

## 4

**INVESTMENT AND EXPORTS**

Promotion of private investment has been high on the agenda of Government of Karnataka. The concerted efforts by the State have resulted in a large-scale inflow of investments during the past few years. The State has also developed a distinct policy framework for guiding investments and set up dedicated institutions that streamline the approval processes. Karnataka offers wide range of fiscal and financial incentives to investors even while nurturing the supporting infrastructure such as technical institutions, laboratories and research institutions. The State's information technology and biotechnology sectors have attracted significant investments and contribute to significant exports from the country in those sectors. Exports contribute about 40% of the State's GSDP with electronic, computer software and biotechnology contributing a major portion of the exports. Karnataka's economic growth can be accelerated further with a continued emphasis on promotion of private investment and enhancement of industrial competitiveness.

**4.1. Investment in Karnataka**

Karnataka is a pioneer in introducing many reform initiatives adopted in India and has been highly proactive in attracting private investment. Lucrative policies incentivizing private domestic and foreign investments are framed from

time to time. These policies along with an investment friendly climate in the State have helped the State attract large-scale private investment, especially in information and communication technology (ICT) and biotechnology sectors. Karnataka Udyog Mitra, established under the Department of Industries and Commerce, by the Government of Karnataka, is specially meant for the promotion and facilitation of investments in the State.

**4.1.1 Policy Framework for Attracting Private Investments**

Foreign investment is a subject in the Central List of the Indian Constitution. All powers for the design of policies for promotion and regulation (including approvals) of foreign investment rest with the Government of India. State Governments complement the National policy efforts by initiating special measures for speedy clearances and smooth facilitation of inflow of investments. The National policy framework is aimed at maximising the inflow of private foreign investment into India. However, investors have the ultimate locational choice of their investment anywhere in India. In this context, policies and programmes of Government of Karnataka for attracting private foreign investment by making Karnataka a competitive and attractive destination for global investments assume special and utmost significance.

Karnataka is one of the industrially developed States in the Country. The State has been laying special emphasis on promotion of industries, trade and service

sectors. In order to make the State more attractive and investor friendly, investment promotion policies and programmes framed on a periodical basis have offered attractive incentives and concessions and made attempts to strengthen the required infrastructure. The industrial promotion policies also aim at achieving inclusive development, given the wide regional industrial development disparities prevailing in the State. The State has been making concerted efforts to announce suitable incentives in attracting investment into the backward regions. The current industrial policy 2014-19 of the Government of Karnataka is a reflection of these broad objectives for promotion of industrial investment and development in the State.

The fiscal and financial incentives, announced by the State government include capital investment subsidy, exemption of electricity duty on captive power generation, exemption of stamp duty & reduction of registration charges, waiver of conversion fee (on lands converted for industrial use), acquisition and allotment of land through Karnataka Industrial Areas Development Board (KIADB), subsidy for setting up of Effluent Treatment Plants (ETPs), entry tax & special entry tax concessions, technology upgradation and, industrial infrastructure development/ common infrastructure/facilities in notified industrial clusters. Agricultural produce processing industries are exempted from payment of APMC cess. Incentives such as interest free loan on VAT for large and mega projects, anchor unit subsidy, special incentives for enterprises coming up in low human development index (HDI) districts (only for large and mega projects), interest subsidy for micro-manufacturing enterprises, exemption from electricity duty for micro and small manufacturing enterprises and refund of cost incurred for preparation project reports for micro and small manufacturing enterprises are also provided.

Karnataka Udyog Mitra (KUM) is a single contact point for all investors who are looking at setting up enterprises/business in Karnataka. As the nodal agency, its role is to facilitate investments and execute initiatives to enable a smooth transition from the stage of receiving investment proposals to the eventual implementation of the project. It acts as a secretariat for State High Level Clearance Committee (SHLCC) for projects above Rs.50.00 crore and State Level Single Window Clearance Committee (SLSWCC) for projects between Rs.3.00 crore to Rs.50.00 crore.

#### **4.1.2 Karnataka's Investment Climate**

Karnataka's vast and diversified resource base has emerged as a reputed investment destination for investors worldwide. The State was the first to enact the Industrial Facilitation Act to help investors. Karnataka has a single window which acts as a one-stop-shop for investments in the State. The specific advantages for Karnataka include i) Good law and order situation prevailing in Karnataka which is conducive to foreign direct investments ii) Abundant availability of highly skilled manpower iii) Karnataka ranks among the top 5 industrially developed States in India iv) The State provides excellent logistic support and connectivity to the investors and v) The State provides one of the biggest and fast expanding markets in the Country.

Karnataka's investor-friendly and responsive administration has worked towards easing administrative procedures and implementing policy measures for faster and smoother industrial growth. Some of the significant measures are as follows:

- (a) An investor-friendly responsive administration
- (b) The State-level single window clearance committee and the State high level clearance committee facilitate clearance of proposals in a speedy manner.

- (c) Sector-specific industrial zones and SEZs that match the natural resources and capabilities of a region with the industry requirements.
- (d) Creation of World-class, ready-to-use infrastructure through investments in power, roads, water, warehouse and logistic facilities, connectivity through rails and ports etc.
- (e) The State Government's packages of incentives and concession for new industrial investments announced from time to time
- (f) Special focus on skill development to enhance generation of technical manpower
- (g) Excellent telecommunication network and optical fibre connectivity throughout the State
- (h) Exemption from State taxes for all purchases from domestic tariff area

#### 4.1.3 Investment flows into Karnataka

Details of projects approved by the State Level Single Window Clearance Committee (SLSWCC) are provided in **Table 4.1**. The State had attracted maximum investment during the year 2006-07 with an

investment of Rs 11511.44 crore. In terms of approved number of units and employment too, 2006-07 had the largest during the time period under study. Good flow of investment continued in 2007-08. The global recessionary trends have not spared Karnataka as one can observe a reduced size of investment in the later year.

