
Industrial Development in Karnataka: Policy Evolution, Sectoral Challenges, and Future Prospects

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DOI: <https://doi.org/10.5281/zenodo.17582419>

ABSTRACT:

Karnataka has consistently ranked among India's most industrially advanced states, known for its innovation, investment inflows, and diversified industrial base. In recent years, the state government has introduced a series of refined industrial policies, the latest being the Industrial Policy 2025–30. This policy aims to tackle previous bottlenecks, promote growth across both emerging and traditional sectors, ensure balanced regional development, and integrate sustainability into industrial planning. This paper examines the Industrial Development in Karnataka: Policy Evolution, Sectoral Challenges, and Future Prospects It further explores the key challenges facing the sector, particularly in terms of infrastructure gaps and ease of doing business. The analysis draws primarily on secondary data, complemented by insights from field observations to provide a grounded understanding of the state's industrial landscape.

KEYWORDS:

Karnataka Industrial Policy, Regional Disparity, Ease of Doing Business, Sunrise Sectors, Industrial Development.

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1. Introduction

Since Independence, India's industrial policies have evolved from a socialist model characterized by state-led development, import controls, and heavy regulation to a more liberalised and market-driven framework. While early policies focused on self-reliance and public sector growth, lack of institutional reforms and over-regulation led to slow industrial progress through the 1960s and 1970s. Liberalisation in the 1980s and post-1991 reforms paved the way for private investment, trade openness, and the rise of sectors like IT. However, despite periods of rapid industrial growth, the sector's share in GDP and employment remained modest due to inefficiencies in public enterprises and challenges faced by small-scale industries.

In 2011, the National Manufacturing Policy marked a shift toward inclusive and sustainable growth, encouraging skill development, energy efficiency, and competitiveness through industrial clusters. Such reforms spurred significant growth in some states for instance, Tamil Nadu's automobile sector grew over 170 percent from 2007 to 2014. However, studies suggest that the effectiveness of industrial policies diminishes when multiple or unstable policies are introduced.

Karnataka, known for its high-tech and knowledge-intensive industries, has witnessed a transformation from an agrarian to a service-based economy over the past three decades. Between 1989-90 and 2017-18, agriculture's share in state GDP declined from 36 percent to 9 percent, while services rose from 36 percent to 66 percent. The state hosts the world's fourth-largest tech cluster and services hundreds of Fortunes 500 companies. However, the industrial sector's share in Karnataka's GSDP has seen only a marginal decline from 28 percent to 26.6 percent, lagging the national average and most Indian states, except Tamil Nadu in South India.

Despite its technological strengths and sector-specific SEZs, Karnataka's industrial sector faces challenges such as declining performance in core industries (steel, cement, automobiles), high infrastructure costs, and land acquisition issues. While the state has introduced several initiatives like product-based cluster development, single-window clearances, and incentives for mega industries, it continues to grapple with underutilized skilled labour and infrastructure deficits.

Karnataka was the first Indian state to introduce a formal industri-

al policy in 1982–83, with the latest policy launched in 2020. However, there is limited literature assessing the actual performance and impact of these policies.

In this context, the present paper reviews the evolution and effectiveness of Karnataka’s industrial policies, particularly in the manufacturing sector, at both aggregate and disaggregated levels. It aims to identify key sectors, highlight major challenges, and offer policy recommendations for strengthening the industrial base. The analysis is based on secondary data from the Annual Survey of Industries (ASI), Economic Survey, and Directorate of Economics and Statistics, supplemented by policy document evaluations.

2. Key Features of Karnataka’s Industrial Policy (2025 30)

The policy (notified in early 2025) sets out some ambitious targets and structural reforms.

Some of the main elements are:

2.1 Investment and Job Creation Targets

- Target of ₹7.5 lakh crore (₹ 750,000 crore) in investments.
- Creation of about 20 new jobs during the policy period.
- Annual growth in the manufacturing sector is targeted at about 12 percent.

2.2 Zonal Incentives and Regional Balance

- Karnataka is divided into three zones: Zone 1 and Zone 2 cover backward or under industrialised taluks or districts, while Zone 3 includes the more industrialised urban districts (including Bangalore Urban & Rural).
- Zone 1 & 2 get differential, more generous incentives to encourage industrial investment in less developed areas.

