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ABSTRACT

The article examines growth experience in various sectors of the state and analyzes the medium and long term growth potential of the economy. Sector-wise performance of Gujarat economy is analyzed with a focus on key engines of growth and the effective role of these growth engines in macro economic acceleration of Gujarat Economy. During the nineties, Gujarat improved its economic performance remarkably in almost all secondary and tertiary sectors. While Gujarat has very strong performance in the manufacturing, electricity, construction, transport & communication, and services sector, its major weaknesses is in the primary sector. The article attempts to identify principal drivers of the economy in the state and their contribution to economic growth. The sectors are- Energy, Oil & Gas, Agro & food processing, Textiles, Diamonds, Petrochemicals, SEZ etc. Concluding section highlights policy recommendations for sustained economic growth including land reform, investment in education and infrastructure, ports, more FDI, transparency and efficiency in administration, attaining social cohesion, macro economic management etc

Drivers of Economic Growth in Gujarat

Sudha Menon

Ever since its inception in 1960, Gujarat has followed a strategy focused on industrialization and urbanization with an open door policy. Economic reform measures introduced by the Central Government with an explicit emphasis on trade and industry have considerably benefited Gujarat, making its economic performance outstanding.

Gujarat has only 5% of India's population, but has remained the strong-arm of nation's industrial and trade performance, accounting for about a seventh of India's industrial output and around a fifth of its industrial investment. It is expected that with successful implementation of Narmada Project, Gujarat would be ready for a second green revolution and this revolution would involve value additions in the form of agro-based and food processing industries. The Planning Commission has projected Gujarat as one of the fastest growing states in the tenth plan. In the post-reforms period, Gujarat, in particular, has witnessed high growth in sectors like, chemicals and petrochemicals, engineering, agro and food processing. Demographic trends in Gujarat, especially a slowing population growth rate and a rising share of the population of working age, contribute to rising per capita income.

The specific instruments used by the State Government of Gujarat to promote economic growth through the private sector include tax and cost-related incentives, provision of infrastructure & input supplies, approvals and clearances for industries and land market reforms. However, there is an urgent need to pay attention to manufacturing and IT sectors of the state, which have remained stagnant during recent years.

Against this context, the present article attempts to analyze growth experience in various sectors of the state and analyzes the medium and long term growth potential of the economy. Sector-wise performance of Gujarat economy is analyzed with a focus on key engines of growth and the effective role of these growth engines in macro economic acceleration of Gujarat Economy. The article attempts to identify principal drivers of the economy in the state and their contribution to economic growth. The sectors are- Energy, Oil & Gas, Agro & food processing, Textiles, Diamonds, Petrochemicals, Engineering, SEZ, Medical Tourism, Biotechnology and IT. Concluding section highlights policy recommendations for sustained economic growth including land reform, investment in education and infrastructure, ports, more FDI, transparency and efficiency in administration, attaining social cohesion, macro economic management etc

Growth Experience in Various sectors

Gujarat always played a vital role in India's economic development. Though Gujarat accounts for only 6% of India's geographical area and 5 % of the population, 21% of our exports and 6.4% of GDP is contributed by Gujarat. The state has achieved remarkable success in industrial development which makes the state parallel to Singapore and Malaysia. This was particularly so after liberalization era in which Gujarat improved its economic performance remarkably in almost all secondary and tertiary sectors. Though, Gujarat has very strong performance in the manufacturing, electricity, construction, transport & communication, and services sector, its major weaknesses is in the primary sector.

Gujarat ranks 2nd in state-wise percentage share of Net Value Added by manufacturing in the factory sector of India according to the Annual Survey of Industries (2002-03). Gujarat's rate of growth of industrial output is 18% (2003-04). Gujarat has been a front runner in industries including textiles, chemicals, petrochemicals, pharmaceuticals, engineering, oil and gas, ceramics, gems and jewellery and agro-based products. There are around 168 industrial estates in Gujarat. The services sector contributed 42.4% to the state's GDP in the year 2004-05. Services included trade, hotels, transport, communication and financial services

In the last Economic survey of Gujarat published in 2007, the growth of GSDP was estimated as 5.1% The growth rate in secondary sector was recorded as 9.3 % and tertiary sector as 8.6% The share of Primary, Secondary and Tertiary

sectors has been reported to be as 18.5, 39.1 and 42.4 per cent respectively of the total GSDP (Rs.107033 crore) in 2004-05 at constant (1993-94) prices¹. The share of these sectors in the base year 1993-94 had been reported to be as 25.5, 35.8 and 38.8 per cent respectively. The share of Primary, Secondary and Tertiary sectors has been reported to be as 19.0, 38.4 and 42.6 per cent respectively of the total GSDP (Rs. 179544 crore) in 2004-05 at current prices.