Projects with an investment of Rs 50 crore and above are cleared by the State High Level Clearance Committee (SHLCC). The number of projects cleared by SHLCC during 2006-07 till 2014-15 are presented in **Table 4.2**

Karnataka accounts for a significant share in the total FDI that flows into India. The statistics provided in **Table 4.3** reveal that the State had 7.78% share in the total FDI taking place in India in 2013-14. Karnataka attracted FDI of US \$14174 million during the period of April 2000 to November 2014, constituting 5.99% of the all-India FDI.

#### 4.1.4 Investment in Information Technology.

The IT Revolution in Karnataka began with the establishment of the multinational company viz., Texas Instruments in 1984. Bengaluru was the first city in India to set

**Table 4.1: Projects approved by State Level Single Window Clearance Committee**

| Year                        | Approved Projects | Investments (Rs. In crore) | Employment (In Nos.) |
|-----------------------------|-------------------|----------------------------|----------------------|
| 2006-07                     | 871               | 11511.44                   | 612620               |
| 2007-08                     | 727               | 10266.92                   | 349015               |
| 2008-09                     | 310               | 5181.62                    | 135623               |
| 2009-10                     | 359               | 7749.88                    | 115932               |
| 2010-11                     | 439               | 6879.64                    | 110505               |
| 2011-12                     | 410               | 5328.50                    | 65549                |
| 2012-13                     | 675               | 9350.79                    | 141821               |
| 2013-14                     | 209               | 3558.21                    | 43759                |
| 2014-15<br>(Up to Dec 2014) | 30                | 1079.08                    | 16435                |

Source: Karnataka Udyog Mitra

**Table 4.2: Projects approved by State High Level Clearance Committee**

| Year                       | Approved Projects | Investments (Rs. In crore) | Employment (In Nos.) |
|----------------------------|-------------------|----------------------------|----------------------|
| 2006-07                    | 66                | 92055.84                   | 781966               |
| 2007-08                    | 108               | 160522.82                  | 1996504              |
| 2008-09                    | 50                | 105266.20                  | 410842               |
| 2009-10                    | 110               | 288548.57                  | 284934               |
| 2010-11                    | 186               | 187185.70                  | 580161               |
| 2011-12                    | 60                | 34088.80                   | 165010               |
| 2012-13                    | 100               | 133109.77                  | 1158001              |
| 2013-14                    | 28                | 24566.37                   | 83803                |
| 2014-15<br>(upto Dec 2014) | 16                | 10750.94                   | 8086                 |

Source: Karnataka Udyog Mitra

**Table 4.3: Foreign Direct Investment Inflow to Karnataka** (US \$ Million)

| Year                    | Karnataka | All India | Percentage |
|-------------------------|-----------|-----------|------------|
| 2007 - 08               | 1581      | 23901     | 6.61       |
| 2008 - 09               | 2026      | 27331     | 7.41       |
| 2009 - 10               | 1029      | 25834     | 3.98       |
| 2010 - 11               | 1332      | 19427     | 6.86       |
| 2011-12                 | 1533      | 35121     | 4.36       |
| Total (2007-12)         | 7501      | 131614    | 5.70       |
| 2012 - 13               | 1023      | 22424     | 4.56       |
| 2013 - 14               | 1892      | 24299     | 7.78       |
| 2014-15 (upto Nov.2014) | 1498      | 18884     | 7.93       |
| April 2000 to Nov. 2014 | 14174     | 236586    | 5.99       |

Source: Technical Consultancy Services Organisation of Karnataka (TECSOK) Bengaluru.

up a satellite earth station for high speed communication services to facilitate software exports in 1992. The State made a giant leap in the IT sector by establishing the Country's first extended facility of the International gateway and network operations centre at the Software Technology Park of India (STPI) in the Electronic city. This catalyzed the positive

growth in sector. Today, Karnataka is home to over 2500 IT companies, contributing to over Rs. 1.80 lakh crore of exports, The industry contributes to over 25% of the State's GSDP. The share of Karnataka in IT exports is nearly 38% of the country's exports.

Karnataka continues to be the most preferred destination for all global IT & BT

giants due to numerous favorable factors such as:

- Pro-active Government
- Industry friendly Labour Laws
- Salubrious Climate
- Excellent Law & Order situation
- Absence of Natural Calamities
- Talent pool of highly trained professionals
- Cosmopolitan social life in the cities particularly at Bengaluru
- Investor friendly opportunities

The IT Industry in the State has emerged as one of the largest job providing sector. The Industry provides direct employment to over a million and indirect employment to over 3 million persons

The information technology (IT) sector in Karnataka has become one of the main growth drivers of Karnataka's economy. IT activity in Karnataka is largely concentrated in Bengaluru. Lately, other parts of Karnataka have also seen a growth in IT-related activities.

Bengaluru, is the 4th Best Technology Hub in the world, after Silicon Valley, Boston and London (as per UNDP Report), has become a global brand in the IT space. Almost all the Fortune 500 companies have one or the other of their operations outsourced in Bengaluru. Many global brands such as GE, Texas Instruments, Intel, AMD, SAP, CISCO, Microsoft, Motorola, Nokia etc., have their R & D activity based in Bengaluru.

