsey and Mckinsey, 1999).

Clusters - Manufacturing



Corridors



HOW THE STATE GOVERNMENT IS CATALYSING THE DEVELOPMENT OF CLUSTERS AND CORRIDORS

The successful clusters of AP owe their beginnings to chance and favourable policy making that propelled rapid growth and consolidation. Most successful clusters have benefited from interventions such as institutional support, tax-breaks and fiscal incentives, stable policy regime, and infrastructure support from the government.

Creating institutions for cluster development

In AP institutions have been created to develop new clusters in the form of parks - IT, Biotech, Hardware, Pharma etc. These institutions are based on the Public- Private Partnership model like the special purpose vehicles for the ICICI Knowledge Park, Shapoorji Pallonji Biotech Park etc. Existing clusters are classified as incipient clusters or growth engine clusters depending on their position in the value chain and extent of networking. Different strategies for development are followed for the two types of clusters and cluster development has been given to Cluster development organizations(CDOs) like NISIET, SISI, Productivity Councils etc.

Catalysing human resource development through various initiatives

In AP, new industries receive incentives under the new industrial policy for manpower training. The Government also sponsors programs with national and international training institutions to upgrade the skills of the workers employed in growth engine sectors. The National Institute of Fashion Technology is running decentralized training program for women to become machine operators to work in garment factories.

Encouraging entrepreneurship

Two programs one to create entrepreneurs and second to nurture entrepreneurship in Andhra Pradesh are being implemented by the International School of Business (ISB) and consultants like Globarena, Sathguru etc. In the program to nurture entrepreneurship the ISB identifies potential entrepreneurs in the manufacturing sectors and provides them support to transform such entrepreneurs as leaders in their spheres of activity. Entrepreneurship is being created by creating incubator cells in colleges, selecting potential entrepreneurs by mirror and mentor activities and handholding for three years.

Promoting a favourable environment through policy measures

The new industrial policy is a general policy for all industries in different sectors. The strategy to attract investments in AP is to have a general industrial policy supported by growth engine sector specific separate policies .Thus there is a separate food processing policy, a policy for apparel and clothing, a Biotech policy, etc such an approach helps to concentrate and channelize investments in the growth engines, create critical mass leading to rapid growth in the growth engines.

Enabling rapid growth through proactive infrastructure development

To enlist the participation of entrepreneurs in infrastructure development, AP has followed two approaches:

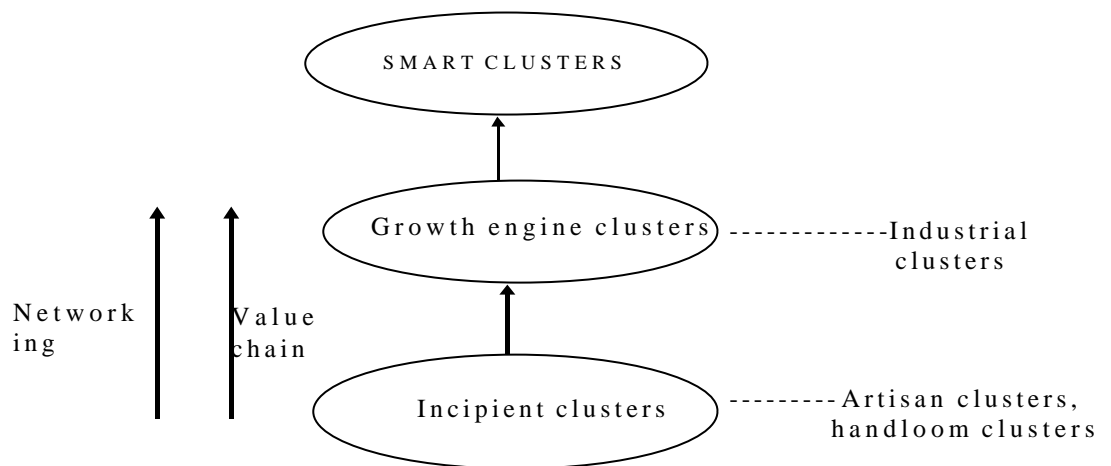
- (1) to enable entrepreneurs to participate in infrastructure development and
- (2) to involve the entrepreneurs in the management and maintenance of services in clusters by forming Industrial areas service societies(IALAs).

