Economic Reforms and Development Strategy in Gujarat

-Ravindra H. Dholakia

Abstract

[The paper examines the development strategy followed by Gujarat state government during the nineties. It has followed the strategy focussed on industrialisation and urbanisation with an open door policy eversince its inception in 1960. Economic reform measures at the Centre with an explicit emphasis on trade and industry considerably benefited Gujarat making its economic performance outstanding. The state government only facilitated the growth of private enterprise since its strategy was already consistent with the changes in the policy reforms at the Centre. Since mid-nineties, however, when the reform process at the Centre slowed down, the state government in Gujarat started taking major initiative to liberalise and reform its policies further. In this process, the focus of the development strategy seems to have shifted away from the organised manufacturing to the unorganised sectors and giving protection to the SMEs. It is argued that Gujarat's performance would again pick up as the national reform process gets back on the track.]

I. Introduction:

In a multilevel federal democracy a state often represents a middle level between the central government and the local bodies. Gujarat had all these 3 layers of government efficiently functioning ever since its inception in 1960. The constitution of India provides reasonably clear division of the rights and duties of different layers of the governments for achieving overall development of the country. Within this broad constraints, different state governments in India have been following their own specific development strategies (*see Dholakia, 1994*). During the process of economic policy reforms and liberalisation, the constraints and regulation on economic activities by the centre in different segments of the economy got relaxed. The states found more freedom and flexibility to pursue their own socio-economic agenda. It is not surprising that different states took advantage of this increased flexibility according to their physical capabilities, economic environment and ability to evaluate opportunities and risks involved. States were required to respond dynamically and compete with each other to attract the private sector activities by providing the most conducive economic environment. During the initial phase of the economic reforms, i.e., 1991-92 to 1997-98, Gujarat outperformed all other states in the country in terms of economic growth according to the then member, Planning Commission (*see, Ahluwalia, 2000*). It is, therefore, interesting to examine in detail the case of Gujarat, particularly the economic reforms and the development strategy it has followed during the nineties.

Development strategy in Gujarat State has been very clear and unambiguous ever since its inception in 1960 in according a high priority to industrialisation as can be seen from various state plans documents and the socio-economic reviews carried out annually. The state had made a clear choice of encouraging the secondary sector activities over the primary and tertiary sectors' activities (*see, Dholakia, 1994*). It is a well-known fact that Gujarat lags behind several states in the country in terms of human capital and related indices. Between the human capital and physical capital related government expenditures also, the Gujarat government had consistently accorded higher priority to the latter (*see, Archana Dholakia, 1990*). Thus, the development strategy of the Gujarat State for industrialisation has been unbalanced growth with emphasis on directly productive activity (DPA) rather than on creating social overhead capital (SOC). While this has its own limitation for the overall development of the state, it has advantages in terms of clarity and consistency of objectives. Since Gujarat is well connected to other states in the nation, it has an access to the highly skilled technical and professional manpower, financial capital and physical infrastructure like ports, airports and means of communications from the other states. Gujarat has followed "an open door" policy with regard to the factor mobility – particularly the labour mobility in and out of the state irrespective of the political party in power. The endeavour of the Gujarat government has all along been to provide as far as possible the most conducive environment to promote business and industry in the state irrespective of who provide and own them. In this sense, Gujarat did not have to make any major shift in its basic strategy in the wake of liberalisation and policy reforms at the central level.

In the next section, we briefly discuss the concept of economic reforms and liberalisation and their possible impact on the level of economic activity in an economy. The specific instruments used by Gujarat State to promote economic growth through the private sector are, then, discussed in the four subsequent sections. Concluding observations are made in the sixth and the final section of the paper.

II. Role of State and Economic Reforms:

From 1955 to 1991, India as a nation followed the ideology of socialism and interventionist policy of direct state participation and control and regulation of economic activities in the economy. The process of shift in the ideology from state intervention to market orientation initiated and speeded up since 1991 in India implies restoration of functioning of market forces in all markets by

a) removing or reducing quantity restrictions on supply;
b) removing price controls or other distortions; and
c) reducing unjustified or unnecessary market interventions by the government.

Liberalisation is a process of relaxing or reducing the direct restrictions, regulations and controls on and participation in the economic activities by the government. Such direct interventions existing prior to liberalisation are conceptually similar to the quantitative restrictions. As against this, the government can also control and regulate the economic activities by imposing tariffs, charging fees, levying taxes, etc. These are conceptually similar to the price-based interventions. In a federal structure, the price-based reforms in excise and customs duties, exchange rate and interest rate structure, or administrative price mechanism typically fall under the jurisdiction of the Central Government. State governments can exercise control only in matters pertaining to sales tax, minor taxes and user charges and fees on services provided by them. While State Governments largely provide approvals and registration to smaller enterprises, restricting entry and exit of enterprises through licensing, reservation and specific legislations is largely under the control of the Central Government. The role of a State Government to achieve faster economic growth under the existing federal structure is limited to what is feasible at the state level in terms of liberalisation and economic policy reforms on one hand, and the effective resource base and the socio-cultural environment of the state in relation to the rest of the country on the other hand. It can be argued that the latter also depend on the policies of the state government vis-à-vis other states over a long period of time. The process of economic policy reforms and liberalisation at the state level, therefore, assumes special significance in providing a conducive environment for attracting and promoting private sector activities in the state. The dimension of inter-state competition in this regard makes the issue more complicated.

Generally, economic reforms are linked to the restoration of the functioning of the market forces in (a) goods markets, (b) services markets, and (c) factor markets that is likely to promote the growth of private sector by encouraging it (i) to expand its existing activities in terms of scale and scope, and (ii) to participate in newer activities. These reforms usually apply uniformly to the existing and the new participants. However, competition among states often compels the states to discriminate between these two sets of participants over varying periods of time. As a result, these measures do not represent policy reforms. Very often they actually contradict or negate the reforms. Prudence of ensuring sufficient revenue generation to be able to afford offering of various sops to attract industry into the state is often sacrificed with disastrous fiscal consequences in several states. These are not very uncommon outcomes in the framework of non-co-operative games.