#### **4.1.4.1. Karnataka I4 Policy (IT, ITES, Innovation, Incentives Policy)**

The State Government has been encouraging IT units to set their operation in the State. Under the State's IT policy, several infrastructure facilities are proposed in Mysuru, Hubballi, Manipal & Mangaluru apart from Bengaluru to help the development of IT industry. The setting

#### **Highlights of the I4 policy**

- ❖ Employment Linked Incentivization of Land Allotment (E-LILA) outside Bengaluru Urban and Rural districts' Limits
- ❖ Land allotment for IT / ITES, Animation-CGI / Knowledge based industries at concessional rates.
- ❖ Allotment linked to employment generation for investments outside Bengaluru Urban and Rural Districts.
- ❖ Thrust to promote Tier 2/3 cities.
- ❖ Incentives available only for direct end users.
- ❖ Land will be allotted at the rate of 1 acre for every 1000 jobs created.
- ❖ Start-up companies to be provided plug and play space with internet at concessional rates of Rs.5-15 per square feet depending on location
- ❖ Dept. of IT, BT and S&T to act as Single Window Agency for clearance of IT / ITES / Start-ups / other Knowledge based industries.
- ❖ Exemption of Karnataka Industrial Employment (Standing Orders) Rules, 1964 to IT / ITES / Start-ups / other Knowledge based industries for a period of 5 years.
- ❖ IT / ITES / Start-ups / Animation / KPO / Knowledge based industries to be treated at par with Public Utilities.
- ❖ Reimbursement of PF/ESI of Rs.2000 Per month per employee for 2 years for all new employment created in Tier 2/3 Cities.
- ❖ Industrial Power tariff will be applicable to all IT / ITES / BPO / Telecom / KPO / Start-ups / Animation / KPO / Knowledge based industries
- ❖ Stamp Duty Exemption of 75% in Mysuru and Mangaluru for IT / ITES / Start-ups / other Knowledge based industries in addition to other locations.
- ❖ Skill development programme for training unemployed youth in basic IT/BPO/ESDM/Telecom etc.

up of IT industries under this policy is with an objective of earning valuable foreign exchange through software exports.

The Government has brought out new IT Policy i.e., Karnataka I4 Policy (IT, ITeS, Innovation Incentives Policy) where in several incentives are being offered to new IT / ITES and other knowledge based sectors to set up their facility in Tier 2/3 Cities across Karnataka.

The Dept. of IT, BT and S&T acts as Single Window Agency for clearance of IT / ITES / Start-ups / other Knowledge based industries.

#### **4.1.4.2. Karnataka's Electronics Systems Design and Manufacturing Policy 2013:**

Electronic Systems Design and Manufacturing (ESDM) is the fastest

growing segment of the Information and Communications Technology (ICT) sector. As per the National Electronics Policy – 2012 (NEP-2012), ESDM is expected to grow to USD \$400 Billion by the year 2020 and will generate a total employment of over 28 million. The objective of the Karnataka ESDM Policy is to facilitate, promote and develop the “ESDM” sector in the State of Karnataka and make Karnataka a preferred destination for investment in Telecommunications, Defense, Medical, Industrial, Automotive, Consumer Products, applications and components, parts, and accessories required for the aforesaid products and applications. The following targets are set for Karnataka ESDM Policy:

- 1. Emerge as the leading contributor to India's ESDM sector by accounting for at least 10% of the USD \$400 billion by 2020,**
- 2. Generate over 20% of the country's total ESDM exports target of USD \$80 billion by 2020,**
- 3. Develop core competencies in specific ESDM verticals such as telecom, defense electronics, avionics and energy.**
- 4. Make Karnataka the country's preferred destination for investments in ESDM, and**
- 5. Generate at least 240,000 new jobs, 25% of India's PhDs and 5000 patent filings in ESDM sector in Karnataka by 2020.**
- 6. Increase the value-addition that is done in Karnataka.**

#### **4.1.4.3. Penetration of ITBT into regions other than Bengaluru:**

The thrust of the ICT Policy and ESDM Policy is on development of IT and ESDM Companies in the Tier – 2 / 3 Cities of Hubballi – Dharwad, Mysuru, Mangaluru, Kalaburgi and Belagavi. While IT Parks have been developed in Hubballi-Dharwad, Shivamogga and Kalaburgi, the Department would conduct feasibility study for IT Parks in Mysuru, Mangaluru and Belagavi. Skill Development programs are also proposed to be considered in Tier –

2 and Tier – 3 cities, especially for the Karnataka ESDM companies.

Department of Higher Education, Ministry of Human Resource Development (MHRD), Government of India, proposes to set up 20 new Indian Institute of Information Technology (IIIT) in different parts of the country. Partners in setting up the IIITs would be Govt. of India (MHRD), State Governments and Industry, who will contribute the tentative estimated cost of Rs.128 crore in the ratio of 50:35:15. State Government has given its commitment to

provide its share of capital expenditure as well as to give 50 acres of land free of cost. Govt. of India has given its approval for setting up of IIIT project in Dharwad. State Government has recently allotted 61.01 acre of Government land in Dharwad for setting up of Indian Institute of Information Technology (IIIT).

#### **4.1.4.4 Setting up of Startup Warehouse in Bengaluru.**

GoK/KBITS in partnership with NASSCOM has set up the first start up warehouse at Diamond District, Old Airport Road, Bengaluru. This is one of the recommendations of the KIG 2020 Report.