2.3 Flexibility in Incentives

- Investors have options: choosing between Capital Subsidy or Production Linked Incentives (PLI) depending on type and scale.
- Additional incentives for industries that promote R&D or Global Capability Centers (GCCs) alongside manufacturing.
- For green or sustainable industrial practices: incentives for Zero Liquid Discharge, air pollution control, Greenock certifications etc.

2.4 Sectoral Priorities

Karnataka is focusing on high growth, future facing sectors. Some of these are:

- Electronics System Design & Manufacturing (ESDM)
- Aerospace and Defense, Future Mobility
- Logistics & Warehousing (this sector has been granted “Industry” status) to improve infrastructure and attract investments.

2.5 Infrastructure and Industrial Land

- Setting up 12 new investment zones over 30,000 acres in addition to existing zones.
- Focus on improving provision of basic utilities: clean water, electricity, etc., particularly in industrial parks.

2.6 Skills, Workforce and Inclusivity

- Upskilling programmes: industry integrated workshops, technical & vocational training, upgrading ITIs aligned with industry needs.
- Incentives for industries which employ more women, promote gender inclusivity.

2.7 Ease of Doing Business or Regulatory Reforms

- Streamlining of approvals, digitalization, single window system.
- Clearer norms for industrial dormitories (for worker accommodation), subsidies for such facilities.

3. Recent Trends in Industrial Sector

While the policy is new, Karnataka’s industrial sector has had mixed performance in recent years. Some positives, but also areas of concern.

Strengths and Achievements

3.1 Strong Pull of Investment

- Karnataka has been able to attract large MoUs and investments in renewables, ESDM, etc. For example, there is significantly planned investment in renewable energy projects.
- The state has a large base of industrial land ready via KIADB. KIADB has developed over 85,000 acres of industrial land, hosting many industries.

3.2 Emergence of New Industrial Zones and Clusters

- The policy itself proposes new investment zones and sector specific parks (e.g. for drone parks, Pharma, EV clusters).
- The push “Beyond Bengaluru” indicates efforts to spread industrial growth to tier 2 and tier 3 cities and backward taluks.

3.3 Focus on Sustainability and Green Manufacturing

- Clear incentives for sustainable practices, green industrial areas, environmental compliance. These align with global trends and may make Karnataka more competitive internationally.

3.4 Employment and Regional Equity Goals

- Targets in the policy reflect aspirational job creation. Also, the zonal incentives show that the government is conscious of the regional imbalance with Bengaluru dominating the industrial map.

4. Obstacles in the Growth of the Industrial Sector in Karnataka

4.1 Slow Industrial Growth Relative to Other Sectors

- As per older data, the industrial sector has lagged agriculture and services in growth. For example: in a five-year span, industrial GSVa growth was about 6.1 percent CAGR vs 11.16 percent in services/agriculture in some reports.
- The pandemic significantly affected industrial activities more than some other sectors.

4.2 Infrastructure Bottlenecks

- Delays in land allotment, slow development of supporting infrastructure (roads, water supply, power, waste management) in many industrial zones.
- For example, in Mysuru, a dedicated industrial waste management facility has been lacking, even as industrial growth continues.

4.3 Skill Gaps and Workforce Issues

- The need for upskilling has been recognized; but implementing such programs on a scale is always challenging. Industry requirements are evolving quickly. Ensuring technical and vocational training institutions produce industry ready graduates remains a work in progress.

4.4 Environmental Challenges

- Green norms, pollution control, waste management these often im-

pose additional cost burdens. Industries in zones with poorer infrastructure struggle to meet such norms.

- Also, sometimes delays or mismatches between regulatory requirements and industrial capabilities.

4.5 Regional Disparities Remain

- Despite policy measures, much of the heavy industrial investment and technology based industries are concentrated around Bengaluru and the southern or coastal regions. Northern and interior districts have lagged.

5. Outlook and growth Prospects of Karnataka's Industrial Sector

5.1 Potential for Growth in High-Technology and Sunrise Sectors

Sectors such as electronics manufacturing, EVs, aerospace, defense, biotech, green hydrogen present strong opportunity. Karnataka already has some ecosystem strength (skilled workforce, R&D institutions, linkages to global supply chains).

5.2 Role in India's Industrial Strategy

As India seeks to increase its manufacturing share, reduce import dependence, and move up value chains, Karnataka is well placed to be a key player, especially in electronics, aerospace, defense, etc.