Keeping this context in view, we can review the efforts made by Gujarat government during the nineties to promote the private sector in the state. Like several Indian states, Gujarat also used the following three instruments (*see, Sengupta, 1996*): (1) providing tax and cost related incentives; (2) provision of infrastructure and input supplies; and (3) granting various approvals and clearances particularly to the small-scale, cottage and tiny sector units (since these sectors are effectively under the State control). For Gujarat, we may also add the fourth district instrument, viz.; (4) restoring the market forces in the land market in the state. These instruments are reviewed briefly in the following four sections.

III. Tax and Cost Related Incentives:

In the industrial policy of Gujarat State during the nineties, the major instrument used by the state until recently was reduction, exemption or deferment of sales tax by the new business and industry to encourage them to locate in the state. Such measures had the effect of reducing the sales tax revenue collection by the state. It was estimated that during 1991-95, on an average Rs. 2.10 billion per annum were lost to Gujarat government on account of such incentives. The amount increased to Rs. 13.43 billion during 1997-98 and further to about Rs. 20 billion during 1998-99. Such sales tax related incentives were thought to be very powerful and all the states entered into the race of offering greater incentives to attract the private sector units to locate in their territory. This was a harmful competition for the states to attract industry and business in their territory because sales tax has been the single most important source of tax revenue for almost all the states in India, and such incentives very adversely affected its buoyancy over time. Moreover, there have been serious doubts raised about the efficacy of such tax-related incentives to attract the private sector activities in the state (*see, Dholakia and Dholakia, 2000; Marvania, 1995, etc.*).

External intervention to foster co-operation among states became necessary. In the forum of the Finance Ministers and Finance Secretaries of all the states, it was decided through consensus to implement sales tax reforms simplifying the rate structure by reducing the number of slabs, accepting uniform floor rates and allowing no exemptions from January 2000. This was specifically intended to remove unhealthy and harmful competition to attract industries in a state from another state.[1] Gujarat was the first state to implement the floor rates and remove all exemptions. However, if other states do not follow such a co-operative decision, the leaders would be forced to bear the cost. Since several other states found excuses to delay the implementation of the decision, Gujarat was almost forced to re-look at its industrial policy in terms of increasing several cost reduction incentives or subsidies to the private sector. Thus, subsidies substituted the tax exemption and tax reduction. However, the major advantage of shifting from the tax related incentives to the cost related incentives is that the budgetary process becomes more transparent. Previously, the subsidies were hidden and would not appear in the state budget, whereas now, they are explicit in the state budget. Other than this, there are hardly any significant benefits of such a shift in the policy.

Gujarat's Industrial and Agro Industries Policies, 2000 have attempted to provide cost related incentives to the private sector by increasing subsidies in various forms to attract them to Gujarat and "to make the industries globally competitive". Some of these measures are listed as an illustration in the Box.

[1] Of course, such rationalization of the sales tax within and across states has several well-known advantages for efficient public-finance. It was required also as the necessary preparation for the introduction of the Value Added Tax (VAT).

Box : Incentives in Gujarat Industrial & Agri Industrial Policies, 2000

a) Interest Subsidy: For new units in small-scale industries and service sector industries, interest subsidy is offered @ 5% p.a. upto a cumulative maximum of Rs. 2.5 million and Rs. 0.5 million respectively. For expansion and diversification of existing units, the interest subsidy is @ 3% p.a. upto a cumulative maximum of Rs.1.5 million.

b) R & D Subsidy: Financial assistance is offered upto Rs. 50 million per industrial cluster for establishing common facilities covering quality improvement, technology upgradation, market promotion and technical skills. Similarly, subsidy @ 50% of expenses upto Rs. 0.5 million for filing patents on the research by industries or R&D institutions is offered.

c) Quality Improvement Assistance: Industrial units obtaining quality certification from approved institutions/research laboratories are offered subsidy @ 50% of expenditure upto a maximum of Rs. 0.2 million.

d) Backward Area Development: Industrial units coming up in the identified backward *talukas* are offered additional incentives @ 25% under all schemes.

e) Capital Subsidy: For self financed new SSI units, a subsidy @ 10% of fixed capital investment (max. Rs. 1 million); for employment park with employment in excess of 2500, subsidy @ 10% of capital investment (max Rs. 20 million); for Hi-tech park, subsidy @ 50% of capital investment (max. Rs. 25 million); for investment park with investment in excess of Rs.5 billion; for share capital contribution @ 10% of paid up capital (max. Rs. 25 million); for trade centres of more than 500 sq. mt. Construction, subsidy upto Rs. 5 million; etc. are offered.

f) Environmental Protection Assistance: Interest subsidy for the industrial units undertaking environment protection measures is offered.

g) Land Provision: Priority accorded to allocation of required land to industrial units with the "Deemed NA" concept is made more effective.[2] Land is proposed to be offered at affordable prices to industrial units.

h) Airfreight Subsidy: For agri-industries and food industries, subsidy (max. of Rs. 1 million per exporter) and subsidy for market development abroad (maximum of Rs. 50,000 per exporter) are offered.

i) Project Report Preparation Assistance: A subsidy @ 50% of the cost of project proposal preparation for agri-industries is offered.

[2] NA refers to Non-Agricultural use of the land. Previously, District Collector's permission was required in order to acquire the piece of agricultural land to start an industry on it. Now the industry is required to inform the Collector within one month of starting the project after acquiring the land.