The first startup warehouse has been running successfully and it has facilitated 35 startups and another 40 are waiting for the space. All the start ups incubated in the warehouse are reported to be in Bengaluru only and grow their operations locally.

Bengaluru is now also known as the Startup Capital of India and it is reported that nearly 30% of the startups are from Bengaluru. Encouraged by the success of the first warehouse, GoK/KBITS now proposes to put up a second start up warehouse in the city and the preliminary works have already been completed and it is expected to take off before March 2015 and is expected to accommodate around 500 work stations along with other infrastructure.

#### **4.1.4.5. Karnataka Semi-conductor Venture Capital Fund ( KARSEMVEN Fund)**

Traditionally, Karnataka has been the favoured destination for the technology sector-in software, semiconductors and biotechnology. Bengaluru has been a preferred hub of the GoI defence labs. This coupled with the talent pool, access to engineering colleges and attractiveness as an investment destination for private sector companies, has created an ecosystem giving Karnataka a national edge.

Bengaluru is the largest hub of semiconductor design companies, outside the Bay Area in California. Nearly 70% of the country's chip designers work here and around 80% of the sector's revenues in design are from this city alone.

Government of Karnataka focus is on four key activities.

- a. Promote Karnataka as a semiconductor design hub.
- b. Attract investments in high-tech semiconductor manufacturing.
- c. Promote generation and use of green energy – specifically solar energy.
- d. Focus on manpower development.

GoK / KBITS has set up Karnataka Semiconductor Venture Capital Fund (KARSEMVEN Fund) for assisting Companies in the Semiconductor sector. The total fund size is Rs.96.15 Crore. The fund has achieved the initial closing of Rs.50 crore on 9/5/2014.

The fund has become operational and the Investment Committee has been set up. Applications from the Companies seeking assistance are being examined. This is a major achievement in taking the investments in Semiconductor industry forward.

#### **4.1.4.6.KAVGC Policy**

As per the KAVGC Policy the following projects are being implemented.

##### **a) Digital Art Centers**

As per the KAVGC policy Digital Training Centres (DTC's) being set up in 7 Art Colleges/Schools across Karnataka in association with ABAI providing education in traditional arts are proposed to be equipped with Digital Lab and Technologies so that the digital component can be included in the curriculum and offerings by the State's educational institutes. The Project is known as Digitalization of Art Colleges (DAC)

It is proposed to set up the above facilities in 7 DACs in the first phase in CIST-Mysuru University, MAAC-Hubballi, Framebox-Sirsi, Jingles-Kalaburgi, Karnataka Chitrakala Parishad and AIGA in Bengaluru and Hampi. MoUs have been entered into between ABAI & KBITS for setting up of Digital Art Centers (DACs) in 7 art schools across Karnataka.

#### **b) Commencement of Train the Trainer Programme (TTT)**

This is a programme which is basically aimed at bridging the gap in the current education sector thereby improving the overall level of knowledge imparted in the Animation, Visual Effects, Gaming and Comics Industry and Government of Karnataka in association with ABAI has taken steps to set up a “Train the Trainer” (TTT) Hub in Bengaluru.

#### **Objectives of TTT are:**

1. To ensure that basic curriculum is prescribed for various long term /short term courses for the development of artistic and technical talent.
2. For bringing in experts and trainers to conduct programmes to create the first batch of trainers in the proposed centres.
3. To develop know-how, tools and learning pedagogy for AVGC education at all levels.

ABAI has entered into MoU with KBITS for setting up of Train The Trainer (TTT) facility in Bengaluru. The project is ready for inauguration.

#### **c) Setting up of AVGC Lab & Digital Media City**

Government of Karnataka / KBITS proposes to set up State of the Art AVGC Lab and Digital Media City in Bengaluru under Public Private Partnership (PPP) for the benefit of the Animation Industry in Karnataka. KBITS / GoK has entered into MoU with ABAI for selection of the Private

Partner through Global tender for the project.

#### **4.1.4.7. ICT Skills Development Society**

As per the i4 Policy of the Government ICT Skills Development Society (ICTSDS) has been registered in March 2014 with the mandate to take up Skill Development activities in consultation with the Industry for training un-employed and under-employed youth in basic ICT domains of sub-sectors like BPO, Telecom, ESDM, Manufacturing, Services, Health, Automation etc.

The ICT Skills Development Society has been selected to roll out a skilling program in ESDM Sector by the Department of Electronics and Information Technology, Government of India. Karnataka has been selected as one among six states in the country to implement this Govt. of India Scheme which is to the tune of Rs. 14.3 Crore per state and a provision to provide skilling in ESDM sector to 15,000 youth per state. MoUs have been signed with (i) National Institute of Electronics and Information Technology, Govt. Of India (ii) Electronics Sector Skill Council of India and (iii) Telecom Sector Skill Council.

Skill development program has been launched on Oct 30, 2014 in Bengaluru. The Scheme has provision of funding Rs. 14.3 Crores from the Govt. of India for training of 15,000 youth over next four years. Best of breed solutions are being employed in implementing this project ICTSDS. Website was launched on Sept 18, 2014 and all relevant information and details have been put on the website. The website also gives details of the courses, the industry linkages and other opportunities.