In the critical infrastructure balancing scheme the service societies contributes upto 50% of the project cost and they also execute the work. The industrial estates are managed by

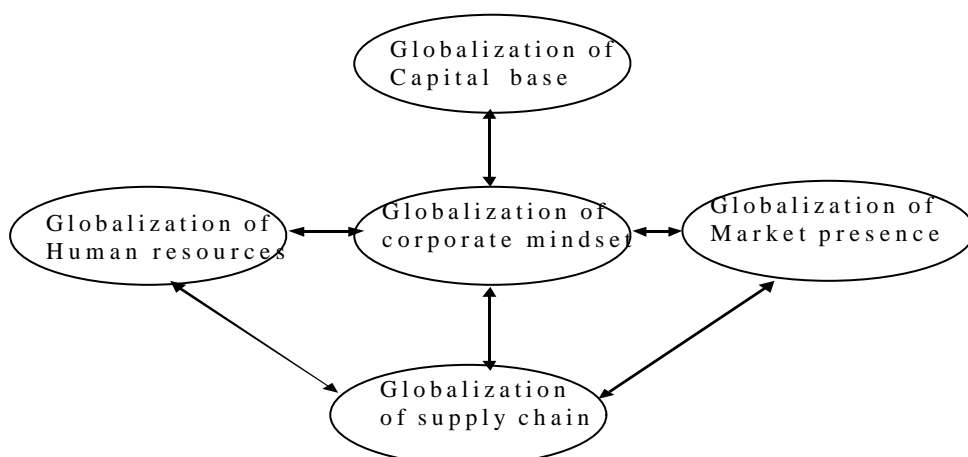
IALAs. These service societies prepare and sanction the development plan, collect property taxes and manage and maintain civic services in the local areas.

Combining international best practices, drawing upon the experience of industry associations, taking consultancy advice and using experiences of working with clusters, A.P has identified some key targeted interventions to create globally competitive clusters - SMART CLUSTERS.

The trajectory of cluster development is given below.



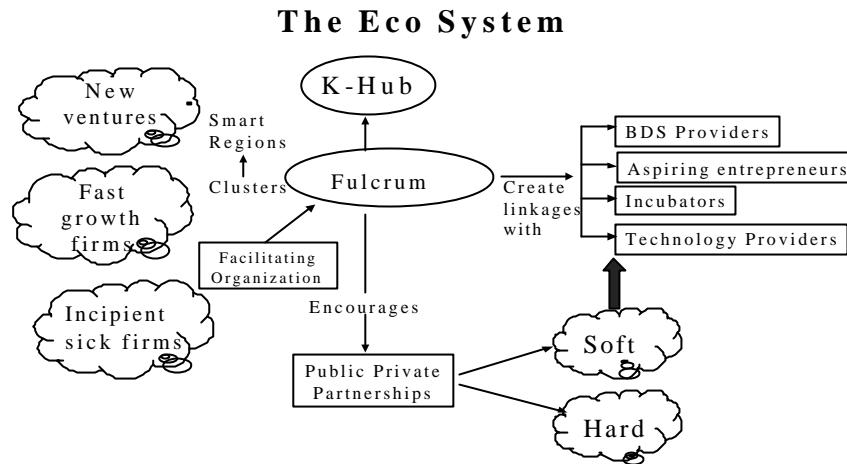
A smart cluster smartly addresses emerging global opportunities. Firms will build advantage by embedding smarts in the value chain. A smart cluster will have global presence with five dimensions.



Source: V.Govindarajan, *The quest for Global dominance*

THE VISION OF CLUSTER DEVELOPMENT

The vision of cluster development in A.P is an Eco system given below.



The strategy is to leverage all the activities by the fulcrum which will provide total solutions to convert clusters to competitive clusters. In a smart cluster the fulcrum is converted to a Knowledge hub(K-Hub).

All organisations and outfits serving the cause of industrial development have been integrated into a single body called the fulcrum.. Multiplicity leads to lack of focus and accountability. All the services offered in areas such as training, market information, technology and entrepreneurship, are concentrated near the cluster, in the cluster development organizations (CDOs). The CDOs set up one-stop business service centres that provide information on government resources and support services, and assistance for meeting regulatory requirements. The CDOs map the cluster, provide business development services and identify the technology development service providers.

The Framework

The framework for the total development of a growth engine is given below and it identifies various areas for action.

- Building Capacities in the Cluster
 - Investment promotion
 - Industrial networks
 - Technology
 - Cluster associations

- Factor Inputs
 - Human resources
 - Financial resources
 - Infrastructure
 - Administrative

- Promoting innovation
 - Networking
 - Industry- academic interface
 - Centres of excellence

- Creating Markets
 - Creation of common brand
 - Linkages with suppliers and purchasers
 - Information sources
 - Export- Import facilitation

The CDOs decide critical interventions on the above framework.

References

1. Vision 2020 document- Mckinsey and Mckinsey
2. CRISIL – Infrastructure Advisory
3. V.Govindarajan, The quest for Global dominance