However the growth rate in primary sector was low by 8.9 % which give alarming signal to the economic prosperity of Gujarat. The following table shows sector-wise trends in growth during the last 2 decades.

Table 1
Comparison of Sectoral Trends [% Per year]

Sector	1981-1992	1992-2002
Agriculture	2	4
Manufacturing	6.9	10.1
Electricity, Gas & Water	9.4	7.6
Construction	4.6	6.2
Trade & Hotels	5.2	8.3
Transport & Communication	7.1	9.9
Finance & Estates	6.3	5.7
Other services	5.4	5.7
Total GDP	4.2	7.0

Source: Directorate of Economics and Statistics, Government of India.

From the Table it is clear that Gujarat has achieved great success in secondary and tertiary sectors during the last decade. Electricity, construction and hospitality sectors had achieved tremendous growth where as agriculture sector still lag behind. Manufacturing sector also witnessed high growth rate during this period. The above table further shows that the long term growth potential of Gujarat economy depends on secondary and tertiary sector with special emphasis on communication, infrastructure and construction and manufacturing. At the same time state should focus on a pragmatic strategy to revive the agriculture because majority of the rural people still depends on agriculture and allied activities for livelihood. Hence Gujarat economy can not attain a sustainable growth with equity without realizing the significance of agriculture in economic development though its contribution to GSDP is low. The following table shows contribution of major industrial sectors in Gujarat.

¹ Socio-Economic Survey of Gujarat, 2006.

Table 2
Gujarat- Major Industrial Sectors

Sector	Share in Gujarat [%]	Share in India[%]
Refined Petroleum	30.8	38
Chemicals including Pharma	26.7	30
Engineering	9.5	7
Food and beverages	9.2	9
Metallurgical	7.4	11
Textiles	7.2	15
Non-metallic mineral	2.4	12
Plastic	1.9	10
Paper	1.2	11

Source: Vibrant Gujarat Documents

As on August 31, 2005, Gujarat accounts for the highest investment in India - 16.75 per cent, amounting to a whopping Rs. 2.74 trillion, and accounting for nearly 7,500 projects. Over the last five years (2000-2005), the state has attracted the highest investments among all states in India - a record Rs. 943.57 billion. Since the long term growth model identified by Gujarat put more emphasis on industrial sector it would be interesting to identify the principal movers or engines of growth. Policies pertaining to all these sectors would have direct bearing on growth of the economy². The following paragraphs discuss the role of the prime engines of growth in detail.

Drivers of Economy

The economy of Gujarat shows that it is one of the most prosperous states of the country, having a per-capita GDP 2.47 times India's average. Of all the states, Gujarat controls some of the largest businesses in India. According to the data published by "Center for Monitoring Indian Economy" or CMIE, Gujarat ranked third among all the states of India in 2004, approximately same as Punjab and Maharashtra, at Rs. 15,800³.

² Ravindra Dholakia, Macro economic framework for development in Gujarat, CGSD Working Papers.

³ www.wikipedia.org/gujarat

Gujarat ranks first nationwide in gas-based thermal electricity generation with national market share of over 18% and second nationwide in nuclear electricity generation with national market share of over 16%. Over 4% of the S&P CNX 500 conglomerates have corporate offices in Gujarat. During the period 1960-90, Gujarat established itself as a leader in various industrial sectors - Textiles, Engineering, Chemicals, and Petrochemicals, Drugs & Pharmaceuticals, Dairy, Cement & Ceramics, Gems & Jewellery, etc. These sectors are often regarded as the chief engines of growth in Gujarat economy.

Energy: Energy is the engine of growth for industries. The government has taken a number of steps to ensure cheap and regular supply of electricity for the industry. With the presence of MNCs and Big corporate players of the country, Gujarat holds a strategic position in the Indian power industry. It has been ranked 2nd in the Power Sector rating Report (2005) of CRISIL-ICRA submitted to the Ministry Of Power, India. Gujarat has installed capacity of 9288 MW with the projected peak demand of 10605 MW. The expected addition of 536 MW by the end of 2007 will still result into the deficit of almost 2652 MW in the installed capacity by the year end. This depicts the growth prospects in the power sector of the state. Per capita consumption of electricity of Gujarat is also double of that of the average for India. The State Electricity Board (SEB) of Gujarat is one of the better performers as compared to other State Electricity Boards (CRISIL, Jan 2003). The 'Gram Jyoti' project provide single-phase continuous electricity to villages with population of over 3,000 has been implemented in Gujarat successfully.