#### **4.1.5. Investment in Biotechnology**

Karnataka has played a key role in India's emergence as a significant player in the global biotechnology industry. Karnataka is home for 60% of the country's biotech units. There are 400 biotech units in the country



**Table 4.4 Performance of Information, Communication and Technology Sector**

| Sl. No. | Particulars      | Unit      | 2013-14 | 2014-15<br>(up to Dec. 2014) |
|---------|------------------|-----------|---------|------------------------------|
| 1       | IT Units         | No.       | 2425    | 2560                         |
| 2       | IT Exports       | Rs. crore | 180000  | 176610                       |
| 3       | No. of Employees | Lakh No.  | 9.5     | 10                           |

Source: Karnataka Biotechnology & Information Technology Services, Bengaluru.

and in Karnataka their number has increased to 226 in 2013-14. Karnataka is contributing 26% (1.04 Billion USD) of total Biotech Revenues of over 5.0 Billion USD. This number continues to grow with most of the well-known companies continuing to choose Karnataka for their operations. The biotech export revenues contribution of

Karnataka is 530 million USD. The domestic sales revenues is currently 509 million USD.

Karnataka has put in place a strong policy framework to provide all requisite resources for enhancing this industry's research and development capabilities. Being the pioneer

#### **Highlights of Progress in Alignment with Biotech Policy II:**

1. **Bengaluru Bio Innovation Center (BBC) on fast track scheduled to be launched in Feb. 2015 in Bengaluru Helix Park, Electronics City**
2. **BBC with capacity to house over 20 SMEs with access to high tech instrumentation facility will be an integral part of the Biotech Ecosystem to provide impetus for innovation.**
3. **IBAB and CHG well established in Bengaluru Helix Park are being strengthened with hostel and training facilities.**
4. **MOA signed with CSIR-CFTRI to establish Phase I (Incubation Suites cum Common Instrumentation Facility) in the campus of CFTRI - Mysuru with focus on Nutraceuticals and Phyto-Pharmaceuticals. A grant of Rs.5 Crore has been provided.**
5. **MOA finalized with UAS- Dharwad to establish Phase I (Incubation Suites cum Common Instrumentation Facility) in Dharwad with focus on Agriculture and Biotechnology. A grant of Rs. 6.5 Crore has been provided.**
6. **Biotechnology Finishing School (BTFS) program strengthened with 210 students in 4th batch enrolled across 12 colleges including 12 students in the Department of Biotechnology, Gulbarga University and 9 in MMAS College Sirsi. Student fellowship increased by Government of India to Rs. 10,000/- from Rs. 5,000/- per month.**
7. **Over 60% of job placements of Batch II students.**
8. **Expert Group on Agriculture Biotechnology (EGAB) constituted as a sub group of VGBT (Vision Group on Biotechnology) has developed a comprehensive Agriculture Biotechnology Policy Document – circulated to all the relevant departments.**
9. **Funded University of Horticultural Sciences, Bagalkot to the extent of Rs.8.5 Crore over 3 years to carry out R&D on Tomato, Banana, Pomegranate and Garcinia, to develop resistance to diseases and establishment of germplasm / gene banks.**
10. **Proposal sent to DBT-GOI to establish Center for Biomolecular Engineering in Bengaluru – potentially Rs. 700.00 Crore Project.**

of the biotechnology industry, the State has built up considerable resources and talent pool that are well suited for the needs of the industry. Karnataka was one of first Indian States to frame an industry-oriented biotechnology policy. The millennium biotech policy was formulated by Karnataka Government in 2001 to give a thrust to the biotechnology industry in the State. Keeping in tune with rapid changes in the industry, the policy was revised in 2009. and is now being worked up to release version 3.0 of the policy to integrate adoption of new technologies as well as innovation to meet challenges that continue to persist in the society. Karnataka is highest in R&D expenditure in South India.

#### **4.2. Exports of Karnataka**

Karnataka has a long tradition of overseas trade. Historically, Karnataka has been a major exporter of commodities like coffee, spices, silk, cashewnuts, handicrafts and agarbathies. In the last two decades, the State has emerged as a major player in the export of electronic and computer software, engineering goods, readymade garments, petrochemicals, gems and jewellery, agro and food processing products, chemicals, minerals and ores, marine products, etc. Karnataka has carved out a niche for itself in the global market place as the knowledge and technology capital of the Country. The State has made rapid and spectacular strides in the new economy. Information technology, biotechnology and research and development institutions have enhanced Karnataka's achievements at national and global levels. Karnataka accounts for more than one third of electronics and computer software exports from the country. It is also a leader in exports of readymade garments, gems and jewellery, petrochemicals and engineering commodities from Southern Region.

##### **4.2.1 Export performance of Karnataka**

Karnataka ranks 1st in software / service exports and stands 4th in merchandise exports in the national export basket.

Karnataka is in the processes of establishing a continuous database on exports among the states in India. Visvesvaraya Trade Promotion Centre (VTPC) under the aegis of Department of Industries and Commerce of the Government of Karnataka is the official institution for compilation and publication of the export data by 19 commodities from Director General of Commercial Intelligence and Statistics, Kolkata, Export Promotion Councils (EPCs), Commodities Boards and other State agencies. Trade & industry bodies have also supported for the creation of database.

Karnataka has shown a highest growth rate of exports of over 12% in the year 2013-14 compared to previous year and also when compared to other States. Karnataka's exports in terms of value in 2012-13, 2013-14 and 2014-15 (April-September) are shown in Table 4.5. Appendix 4.1 provides data on the State's exports since 2002-03 to 2013-14.

Karnataka's exports amounted to about Rs. 290418 crore in 2013-14 which constituted about 12.37% of the Country's exports in that year. The share of merchandise exports in the National exports constitutes around 5.92% and software / service exports around 38% for the year 2013-14.