Several observations/comments can be made on the policy of the state to offer such subsidies with a view to attracting private sector in the state:

1. There are no in-depth studies or analyses justifying the quantitative extent of various subsidies and their internal consistency.

2. The direct subsidies are essentially substituted for the exemptions, reductions and deferments of the sales tax[3] given earlier and now discontinued under the co-operative agreement among the state finance ministries in the country. It seems that the extents of various subsidies are also derived so as to ensure neutrality of the net impact of the two alternatives on the state budget.

3. The replacement of the hidden subsidy in the form of tax sops by the above-mentioned explicit subsidies shows that there is no change in the basic philosophy, theory or approach of the state government for attracting private sector activities in the state. Under both the policies, the government believes in first allowing the directly productive activity (DPA) and leave the infrastructure development to the felt need or shortages or political pressures rather than first creating the social overhead capital

   (SOC) and wait for its utilisation. The advantage of such an approach for the policy-maker is that the government never becomes irrelevant and inconsequential. Under both these policies, discretion is retained with the bureaucrats and politicians. As a result, replacement of hidden subsidies by explicit subsidies does not adversely affect the illegal but private market for favours and discretion where the players are the bureaucrats, politicians and the potential beneficiaries of the subsidies. These are, however, the immediate or short run implications. In the long run, since the extent of subsidies (and, hence, price of favours) becomes more transparent under explicit subsidies than under hidden subsidies, the pay-offs in the game become more estimable and the competition among players may lead to a decline in the extent of subsidies.

4. Most of these state subsidies are offered to the Small Scale Industries (SSI) which are defined as those having investment in plant and machinery not exceeding Rs.10 million. Questions may arise whether they are designed to promote the SSI or encourage the existing industrial units to break into SSIs leading to a disincentive for economies of scale. Such questions are no doubt very appealing theoretically, but considering the economic environment, the technical possibilities of economies of scale, the extent of relevant markets and the current definition of SSI, they sound impractical and far from reality. In a recent survey of SSIs in the state (1999-2000), it is found that, out of 0.25 million SSIs, only 3% units have investment in plant & machinery in excess of Rs. 2.5 million. In fact, a closer examination of the list

[3] It may be noted that corporate income-tax or any similar direct tax on industry and trade is not under the purview of the state governments in India.

of subsidies would lead us to believe that their primary explicit objective would be to protect the SSI rather than to promote them. This is also politically important because, like everywhere in the world and particularly in the developing world, SSIs are seen to be providing major employment opportunities to the local population outside agricultural sector. Theoretically sound and practically acceptable arguments in terms of (1) imperfection of capital market, (2) unequal access to credit and labour, (3) under-developed local markets, (4) under-developed entrepreneurial skills, (5) fear of predatory practices by non-SSIs, and (6) consumers' concerns, are sufficient to justify special concern of the state for SSIs.

5. Subsidies provided to the cluster of units in the form of Employment Park, hitech park and investment park aim to encourage exploitation of external economies of scale – both pecuniary and technical. As pointed out earlier, it is not seriously examined whether such subsidies are absolutely essential or inevitable in Gujarat. Such policies are hardly ever decided independently. Very often they are imposed by the interstate competition.

Another tax-related measure the state government has taken during the nineties is to abolish the turnover tax in 1997. Similarly, Octroi is a major issue in the State. Octroi is an effective barrier on the movement of goods and creates additional burden on goods produced outside the city limits but consumed in the city. This leads to adverse effects on resource allocation, efficiency and consumption. Moreover, it involves delays and inconvenience to the private sector ultimately giving rise to corruption. Gujarat government has also abolished Octroi from 143 towns and 14,000 villages effective from May 2001. These municipalities, *nagar panchayats* and village panchayats collected Rs.2.08 billion from Octroi during 2000-01. This amount is now raised through surcharge on the sales tax on petroleum products. The major proportion of Octroi revenue (above 80%), however, accrues not from these 143 towns and 14000 villages, but from the 6 major municipal corporations in the state. Octroi has so far not been abolished from these 6 corporations in absence of any viable alternative yielding stable income. States of Karnataka and Rajasthan had to revert back to Octroi after abolishing it because the alternative means could not generate the same amount of stable income for the local governments. The State Public Finance Reform Committee (SPFRC) for Gujarat (2000) had strongly recommended immediate abolition of Octroi and suggested as alternative the revisions and realistic rates for water-tax, property-tax, health-tax, education-cess and user fees for various municipal facilities and services. The Gujarat Government has, however, not shown enough determination to abolish Octroi from the 6 municipal corporations in the state nor force them to revise their local taxes and user fees as per the recommendation of SPFRC (2000).

IV. Provision of Infrastructure and Input Supplies:

In the second half of the nineties, there have been major liberalisation initiatives in Gujarat in terms of providing infrastructural support and input supplies to the productive units in the state. Following certain recommendations from the report of the Gujarat State Finance Commission (1994), major reforms in the power sector were initiated around 1995-96 though not in the right sequence. For instance, without addressing the root cause of the problems of the Gujarat Electricity Board (GEB), viz., inefficiencies in administration, production, distribution and inadequate tariff rates, the power sector was opened up to the private sector (*see, Morris, 2000*). The policy statements on the Captive Power Policy (CPP) for the own use and Independent Power Projects (IPP) for the suppliers to the grid showed eagerness of the state government for private sector participation by providing guarantees against demand risks & losses. The policy succeeded in attracting several IPPs to produce and sell power to GEB, but failed to make them cost efficient. As a result, (1) within a period of only three years 2,300 MW additional power generation capacity was installed in the state out of the target of 5,000 MW in ten years and Gujarat did not experience any major power-cut in the last 4 years; (2) Gujarat, which used to face severe shortage of power, experienced marginal oversupply of electric power in 1999 and the state government introduced the *Tatkal Yojana* with high registration fees for new agricultural connections; (3) GEB's financial situation started deteriorating seriously because it had to buy power at relatively high prices from IPPs and it could not force tariff revisions nor remove inefficiencies in terms of transmission and distribution (T&D) loses which were of the order of 34%. The state government started experiencing unprecedented fiscal drag on account of GEB and decided to impose a ceiling of Rs.11 billion p.a. as subsidy to GEB.

