Ushering Investments

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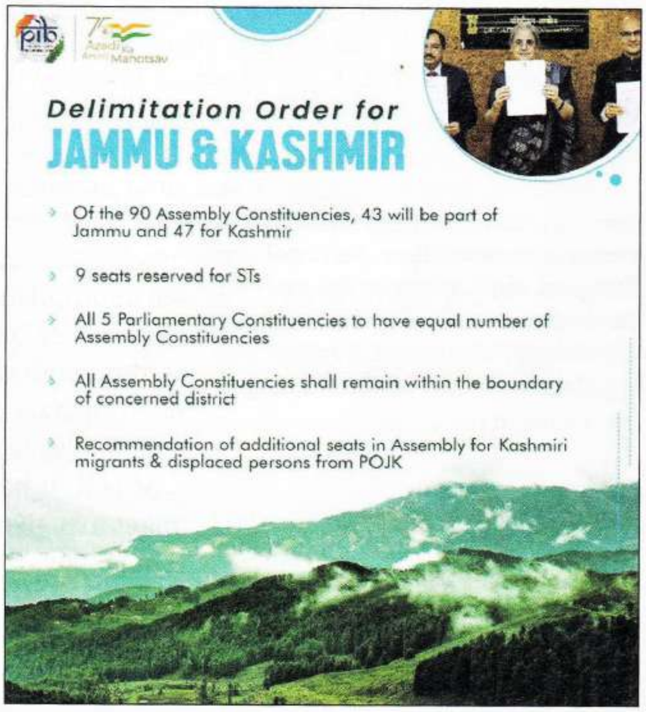
The Jammu and Kashmir Industrial Policy 2021-30 is the flagship policy with respect to investment and industrial growth in the UT. The New Industrial Development Scheme promises of a higher incentive for investment in remote areas that will help with balanced development while enabling J&K to leverage its land abundance in areas hitherto neglected. The Policy has a discernible core of investment, growth and employment. Considering the centrality of employment generation, the objectives of the Policy and the choice of industries focused upon are heavily labour-intensive in nature and where the products/services are high in value.

Three years ago, the Central Government through a series of legal measures extended "all provisions of the Constitution as amended from time to time" to the State of Jammu and Kashmir; it also reorganised the erstwhile State into two Union Territories, the Union Territory of Ladakh and the Union Territory of Jammu and Kashmir. The long-term strategy was a branch and root transformation of the region and its economy that had so much promise and potential, and yet had comparatively delivered so little.

A look at the situation as it existed just before the reorganisation presented a dismal state of affairs. J&K government expenditure in 2018-19 was 57 per cent of the total gross state domestic product,— largely financed by the Central Government,— demonstrating an overwhelming dependence on the government and a weak private sector. (For neighbouring Himachal Pradesh, also a hill state with many similar characteristics, the corresponding figure is around 28 per cent). Further, of the total receipts of the (J&K) government, about 40 per cent came from the Centre. A massive government workforce (approximately 5 lakh employees) ensured that over a quarter of its total receipts were consumed by salaries and pensions. J&K's per capita net state domestic product at Rs 94,000 was almost half of that of Himachal's i.e., Rs 1,76,000; its road density was less than a fifth of Himachal's and unlike Himachal Pradesh, it was unable to leverage its huge hydropower potential.

This was clearly an unsustainable scenario and needed to be changed. Jammu and Kashmir would have to make the journey to transform itself to a stage where private enterprise and investment would



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lead its economy creating jobs and incomes. Thus, an appropriate economic strategy was necessary to make this transformation possible.

Framing Economic Policies

An appropriate economic policy for any region has to take into account both the advantages and disadvantages of that region and this is also true for the region of J&K. It has to be borne in mind that given its location and topography, the Union Territory suffers cost disadvantages primarily on account of transportation costs that will have to be reflected in the price of goods produced there. An appropriate strategy for such high-cost economies which should guide both investors as well as policymakers is to promote/go in for the production of goods and services of niche areas/segments where customers are willing to pay a premium amount which compensates for the disadvantages of high transportation costs. These could be products/services where the region has a natural strength due to natural endowments or products/services that have evolved with the application of traditional skills/local knowledge over a long period of time. J&K has both in ample measure that could serve as a springboard in its efforts to transform its economy.