Karnataka's exports as a percentage of GSDP has a fairly large share and has also increased significantly over the period. The share of exports in GSDP which was 7.36% in 1993-94, has grown to 47.3% in 2013-14.

Exports of electronics and computer software constitute the largest share in the State's exports. Its share was of the order of 61% in 2013-14. The other commodities which have substantial share in Karnataka's exports in 2013-14 are petroleum and petroleum products (12.18%) and gems & jewellery (8.32%). These three commodities account for about 81% of Karnataka's exports. Other commodities with significant share in State exports are engineering goods (6.19%),

**Table 4.5: Export Performance of Karnataka**

(Value in Rs. crore)

| Sl. No | Commodity                                     | 2011-12       | 2012-13       | 2013-14       | 2014-15*      |
|--------|-----------------------------------------------|---------------|---------------|---------------|---------------|
| 1      | Electronics, Computer Software & BT           | 135660        | 156000        | 178000        | 60735         |
| 2      | Readymade Garments                            | 8143          | 7670          | 8900          | 3810          |
| 3      | Petroleum & Petroleum Products                | 23418         | 33915         | 35392         | 11825         |
| 4      | Engineering Products                          | 8263          | 12568         | 17978         | 11557         |
| 5      | Iron Ore & Minerals (incl Granite)            | 1134          | 1735          | 739           | 442           |
| 6      | Silk Products                                 | 673           | 654           | 650           | 300           |
| 7      | Coffee Products                               | 3173          | 3534          | 3598          | 1908          |
| 8      | Basic Chemicals , Pharmaceuticals & Cosmetics | 5077          | 7233          | 8300          | 2835          |
| 9      | Agriculture & Processed Food Products         | 763           | 1149          | 1300          | 698           |
| 10     | Gem and Jewellery                             | 23728         | 24483         | 24175         | 10377         |
| 11     | Cashew and Cashew Kernals                     | 882           | 847           | 1200          | 1420          |
| 12     | Handicrafts                                   | 267           | 374           | 516           | 488           |
| 13     | Leather Products                              | 320           | 452           | 450           | 291           |
| 14     | Chemicals and Allied Products                 | 480           | 491           | 562           | 450           |
| 15     | Marine Products                               | 605           | 632           | 1067          | 387           |
| 16     | Plastic Goods                                 | 604           | 788           | 700           | 270           |
| 17     | Spices                                        | 700           | 905           | 1150          | 576           |
| 18     | Wool & Woolen Products                        | 129           | 151           | 176           | 97            |
| 19     | Miscellaneous and Other                       | 4819          | 4789          | 5565          | 2426          |
|        | <b>Total</b>                                  | <b>218838</b> | <b>258370</b> | <b>290418</b> | <b>110892</b> |

\*up to September 2014.

Source: Visvesvaraya Trade Promotion Centre, Government of Karnataka

Readymade garments (3.06%), basic chemicals, pharmaceuticals and cosmetics (2.86%) and coffee (1.24%).

Karnataka enjoys a unique position in India in exports of electronics and computer software. In 2013-14, the exports of electronics and computer software from the State accounted for as much as 40% of India's total exports.

Exports of electronics and computer software, basic chemicals, pharmaceuticals and cosmetics, readymade garments, petroleum & petroleum products, engineering products, marine products, coffee products, spices, agro and processed food products and plastic goods have increased significantly in 2013-14 as compared to their exports in 2012-13. The

exports of silk products, gems and jewellery, iron ore and plastic goods have revealed a marginal decline in 2013-14 as compared to 2012-13.

Karnataka's exports were Rs.110892 crore during the period of April-Sept.2014. Export of electronics and software constitutes the largest share in the State's exports. Its share is 55% in 2014-15 (up to September 2014). The other commodities whose share in exports in 2014-15 (up to September 2014) are Gems & jewelers (9.36%), petroleum & petroleum products (10.66%), engineering products (10.42%) and readymade garments (3.44%)

Karnataka's contribution to India's exports has varied between 11% and 15% during the Eleventh Period. Further, Karnataka's

share in India's total exports of information and communication technology products has remained higher than 25% since 2005-06.

The Share of Karnataka's exports in the State's GSDP from 2007-08 to 2013-14 is depicted in **Fig. 4.1**. Higher export performance is an important determinant of increasing degree of openness to export trade. Degree of openness is measured by the ratio of value of exports to GDP at National level and by the ratio of value of exports to GSDP at the State level. Karnataka's degree of openness to export trade has increased from about 40% in 2010-11 to about 47% in 2013-14. This is remarkably higher than that of all India (at about 24%). Increasing degree of openness to trade is an indicator of economic globalization. From this viewpoint, the levels of Karnataka's economic globalisation have been higher than at all India level.