This led to formation of the independent regulatory body in February 2000 called Gujarat Electricity Regulatory Commission (GERC). It monitors the functioning of both GEB and IPPs and is empowered to take pricing and investment decisions in the power sector. GEB is now required to take prior approval of GERC for any new Power Purchase Agreements (PPA) and IPPs have also to refer their expansion plans to GERC. Installation of meters for the customers of electric power by June 2002 is made obligatory. This called forth installing 6 lakh new meters at Rs. 3 billion cost in about 2 years. With drought and major earthquake, this target has not been met. The trifurcation of GEB into production, transmission and distribution units is targetted to be over by 2004 and thereafter the possibility of privatisation is likely to be explored. The tariff revision for the agricultural use and industrial use was made by GERC in early 2001 with the agricultural rates increasing 5 times and the industrial rates by 4% to 15%. The implementation, however, is far from satisfactory on account of political reluctance and opposition. The GEB is also seriously exploring the possibilities to cut the cost of raw materials and downsizing from its staff strength of about 50,000. These measures, if implemented quickly, would certainly help reduce the financial crises of GEB and thereby the fiscal drag on the state government. Future growth of the state economy depends critically on how this sector is handled in the state.

In the other infrastructural sectors like ports and roads, the private participation is now encouraged. Build-Operate-Transfer (BOT) policy on the lines of the Philippine's and Chilean experiences is being adopted. Concepts of private ports and the private companies owning their jetties are being implemented at the *Pipavav* Port. Similarly, out of 10 new port projects signed recently, 6 are planned to be private ports and remaining 4 would be joint sector ventures. The Gujarat Maritime Board is also being bifurcated and unbundled. Air cargo complex at Ahmedabad and such other complexes with private participation in the matter of storage of specialised cargo are proposed under the industrial policy of Gujarat, 2000. The road network to link the port and construction of underground pipes to transport commodities to and fro ports are important infrastructural development where clearer policy initiatives are expected (*see, Gujarat Chamber of Commerce and Industries, 1998*). Gujarat envisages 389 infrastructure projects upto the year 2010 for implementation with the private sector participation. For this, an Asset Management Fund has been introduced in Gujarat Infrastructural Investment Corporation (GIIC) covering the debt and equity funds to provide financial assistance to these projects. Moreover, subsidy @ 25% of infrastructural cost (maximum of Rs. 10 million) is offered to medium and large industrial projects coming up in the rural areas or extending the linkage facility to the rural areas. Similarly, Critical Infrastructure Fund is introduced through the recent state budget to provide financial assistance upto 50% of the investment on critical infrastructure requirement on case to case basis in the industrial area of the state.

Gujarat Industrial Development Corporation (GIDC) has been providing comprehensive infrastructural facilities to the industrial units through their estates and sheds in selected locations in the state. It has now started handing over the management of these estates to the users. In 4 major industrial estates in the state, Notified Area Authorities are formed and, generally, the association of the shed-holders in the particular location is given the responsibility. The shed-users do not own the sheds but are given long duration (upto 99 years) leasing rights. The associations work as usual by collecting membership fees and democratically electing representatives. Thus, GIDC has started transferring the operation and management of the estates to the private sector after building the same. Similarly, since 1998-99, there has been a systematic effort to involve representatives of the private sector from the Gujarat Chamber of Commerce and Industries on the Boards of the state government entities playing vital role in the infrastructure and related matters of importance to the industry and trade in the state, e.g. Gujarat Electricity Board, Gujarat Infrastructure Development Board, Gujarat Pollution Control Board, Gujarat Environment Management Institute, etc.

In terms of the *Input Supplies*, the state governments in India have a limited but significant role to play. The most critical inputs, where the policies of the Gujarat State government can have definite impact are water and coal. Gujarat is highly deficient in terms of both these basic inputs. For enhancing the effective supply of water to its productive users, there are two options: (i) increase the supply by building irrigation dams and harnessing water through better water conservation practices; and (ii) increase user charges to reflect the true scarcity value of the resource. While the Gujarat government has vigorously followed the policy of building irrigation dams, it has seriously lagged behind on all other fronts. Even the operation and maintenance of the irrigation schemes are not satisfactorily managed, nor are the charges for water supplied by such schemes revised regularly and adequately. After 1981, the water rates were revised upward only in 1999 for industrial uses and in 2001 for the agricultural use. Prior to the revision of the water rates, the cost recovery was hardly at 15% of the O&M expenditure and 1% return on capital. The water rates had, therefore, to be revised substantially and sharply. For instance, the agricultural water rates have been raised 2.5 times on an average from their present level in January 2001 and with annual increase ranging from 15% to 25% for the next five years. These rate revisions are expected to ensure almost 100% cost recovery (as defined earlier) after 5 years. However, the domestic and municipal uses of water are still highly subsidised in Gujarat considering the extent of water scarcity. This is, however, the subject of local bodies and not the state government. Moreover, the government of Gujarat also encourages private sector participation in the irrigation management by involving local bodies and non-governmental organisations (NGOs). In spite of all these, Gujarat is still far from introducing volumetric basis for water charges.

As far as coal is concerned, the Indian coal is of inferior quality and together with the heavy transport cost, it becomes doubly expensive for Gujarat to use it for power generation. Gujarat is seriously exploring the possibilities to import better quality coal from abroad to improve the efficiency and reduce its cost. Similarly, other industrial raw materials are also now available from the international markets since the quantitative restrictions on imports are relaxed at the national level. The state government of Gujarat has offered subsidies for improvement of quality of products including industrial raw materials through the R & D efforts by the private sector as seen earlier.