When it comes to traditional products, the handicrafts produced in this region are of international renown. J&K also produces the bulk of the country's apple and is known for high-quality low volume products like walnut and saffron, etc. Its natural beauty supplemented by its 5 millennia-year history, unique handlooms and crafts and exquisite cuisine make it a favourite destination for millions of tourists. It has abundant hydropower resources, high-quality manpower, and some rare minerals too.

Now, it also has some of the most investor-friendly and inviting industrial policies, and the current combination of policies designed and adopted by the UT Government in conjunction with the Central Government takes into cognisance these natural strengths and constraints.

Attracting Investment

The Jammu and Kashmir Industrial Policy 2021-30 is the flagship policy with respect to investment and industrial growth in the UT. The New Industrial Development Scheme is not just the most attractive of its kind but also learns from the misses of the past. Its promise of a higher incentive for investment in remote areas will help balanced development while enabling J&K to leverage its land abundance in areas hitherto neglected. The Policy has a discernible core that runs throughout the document i.e., investment, growth and employment. Considering the centrality of the objective of employment generation, the objectives of the Policy and the choice of industries focused upon are heavily labour-intensive in nature and where the products/services are high in value. These include both the UTs' traditional strengths e.g., tourism, handicrafts and horticulture as well as new sectors like IT, ITES, healthcare, etc. It also focuses on synergies with existing strengths like post-harvest management of Horticulture as well as Film Tourism as an add-on to Tourism.

Learning from experience, the Policy is also more discerning in extending financial support as compared to previous policies. Earlier policies were able to draw investment in industry in the erstwhile State due to generous subsidies and tax exemptions. But many of these investments of the past that happened largely due to financial incentives were not linked to J&K's natural strengths and therefore would not sustain once these financial sops were withdrawn. The new Policy by focusing on sectors that draw on the region's strengths attempts to avoid this pitfall. Indeed, where services are concerned and which comprises 53% of the region's economy, the Policy has an explicit Service Sector Positive List which will be eligible for benefits. They include Tourism, Film Tourism, Healthcare, Education and Skill Development, etc.

Subsequent Policy announcements and budgetary provisions have supplemented the core philosophy of the Industrial Policy. The aim of these announcements as well as the budgetary provisions has been to amplify and strengthen the intent of the Policy. It is well established that smart budgetary provisioning aligned with an appropriate policy can yield disproportionately high returns. This is why many of the provisions in this year's Budget have specifically sought to address the issue of attracting investment and introduce appropriate sector-specific provisions.

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Tourism

While J&K has long been associated with tourism, it has surprisingly never figured among the top ten States/UTs when it came to tourist arrivals either in absolute numbers or as a proportion of its population. The current UT Budget by providing support and resources for the development of 75 new destinations, seeks to expand the region's tourism economy while bringing in more equity in this highly employment-elastic sector. Smart convergence with other public expenditures such as the culture department which seeks to revive traditional fairs and Sufi festivals, many of them in remote, lesser-known destinations or the J&K tourist village network scheme which incentivises local youth groups to promote rural tourism is expected to further add to this effort. Targeted public investment in roads and urban infrastructure is aimed at making the new locations more accessible and increasing the sustainable carrying capacity of these destinations. That this seems to be working is borne out by the figures—tourist inflow in J&K hit a 7-year high in November last year; 36,473 tourists visited the famed Tulip Garden in a single day i.e., 27 March, the highest ever so far. On 4 April this year, the Srinagar International Airport recorded the busiest day ever in history, with 15,014 people travelling on 90 flights in and out of Kashmir.