#### 4.2.2 Policy support for exports

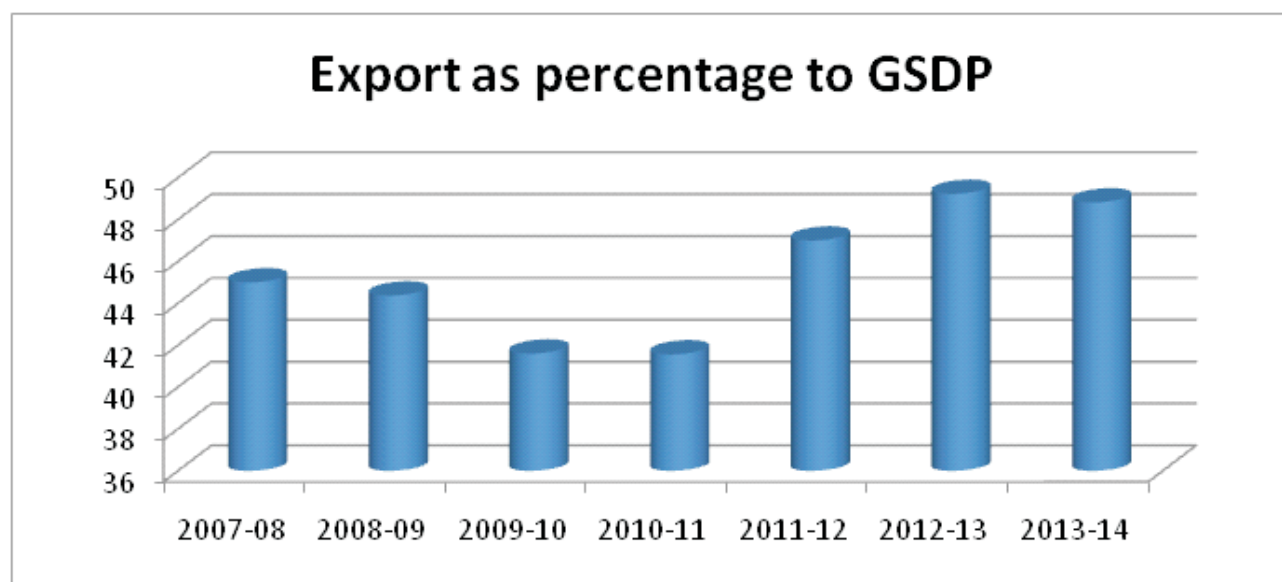
Foreign trade is in the Central List of the Indian Constitution. The Government of India is empowered to formulate all rules and regulations for foreign trade applicable for the country as a whole. The role of the

State Government is complementary by way of providing supportive and special promotional measures for promoting foreign trade, especially in regard to exports of goods and services.

The Government of Karnataka has taken explicit measures for export promotion through various policies as under:

- Industrial Policy 2014-19.
- Karnataka State Mineral Policy 2008.
- Grape Processing & Wine Policy 2007.
- Karnataka Renewable Energy Policy 2009.
- Karnataka SEZ Policy 2009.
- Karnataka Tourism Policy 2009
- Karnataka Semi Conductor Policy 2010.
- Karnataka Solar Policy 2011.
- Karnataka Integrated Agribusiness Development Policy 2011.
- Karnataka Animation Visual Effects & Comic Policy 2012.
- Karnataka Pharmaceutical Policy 2013.
- Karnataka New Infrastructure Policy 2013

**Fig.4.1: Exports as percent to GSDP**



- Electronic System Devices & Manufacturing Policy 2013.
- Karnataka Textile Policy 2013
- Karnataka Aerospace Policy 2013.
- Karnataka i4 Policy 2013.

The State is providing various incentives & concessions to the MSME sector for technology upgradation / technology transfer to enhance their competitiveness and capabilities to compete in the international market. The State Government has contemplated various initiatives along with incentives and concessions for the promotion of exports in the New Industrial Policy 2014-19, which are as follow:

#### **A. Export Promotion Measures**

- Creation of export infrastructure
- Thrust to SEZs in the State.
- Encouragement for the development of ICD/CFS on PPP mode.
- EOUs are to be declared as Public Utility Services (PUS) to create conducive environment for exports.
- Exporters with good track record will be issued Green Card to enable smooth movement of goods.
- Banks to issue Gold Cards for exporters with proven transaction record.
- Development of infrastructure for specific sectors :
  - Agro & Food Processing
  - Textile & Readymade garments
  - Chemical industry
  - Pharmaceutical
  - Engineering (Automobile, Aerospace & Precision tools)
  - Electronics
  - Electricals
  - Gems & Jewellery
  - Plastics

- Leather Products
- Handicrafts
- Marine products

#### **B. Incentives & Concessions:**

- a) Exemption from Entry Tax
- b) Refund of certification charges.
- c) Refund of cost incurred for Export Consultancy / Market Intelligence Studies.
- d) Brand Promotion and Quality Assurance.
- e) Refund of fees for individual entrepreneurs incurred on Certification Courses on Export-Import Management.
- f) Support for establishment of CFS and other export infrastructure.
- g) Support for creation of Export Facilitation facilities, R&D and testing services
- h) Market Development Assistance for Trade Promotion and overseas Trade Delegations.
- i) Reimbursement of Export Credit Guarantee Insurance.
- j) Support for development of exports in Gherkins, Rose Onions and Floriculture.

#### **State Policy for Special Economic Zones (SEZs)**

In order to support the efforts of the Govt. of India in development and promotion of SEZs in the State, the Government of Karnataka has formulated a State policy for SEZs as per the Central SEZ Act 2005 & Rules 2006. The Policy aims to provide a hassle-free environment for the manufacturing & service sectors and to attract FDI. The salient features of the State Policy for SEZs are:

- Single point clearance to SEZ developers & units.

- Acquisition of land on consent basis.
- To set up SEZs on waste, dry and single crop land.
- Delegation of Labour Commissioner's powers to Development Commissioner – SEZ.
- Monitoring and Review committee is constituted to monitor and review the implementation of SEZs under the Chairmanship of Chief Secretary, Govt. of Karnataka.

The fiscal package of incentives & concessions extended to SEZ developers and SEZ units under SEZ State policy includes:

- Exemption from State taxes for all purchases from domestic tariff area excluding petroleum products.
- Exemption from stamp duty and electricity duty.
- Capital subsidy for common effluent treatment plant.