The discussion of infrastructure and input supplies would remain incomplete without considering the *Human and Social Infrastructure*. In terms of the primary education and literacy, Gujarat's performance has been moderate. There are serious weaknesses of the state's secondary and tertiary education system. The students of the state lag behind in communication in English language, a serious handicap in the modern IT and globalised environment. The domestic supply of technical and professional personnel in the state is also inadequate compared to the likely demand. The remedial action by the state government in this regard is not sufficient to meet the challenge. However, allowing private participation, accreditation and recent revision of user charges have a potential to go a long way to improve the situation. Similarly, healthcare is a weak area in Gujarat. Again, in this sector the major issues of revision of user charges, proper investment in facilities, quality of services and efficiency of the healthcare system need to be addressed seriously. However, very good healthcare services at high cost are available selectively in the state.

Entertainment and hospitality sector has evinced significant growth of late on account of rationalisation of the state's policies. The entertainment tax on cinema in the state was rationalised recently with only one uniform rate of 100% replacing a complex rate structure. Several other forms of entertainment such as water parks, fun-fares, exhibitions, etc. are largely exempt in the state under one or the other pretext. Similarly, the prohibition law is considerably relaxed on selective basis for the star hotels to accommodate the liquor consumption of foreign tourists and guests from outside the state. Although the physical environment in the large cities in the state is considerably polluted, it is very liveable on the periphery of cities and in smaller towns and villages. Moreover, Gujarat has the least disturbance in industrial peace among all states though the average industrial wage rate in Gujarat is lower than many states in the country. The state has a low crime rate relative to the comparable states and very often it is considered very safe and liveable state socially and culturally. Out of the two minor vices of the consumption of alcohol and tobacco (both of which are addictive and are injurious to health if consumed excessively), the Government of Gujarat has followed the policy of prohibition of the consumption of alcohol ever since its inception. Regarding tobacco, now the orders of the Supreme Court prohibit its consumption in public places and the free sale of the tobacco products. Both these policies have significant cost in terms of revenue foregone for the governments, but both have substantial benefits in terms of public health and social environment. On the whole, the human and social infrastructure existing in the state has not only been conducive but positively attractive for the highly skilled migrant labour to settle down in the state and be an integral part of its growth and development.

V. Approvals and Clearances for Industries:

Gujarat has continued to achieve high annual growth rates of value added at 1993-94 constant prices during the nineties in the registered (10%) and unregistered (8.9%) manufacturing sectors. In terms of the number of new SSI units registered, the growth is impressive but declining of late, e.g., 14,631 (or 7.3%) during 1997-98; 14,761 (or 6.8%) during 1998-99; 14,437 (or 6.3%) during 1999-2000; 13,325 (or 5.5%) during 2000-01, and 5.6% during 2001-02 in the state. The cumulative SSI registration in Gujarat as on 31st October 2001 stands at 263 thousand units. (Govt. of Gujarat, 2002). From these figures of growth rates of real value added in the registered manufacturing sector and of the number of new registered units in the SSI sector, it should be fairly clear that (i) the large scale units are growing faster than the SSI units in Gujarat; (ii) the SSI policy in the state does not seem to have encouraged the investors to break down their size into fragmented smaller units; and (iii) the annual growth in the registration of SSI units is fast coming down during the latter half of the nineties. Moreover, as per 2000-01Census of SSI, about 76% of the 223 thousand registered units were found working and majority of them producing the products not reserved for SSI sector. Since there is no restriction on the exit from the SSI sector, survival of 76% units reflects very positively on the existing environment for SSIs in the state. The regional spread of the new SSI units registered in the state during 2000-01 shows that hardly 6.2% of the units are located in the metropolitan areas; about 60.6% of the new units are located in the urban areas excluding the metropolitan areas, and about 33.2% of the new units are located in the rural areas (Government of Gujarat, 2001). The emerging urban centres, smaller towns and villages are largely attracting the new SSI units in the state.

The district and *nagar panchayats* and municipalities are, therefore, likely to play important role in attracting the industry and trade. The state industrial policy accords priority to promote identified thrust industries including electronics, engineering, ancillaries, garments, gems and jewellery, food and agri-processing industries, leather goods, other labour intensive industries and 100% export oriented units (EOU). A separate incentive scheme including speedy approval has been introduced for promotion of such thrust industries in the state.

At the district level, it is the District Industries Centre (DIC) which plays a pivotal role for promotion of industries. The principal objective of establishing the DIC is to provide all assistance under one roof to the entrepreneurs engaged in different types of industries and to those proposing to establish small and cottage industries in the district (Government of Gujarat, 1999). The state government has made the DICs more effective and operational by delegating the powers concerning registration for several developmental and subsidy purposes. Thus, registration for cash subsidy, SSI registration certificate for sales tax exemption, recommendation of loans and loans under artisan scheme, etc. have been delegated to the DICs. This not only simplifies procedures but effectively decentralises the developmental decisions providing further incentives to the administration to become people oriented. As a result, District Industrial Executive Committee under the chairmanship of either the Member of Parliament from the district or the Collector meets periodically to discuss and resolve problems of industrialists to the extent possible with the help of the DIC. Similarly, to ensure better co-ordination among various agencies working in the district, a Single Window Industries Follow-up Team (SWIFT) is constituted in 1996-97 in each district under the chairmanship of the district Collector. Moreover, at the state level a monitoring cell is established in the office of the Industries Commissioner to monitor the working of the DICs on monthly basis.