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Horticulture

The Budget's accent on horticulture addresses both the productivity and the income issues of the sector. The thrust on cold storage capacity expansion, increase in productivity of apple through high-intensity orcharding, and support to high value and low volume agro-products like aromatic and cash crops and vegetables are all budget initiatives. When taken along with the GI-certification initiative for saffron and other crops which is already underway, the sector holds great promise. If productivity is increased to international standards, it can lead to the quadrupling of the size of this sector and if supplemented by value addition to fruit (currently very low), it can significantly increase growth and employment.

Jammu Haat is a unique market place to exhibit the richness of J&K's culture to connect, compete and collaborate with global market players.

Foreign Trade and Investment

An additional (and unique) strand of its strategy has been to seek leveraging of India's recent trade agreement— Comprehensive Economic Partnership Agreement (CEPA) with the UAE (another off-budget element of transformation) to seek markets, investments and tourists. Given the proximity and familiarity of UAE with J&K, the Gulf Investment strategy seeks to build on these links and potentialities.

Impact on J&K Bound Investment

What has been the impact of all these policies on investors with respect to Jammu and Kashmir? Combined with the end of constitutional uncertainty in the region, a far better law and order situation, a massive thrust on infrastructure and a focused strategy for economic development, there has been a heightened interest in the region by investors and enthusiastic response to many of the policies.

Investors who shied away from the erstwhile State have now shown renewed interest in investing in the reconstituted Union Territory. The UT Government reported that it had received investment proposals worth around Rs 51,000 crores whose employment potential is approximately 2.37 lakhs. Given the total spending of the Industrial Policy is approximately 28,400 crores spread over 10 years, the potential investment being "crowded in" appears to be impressive by any standards. Moreover, the interest evinced in the region now extends to overseas investors, especially well-known names and brands in the UAE. Significantly, the areas in which interest has been shown and proposals received are largely in the list of positive sectors earmarked by the government in its Industrial Policy.

As we argue in the next section, this augurs well both for the region and investors.

Appropriate Investor Strategy

What should the private investor look for in Jammu and Kashmir before investing his money in the region? The obvious answer is to look at the profitability of his investment which would depend on how closely his business plan is linked to the natural, traditional and human capital endowments of the UT. A well-designed business venture runs on those lines will not depend on perpetual state subsidies for it to be profitable. The recent rush of tourism to J&K that broke records demonstrates how profitable this sector can be to investors. Thus, investment in this area especially in those areas which are yet unexplored can be very profitable. Startups in horticulture and post-harvest value addition can be potentially another profitable area. Investments in both areas leverage the natural endowments of the UT amplified with local knowledge and tradition and make it rewarding for the investor.

To invest in the region solely to take advantage of subsidies would be short-sighted and would not pay in the long run. A profitable strategy given the new economic regime in the region requires the investor to stay engaged with the region while investing here.

The investor can also choose to invest in many other promising areas, for example, in IT and ITES which can take advantage of the region's considerable local talent pool in an area where advances in ICT and Covid-19 have made work-from-home the norm. This too can be potentially very rewarding.

Another virgin sector for the region could be the services sector and especially the Education and Health and Holistic Wellness sectors.

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Towards a Bright Future

The aim of the government's economic strategy is to effect a transformation that will see a new J&K which will host an increasingly mobile India looking for world-class destinations to tour and explore. Its horticulture sector will develop to produce fruit and fruit products that can be compared with the best in the world. It will continue with increasing strength to export to the world its handicrafts that are a product of millennia of experience and culture. It will eventually generate over one-third of India's hydropower. It also has the potential to host many of the IT, ITES, pharmaceutical, textile and electronics industries that it is uniquely positioned to attract. Its health, wellness and education ecosystem will be hopefully nonpareil in the country.

The strategy of the Government is so designed to make the above possible. Private investors would be well rewarded if they align their investment strategies accordingly and make their investments in the UT profitable. ❑

The views expressed by the authors are strictly personal.