5.3 Global Opportunities and Competition

Success will depend on how Karnataka competes with other states (and countries) in offering stable regulatory environments, infrastructure, low cost of doing business, reliable utilities, etc.

5.4 Balancing Growth with Sustainability

Environment, waste management, water usage, pollution control will become more critical. Investors globally and even domestic buyers increasingly demand sustainability. Karnataka will need robust enforcement and incentives to stay ahead.

5.5 Importance of Implementation

As with many policy documents, the impact depends on how well the policy is executed how fast industrial lands are developed, approvals happen, how efficiently the zones function. Corruption, delays, infrastructure gaps, labour and environmental compliance can erode investor confidence.

6. Business Environment in Karnataka

Despite notable progress in industrial development, Karnataka continues to lag other major industrial states like Maharashtra, Gujarat, and Tamil Nadu. In the national rankings for ease of doing business, Karnataka has seen a decline for three consecutive years, slipping from 6th to 9th position among 21 states.

Karnataka performs well in specific areas, particularly in the labour pillar, thanks to its strong educational infrastructure and the presence of premier institutions in engineering, law, and social sciences. Bengaluru also hosts India's only MSME training institute, contributing to a large pool of skilled labour. The state has improved in three other pillars:

- Infrastructure, due to enhanced airport cargo facilities and road and rail connectivity.
- Economic climate, driven by a robust service sector; and
- Governance, supported by political stability, minimal internal conflict, and efficient e-governance systems like the single-window clearance portal.

However, land acquisition and investor perceptions remain weak points. Industrial activity is highly concentrated by 2013–14, 81 percent of manufacturing income came from just 9 of 30 districts, and over 30 percent from Bengaluru alone. Compared to other states, Karnataka performs relatively well in labour, infrastructure, and governance but falls behind on land reforms and balanced regional development. Tamil Nadu outperforms Karnataka in all but one pillar (economic climate), while Maharashtra leads in most areas except political stability and labour quality.

The Industrial Policy 2020–25 reiterates existing initiatives like the e-Udyami single-window portal and the SAKALA Act, with some additions such as auto-renewal of trade licences. However, the policy lacks a strong focus on export promotion, offering minimal new strategies in this area despite Karnataka's potential in sectors like aerospace, biotech, energy, and automobiles.

In summary, while Karnataka has several strengths particularly in skilled labour and governance its ease of doing business is hindered by land-related issues and uneven industrial distribution. Addressing these gaps is crucial to improving its investment attractiveness and industrial competitiveness.

7. SEZs and Doing Business in Karnataka

According to the latest available data, Karnataka has received 62 formal approvals for Special Economic Zones (SEZs), making it the second highest in the country after Telangana, which has 64. However, there is a significant gap between projected and actual outcomes investments and employment have fallen short by 57.3 percent and 78.7 percent respectively (CAG, 2014). This underperformance is largely attributed to the low number of active exporting units within many of the notified and operational SEZs.

For instance, the Suzlon SEZ in Karnataka, designated for engineering products and spanning 641 acres, houses only three export units. Similarly, the KIADB Textile SEZ in Hassan, despite occupying the same area, accommodates just seven exporting units (Tantri, 2016).

Despite these inefficiencies, there appears to be little effort from the government to analyse or address the underlying causes. Research by Tantri (2016) points to several issues, including developers failing to fulfil their responsibilities within SEZs and the government's inability to provide adequate infrastructure support outside SEZ boundaries. These shortcomings significantly increase transaction costs for businesses operating in these zones, undermining the intended benefits of SEZs and affecting Karnataka's overall ease of doing business.

Conclusion

Karnataka's industrial policy for 2025–30 is forward looking and ambitious. It acknowledges earlier deficits in regional balance, infrastructure, sustainability, and regulatory complexity, and tries to set up a system to overcome those. Early indications are that there is strong interest from investors, especially in green and high-tech industries, and that the state is serious about expanding beyond Bengaluru.

However, the real test will come in translating policy into outcomes: whether job targets are met, investments materialize infrastructure keeps pace, and whether backward regions catch up. For Karnataka to remain among India's industrial leaders, consistent execution, inclusive and sustainable growth, and keeping pace with global evolutions will all be vital.

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Funding:

This study was not funded by any grant.

Conflict of interest:

The Authors have no conflict of interest to declare that they are relevant to the content of this article.

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