The DICs provide registration for both the tiny sector and the small-scale sector. The validity for registration under tiny sector is for 5 years. Thereafter, the unit has to either renew the registration or get conversion to the SSI registration. Since January 1999, there has been a major simplification introduced to expedite the registration of small and tiny sector units. Units with investment upto Rs. 4 million in plants and machinery can now be registered without inspection. Officials at DICs feel that more than 90 to 95% of the small and tiny sector units would be covered here. This would cover not only the new units but also the hitherto unregistered existing units. There is a drive to register small entrepreneurs, rural artisans, cottage industries, etc. so as to enable them to get incentives available for such activities and also to strengthen the database in the sector.

For the registration under SSI sector, the procedures are also fairly simplified with only the following papers required to be submitted in general: (a) application form in duplicate; (b) notarised declaration on Rs. 20 stamp paper; (c) rent receipt copy and copy of municipal tax bill in urban area; (d) copy of the partnership deed or memorandum of articles; (e) copy of the licence under Shop and Establishment Act; (f) power NOC or copy of the power bill; (g) sales tax number; (h) affidavit of machinery ownership or the list of machinery; and (i) copy of the first sales bill. Moreover, the SSI registration is now available almost on the same day of application. However, if the unit is in the following specified sectors, the necessary approval/permission is additionally required from the respective authority:

Sr. No.	Sectors	Authority Granting Approval
i	Pharmaceutical	Food and Drug Control Administration
ii	Chemical	Pollution Control Board
iii	Explosives	Department of Explosives, Faridabad.
iv	Pesticides/Insecticides	Central Insecticide Board

For larger units, states in India have a limited role. After liberalisation in this sector, approvals are needed only for the 6 groups of strategic industries. For the rest of large industries, the procedures for environmental clearance are also simplified. Similarly, for 100% Export Oriented Units, a letter of permission is needed from the Secretariat of Industrial Approval (SIA) in the Ministry of Industry, Government of India to claim any type of benefits. Gujarat's new industrial policy proposes to set up an Export Park with 100% EOUs to overcome delays involved in such approvals & permissions and derive external economies of scale in terms of administration of incentives to the 100% EOUs. Moreover, the large-scale industries require the non-agricultural land, power connection and several other infrastructural clearances. The DICs and the Office of the Industries Commissioner at the state level assist these large industries in getting what they want. DICs also perform the task of follow-up and monitoring the progress in such cases.

A major step is taken in Gujarat in 1999 to prepare and publish citizen's charter for all DICs. In this charter, not only all procedural requirements are enlisted but also the time limits are prescribed for various clearances and approvals needed -- when the applicants provide all necessary documents and evidences. Moreover, this is also monitored strictly by the Industry Commissioner's office almost every week since all this is computerised. Thus, unnecessary delays and harassment in undertaking productive activity in the state are likely to reduce and quick disposal of applications and cases can be expected. The efficiency and effectiveness of such measures can be judged by the growth of economic activities in this sector in the state as noted earlier.

The trade and industry often bitterly refer to the inspection visits by different government officials to the units during the year. Confederation of Indian Industries (CII), Gujarat chapter has estimated that on an average about 46 visits of the government officials take place during a year to a registered manufacturing unit for "inspection" purposes. Out of these, about two-third visits are from the central government offices and the remaining one-third visits are from the state government offices. For an unregistered manufacturing unit the number of visits is estimated to be about 28. This excessive number of visits point to the continuation of the "inspector raj" and high degree of regulation and control leading to often unproductive and otherwise avoidable “transaction costs”. Although the state government recognises the point made by the trade and industry, the government bureaucracy has not made any significant effort to reduce these visits by the inspectors. This is also the area where the central government has not made any progress for addressing the problem. This is a complicated issue because the inspections are necessary for (a) enforcement of certain standards and laws, and (b) development and entitlement for incentives based on assets, production, etc. Those units where incentives are either claimed or sought, most of the approvals and several of the inspections become necessary. Otherwise, several of the approvals/permissions and inspections are not necessary. The government officials at the state and the district levels in Gujarat, however, are not very clear about the proportion of the inspection visits between enforcement and development.

Currently the following Acts and Ordinances need inspection for their satisfactory enforcement in a production unit: PF Act, Boiler Act, ESI Act, Factory Act, Labour Act, IDR Act, Pollution Control Act, Food and Drugs Control Act, ISO/ISI Act, Agmark/FPO Act, Essential Commodity Act, Lubricating Oil and Grease Control Order, Molasses Control Order, Explosive Act, etc. Similarly for development and incentives, the inspection visits are required from banks, financial institutions, sales tax department, excise department, etc. Although it is generally agreed that duplication in inspection visits should be avoided, everybody feels that the inspection visits by the government officials cannot be reduced to zero. Even the concept of a Single Inspection Unit is not generally considered feasible under the prevailing conditions. Selective random inspection visits require a very strict and heavy punishment for the guilty and non-confirming units. Given the legal environment and aspects of the law enforcement prevailing in the state, this does not seem to be an effective option. Deregulation and liberalisation in the matters of inspection visits will require to be innovative and bold because the objective of inspection for enforcement is the welfare and safety of population and workers, and for developmental incentives is the reduction of costs to the entrepreneurs. An effective solution of this problem could be found only when the developmental incentives do not remain discretionary but more general and objective rather than selective.

VI. Land Market Reforms:

Another major liberalisation initiative is the abolition of the urban land ceiling in the state from April 1999. This measure is expected to restore the legitimacy of the transactions in the land market in the urban areas. Now, the land can be freely transacted. It is hoped that the excess land locked up with several industrial units in the state can now be released for sale and development purposes. The effective land prices in the urban areas may, therefore, fall in the short run and housing and construction activities in the urban areas are likely to boom. Moreover, the sale of excess land with industries in deep trouble can provide very vital doze of fresh resources for their rehabilitation. However, it is feared that several industrial units located inside the city limits possess excess land not under their ownership, but on long term lease. Thus, the excess land cannot be sold easily. The original owner in most cases is the state government or the municipal body. The decision to sell these lands or allow their sale is not taken because it has a potential for malpractices and the issue is at deadlock.