The Board of approval of SEZ constituted under SEZ Act 2005 has granted formal approvals for 60 SEZs and in-principle approval for 1 SEZ in the State. SEZs numbering 25 are operational in the State with an investment of Rs. 37,225 crore and generating employment for 11, 65, 560 persons. Currently there are 266 SEZ units functioning in these SEZs. The value of exports from these SEZs during the year 2013-14 accounted to Rs.51,200 crore.

VTPC is the nodal agency for the implementation of Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) scheme in Karnataka. The agency has extended financial support for the completion of 96 export infrastructure projects out of total of 120 projects in various parts of the State. The projects of connectivity to ports, formation and upgradation of roads in industrial area/estates, flyovers, by-pass, water supply, power supply, cold storage, training centres, warehouses, R&D centres,

common facility centre, Human resource Development, pre-harvest & post harvest technological facilities etc. are implemented in the State. 24 projects are under various stages of implementation. Karnataka has been recognized as the Best Performing State in the implementation of ASIDE scheme.

In order to encourage growth and development of exports from the State, the Government of Karnataka has established a dedicated nodal agency, Visvesvaraya Trade Promotion Centre (VTPC) for promotion of International Trade. In addition to compiling of data on the State's exports, VTPC conducts various capacity building programmes and also provides services across market intelligence, export documentation, finance and other critical areas to the exporting community. VTPC also organizes several export-related programmes for both prospective and existing exporters in the State. Export awareness programmes are also conducted at district / potential places. VTPC has established Export Information Centres at Dharwad & Mysuru to facilitate exporters of the State. The promotional activities of VTPC for exports are as follow :

- Export Awareness Programmes.
- Export Training Programmes.
- Export Management Training Programmes.
- Seminars, Workshops & Conferences.
- Interaction and Open House Meetings.
- Participation in National/International Exhibitions & Trade Fairs.
- Financial Support to the all Artisans, SC, ST, Women Entrepreneurs of Micro and Small enterprises, who participate in the Trade Fair and Exhibitions.
- Conferring State Export Awards for Export Excellence.
- Market Development Assistance to industries / exporters for their Overseas Visits for business promotion.

- ASIDE Scheme.
- WTO and IPR Relay Cell.
- Incubation Centre & Facilitation Cell.
- Assistance to the traders/exporters in certification for the export/ import of commodities.
- VTPC is authorized to issue certificate of origin (non preferential)
- Conduct of Short term courses in association with IIFT, New Delhi.
- Trade Point to provide live trade enquiries, Global Directory Services & Online Trading Facility.
- Secretariat services for promotion of SEZs and EOUs in the State
- Liaison office for International Help Desk.

#### **4.3 Outcomes and challenges**

Foreign Investment in India has been the direct outcome of the liberal trade policies undertaken and implemented by successive governments. The liberalization program of the government aims at rapid and substantial growth of the country's economy besides a harmonious integration with global economy. Foreign investment ensures a huge amount of domestic capital, production level and employment opportunities, which is a major step towards the economic growth of the country. India is among one of the few markets in the world that offers such high prospects of growth and earning in virtually all sectors of the economy. The huge skilled workforce is one factor that ensures that foreign investors get a good return on their investments. The expansion of FDI into and from India has been accompanied by a rapid economic growth and an increasing openness to the rest of the world. Investment in Karnataka has huge potentials. However, investors have their own share of advantages and disadvantages. Overseas and domestic investors must prepare themselves well in

advance to face with adversities and deal with them properly. Some of the drawbacks that investors may have to face are bureaucratic hassles, infrastructural deficiencies, power shortages and sometimes political uncertainty. Despite these uncertainties, Karnataka presents a huge potential to global and domestic players to invest in the market.

The State is taking up initiatives for the set goals of achieving IT revenues of Rs.4 lakh crore by 2020, direct employment of 20 lakh by 2020. The industry group set up by the State Government last year has recommended some initiatives to leverage the unique opportunities that the State offers in the IT space. The key initiatives are use of technology in education; talent development and job creation; increasing innovation for sustainable value addition; entrepreneurship development; going beyond Bengaluru by developing emerging ICT Centers; leveraging the global ecosystem by developing relationship with other countries; development of physical infrastructure; increased focus on Electronics Systems Design and Manufacturing; Branding etc.

The challenges for achieving the set goals are: development of physical infrastructure, development of IT infrastructure, manpower development and making available land. The various State agencies concerned with development of physical infrastructure have taken note of the potentialities of the growth of IT and BT sectors in tier 2/3 cities. Department of IT, BT and S&T, through KEONICS and STPI has developed IT infrastructure in Hubballi, Mysuru, Mangaluru, Kalaburgi & Shivamogga.

It is also expected that exports of all commodities mainly engineering commodities will continue to increase by benefiting from the incentives and encouragements provided by the Government. In addition, the export-promotion measures are expected to increase exports of both primary and

manufactured products as also services. However, these expectations are subject to the presence of favourable world market demand and other conducive factors for the State's exporters.

VTPC has proposed to have trade facilitation centres at Mysuru, Mangaluru, Hubballi, Kalaburgi and Davangere to facilitate the exporters to enhance their

business activities from the State. These centres would involve in conducting of capacity building programmes in their jurisdiction to encourage exports. They also liaison with DICs and trade bodies in conduct of various programmes and interaction meets with the agencies / organizations of Govt. of India Dept., and State Govt. to address the grievances of exporters.