Gujarat Government also simultaneously amended the Town Planning Act in 1999. It now requires the buyer of the barren and undeveloped land under the urban development authorities of different metropolitan areas to keep or surrender 50% of the land for various infrastructure development like roads, hospital, park, green land, etc. Previously the proportion was 35%. The buyer retains the ownership of the land and can develop the necessary facilities on it charging the members joining the scheme. Alternatively, the government or the urban development authority can buy the specified land from the buyer and develop the facilities if required. As it can be seen, this Act affects only the buyer on the periphery, which is undeveloped. There are already some protests and controversies regarding this Act from the owners of the new development schemes, but they are being settled. The purpose of this amendment was to avoid excess cost and disputes in the matters of providing the required infrastructure in future as well as make the users pay for the cost of infrastructure – at least a large proportion of it. This policy is quite consistent with the overall direction of reforms in the state.

Recently, on 31st October 2001, the state government has taken a bold decision to amend the rent control act to tackle the problem of vacant premises and to encourage building construction in the urban areas. It was estimated that only in 5 major cities of Ahmedabad, Surat, Rajkot, Bhavnagar and Jamnagar, more than 0.8 million houses (dwelling units) are lying vacant. On the other hand, there is a tremendous scarcity of houses available on rent. This was ascribed to the Bombay Rent Control Act (1947) in force. The Act is now amended so that for the new houses constructed or the ones under possession of the owner are exempted from the provisions of the Act for a period of 10 years. This will encourage renting of the premises lying vacant and encourage investments in the housing and hotel sectors. This is a major initiative taken by the Gujarat government in reforming the land and property markets in the urban areas.

In the matter relating to making the land available to industries, the unique measure taken by the Gujarat government in 1997 is to grant permission to convert agricultural land to non-agricultural (NA) uses upto the limit of 10 hectares almost automatically. This cuts down the elaborate process and delays in obtaining the NA permission for land from the district collectorate and encourages rapid industrialisation. This measure is particularly aimed at the large-scale industries. Considering low agricultural productivity and high density of industries with necessary infrastructural support in the state, this measure may be justified. However, of late, the state government has realised the urgency to activate the Land-Use Board and put in place a realistic long term Land-Use Policy for the state since a significant decline of about 10% in the net cropped area is noticed over the last 20 years in the state

VII. Concluding Remarks:

Table 1 presents the trend rates of growth in different sectors of the Gujarat economy for the periods 1980-92 and 1991-01 based on the semi-logarithmic trend regressions on the GSDP at 1993-94 prices by sectors. The table helps us to examine the shift in implicit emphasis on different sectors in the development strategy followed by Gujarat after the reforms were initiated at the national level, i.e. 1991-92.

It can be readily seen that out of the 17 sectors, 11 sectors show statistically significant acceleration or deceleration in the basic trend rate of growth after 1991-92 in Gujarat. The 6 sectors that do not show statistically significant acceleration/deceleration in the growth include agriculture, registered manufacturing, electricity, railways, other transport, and storage. On the other hand, forestry unregistered manufacturing, construction, trade and hotels, communication, public administration, and other services have experienced significant acceleration in their growth after 1991-92 in Gujarat. These are the sectors where the emphasis in the development strategy of Gujarat seems to have shifter during the reform period. Surprisingly, the fishing, mining & quarrying, banking & insurance, and real estate sectors in Gujarat are experiencing a significant deceleration in their growth during the reform period. The first two of these are the natural resource-based sectors where Gujarat has a considerable potential, whereas the other two are the modern financial service sectors in which Gujarat should have substantial advantage given its emphasis on manufacturing and trade. However, significant deceleration in the growth in these sectors implies that the focus of the development strategy in Gujarat is shifting away from the organised manufacturing and services to the unorganised sectors of the economy after 1991-92.

Finally, to sum up the discussion, we can say that Gujarat made subtle and significant changes in its policies to supplement the economic reforms initiated at the central government level. During the initial phase of liberalising the industrial sector by the Centre, Gujarat did not have to make any major changes in its policies. The changes in the economic environment made its strategy and policies followed till that point very relevant and attractive for the growth of the private enterprise in the state. However, after 1996 when the reform process at the Centre slackened considerably, Gujarat started its major efforts at the state level liberalisation. In this, the state government is constrained by the political consideration to protect the small and medium enterprises from the adverse effects of the liberalisation and globalisation. Of late, Gujarat seems to have some confusion over its development strategy. Within the overall strategy of 'growth through private enterprise,' the state wants to achieve high efficiency and productivity growth of resources employed in the state and simultaneously desires to protect some of the less efficient small and medium enterprises from the global competition with all kinds of subsidies. This

Table 1: Growth and Acceleration in GSDP at Constant (1993-94) Prices in Gujarat (1980-01)

Sr. No.	Dependent Variable	Intercept A	Basic Trend Rate b_1	Acceleration b_2	R^2
1	2	3	4	5	6
1	AGRICULTURE	13.7580 (88.6330)	0.0091 (0.4790)	0.0175 (0.4560)	0.1537 (1.6350)
2	FOREST & LOG	10.6620 (608.8430)	-0.0023 (-1.087)	0.0224 (5.1640)	0.8010 (36.2440)
3	FISHING	10.0320 (172.2000)	0.0926 (12.9570)	-0.0670 (-4.634)	0.9499 (170.7050)
4	MINING & QUARRY	11.1910 (339.8300)	0.0611 (15.1430)	-0.0480 (-5.935)	0.9603 (217.7400)
5	REGISTERED MFG.	12.6790 (205.5301)	0.0779 (10.2990)	0.0220 (1.4440)	0.9670 (267.8435)
6	UN-REGISTERED MFG.	11.9830 (290.4290)	0.0692 (13.6830)	0.0196 (1.9200)	0.9813 (472.9050)
7	ELECT, GAS, WATER SUP	10.3710 (283.6550)	0.1028 (22.9210)	-0.0150 (-1.657)	0.9903 (924.6720)
8	CONSTRUCTION	11.5950 (233.1319)	0.0439 (7.1928)	0.0252 (2.0432)	0.9475 (162.7330)
9	TRADE,HOTEL,REST.	12.4700 (339.7560)	0.0521 (11.5750)	0.0268 (2.9456)	0.9781 (403.4360)
10	RAILWAY	10.7680 (318.5230)	0.0258 (6.2350)	0.0039 (0.4680)	0.9075 (88.3304)
11	OTHER TRANS.	11.1850 (128.3820)	0.0820 (7.6700)	-0.0130 (-0.627)	0.9187 (101.7820)
12	STORAGE	7.0447 (104.4090)	0.0138 (1.6706)	0.0058 (0.3520)	0.4664 (7.8670)
13	COMMUNITY	10.1200 (353.7940)	0.0591 (16.8490)	0.0947 (13.3620)	0.9947 (1704.8340)
14	BANKING INSURANCE.	10.6740 (183.0020)	0.1435 (20.0530)	-0.0500 (-3.490)	0.9848 (586.2330)
15	REAL ESTATE	12.2320 (8196.4060)	0.0302 (165.2190)	-0.0034 (-9.0779)	0.9998 (49563.8400)
16	PUB. ADMIN	11.2530 (180.6310)	0.0476 (6.2280)	0.0338 (2.1900)	0.9372 (134.4450)
17	OTHER SERVICES	11.6950 (596.2060)	0.0504 (20.9700)	0.0336 (6.9260)	0.9939 1478.575)
	TOTAL GSDP	14.7490 (348.8210)	0.0466 (8.9810)	0.0243 (2.3230)	0.9644 (244.4120)

Note: 1) The regression Equation is: $Y = a + b_1 t + b_2 (t-t^*)D$ where $t^* = 12$ corresponding to the year 1991-92; and D is dummy such that D = 0 for t < 12 and D=1 for t > = 12.

2) For cols. 3 to 5, figures in parentheses are t-values; and for col.6, the figures in parentheses are f-values.

3) The critical values of t-stat are 2.09 and 1.73 for respectively 5% and 10% level of significance.

confusion must end sooner than later. No sooner does the national reform process get on the track than Gujarat would realise its benefits and resolve this confusion. In the meantime the focus of the development strategy shifted away from the organised manufacturing activity to the unorganised sectors in the state.

Acknowledgement

[Grateful thanks are due to various officials from Gujarat Chamber of Commerce and Industries; CII Gujarat Chapter; Industrial Extension Bureau, District Industries Centre, Ahmedabad; Industrial Commissionerate; Chief Industries Advisor, Government of Gujarat; Additional Secretary (Irrigation), Government of Gujarat; and Bureau of Economics and Statistics, Gandhinagar for useful discussions and valuable material. Thanks are also due to Dr. Stephen Howes and Dr. Lili Liu of The World Bank and Prof. V.N. Kothari for useful comments on an earlier draft of the paper.]

References

Ahluwalia, Montek Singh (2000): "Economic Performance of States in the Post-Reform Period," *Economic & Political Weekly*, Vol.35, No.19, May 6, pp. 1637-48.

Dholakia, Archana R. (1990): *Benefits from Government Expenditure in India - A Welfare Indicator Approach*, Bombay: Himalaya Publishing House.

Dholakia, Archana, R. (2000): "Fiscal Imbalance in Gujarat – Non-Tax Revenues and Subsidies," *Economic & Political Weekly*, Vol. 35, No. 35, August 26, pp. 3217-27.

Dholakia, Archana and Dholakia, Ravindra (2000): "Macroeconomic Performance and Tax Revenue – The Case of Gujarat State," in *Journal of Indian School of Political Economy*, Vol. 12, No. 1, Jan-March, pp. 21-34.

Dholakia, Ravindra H. (1994): "Spatial Dimension of the Acceleration of Economic Growth in India", *Economic & Political Weekly*, Vol. 29, No. 35, August 27, pp. 2303-9.

District Industries Centre, Ahmedabad. (1999): "*Nagarik Adhikar Patra* (Citizen's Charter)", Office of Industries Commissioner, Government of Gujarat, February.

Government of Gujarat (1994): *Report of The Gujarat State Finance Commission*, April.

Government of Gujarat (2000 and 2001): *Gujarat State: Socio-economic Review, 1998-99*, *1999-2000 and 2000-01,* Budget Publication No. 30.

Gujarat Chamber of Commerce and Industry (1998): "Proposal for Discussion in Sectoral Meetings", Gujarat Trade and Industry Conference 1998 held in Ahmedabad on 28th March.

Industries Commissionerate (2001): *Survey of Industrial Units (SSI, 1999-2000 – Preliminary Results*, Government of Gujarat, Gandhinagar.

Marvania, P.G. (1995): *Pattern of Urban Industrial and Regional Development in Gujarat*, Ph.D. Thesis, Saurashtra University, Rajkot.

Morris, S. (2000): “Regulatory Strategy and Restructuring Model for Gujarat Power Sector”, in *Economic & Political Weekly*, Vol. 35, No. 23, June 3-9, pp. 1915-1929.

Sengupta, D.N. (1996): “Deregulation at the State Level”, *IIMA Working Paper No. 1327*, August.

State Public Finance Reforms Committee (SPFRC), Gujarat State (2000): *Report on Fiscal Consolidation in Gujarat – A Medium Term Plan*, Gandhinagar, Government of Gujarat, December.