Oil & Gas Sector: Gujarat governs a command over the on shore production of the crude in India by contributing almost 54% of the total production. The government of Gujarat proposes Gujarat as energy hub, since it has unique feature of having State Wise Gas Grid and Multi Gas Supplier. It is Gujarat that has given India its largest Natural Gas discovery of 20 TCF at the KG basin and has already started implementing a 2200 km state-wide gas grid – to connect the demand and supply centres. Out of this, 750 km network is already operational and another 650 km pipeline is under implementation. In the next two to three years, the Gas Grid is expected to reach all the 25 districts of Gujarat and cater to the requirements of industrial, commercial and domestic sectors. Refineries in Gujarat are accountable for 46% of refining capacity of the country. The private and public sector enterprises like Adani, British Gas along with GAIL, GSPC, BPCL are involved in gas distribution. Hazira and Palej are the only two LNG terminals in India, mentioning the potential of Gujarat to be a state who can lead India in the development and growth in oil and gas sector. Gujarat has taken a pioneering role in utilizing Natural Gas for power generation, fertilizer production, manufacturing and transportation. With an increasing presence of upstream multinationals, downstream giants and midstream companies in Gujarat, the state has emerged as the Petro-Capital of India and leading the country towards energy sufficiency and into an exciting hydrocarbon economy. With an upcoming Special Economic Zone dedicated to Oil and Gas sector, an unprecedented growth is envisaged.

Textiles: Textile also plays a vital role in economy of Gujarat and it contributes around 7.2% of state GDP. Gujarat is famous for traditional textile giants like Arvind Mills. The lifting of quotas and incentive schemes such as the Technology Up-gradation Fund has improved the prospects of textile clusters of Gujarat. The government has lined up 13 projects for the sector, with an investment of Rs 1,128.6 crore. All the projects are likely to come up in Ahmedabad, Surat and Valsad in the upcoming integrated textile parks. An apparel training institute is also being planned with an intake of 700 students in Surendranagar.

Gems & jewellery: Gujarat is one of the world's largest producers of gems and jewellery. Gujarat contributes about 72 per cent of the total exports of India. The state with its diamond and jewellery units at Ahmedabad and Palanpur in north Gujarat, Bhavnagar in Saurashtra, and Surat, Navsari and Valsad in south Gujarat is one of the main contributors to the gems and jewellery industry in India. Gujarat accounts for about 80 per cent of the diamonds processed and 90 per cent of the diamond export from India. Surat has 65 per cent share in India's diamond trade.

Diamonds worth \$9 billion are being processed in Gujarat, accounting for 80 percent of India's total diamond exports, according to official data. The Ahmedabad area, which specializes in manufacture of gold jewellery, has about 4,000 skilled workers. The labor productivity of this cluster is around 50 grams of production per day per workman, which is the highest in India, according to industry estimates.

Facing stiff challenges from Maharashtra and Tamil Nadu in the diamond and jewellery business, Gujarat is now evolving new strategies to retain its supremacy in the sector. As part of the new strategy, Gujarat is looking beyond Surat for diamond polishing. It is identifying places in other parts of the state where low cost diamond polishing zones could come up. A global diamond-trading hub is also being thought to enable domestic and foreign buyers to buy diamonds.

Chemicals & Petro-Chemicals: The industry is viewed as a major growth engine of the State Economy. Chemical and Petrochemical Industry occupies an important place in the country's economy, as the Chemical industry has grown at a pace out performing the overall growth of the industry. The Chemical Industry produces a wide spectrum of products, which include Pharmaceuticals, Dyes, Man-made Fibers, Plastics, Pesticides, Fertilizers, Cosmetics and Toiletries, Paint, Auxiliary Chemicals and wide range of Organic and Inorganic compounds for applications ranging from automobiles, textile industry, engineering industry, construction chemicals and food additives to veterinary and health care products. The Chemical Industry in Gujarat comprises of about 500 large and medium scale industrial units, about 16,000 of small-scale industrial units and other factory sector units.

Since August 1991, chemical and allied sector accounts for an investment of Rs.1531 billion which is 50.3% of total investment of the state. Similarly 1324 projects of the chemical and allied sector involving an investment of Rs. 531 Billion have been commissioned/ concluded, accounting for about 59.6% share in investment of the total projects commissioned. Also 616 projects envisaging an investment of Rs. 429 Billion are under implementation in Chemicals and Allied Industry. The Small Scale and Factory Sector industry in Chemical and allied field has also shown an impressive contribution in the sub-sectors of Dyestuff and Pharmaceuticals, Paints and Fine Chemicals producing large number of value added products.

The major reasons which could be attributed to such a spectacular growth of this sector in the state are a strong base of petrochemical industry, increasing availability of basic feed stock, relatively low overhead cost, availability of necessary infrastructure, trained and technical manpower and high degree of entrepreneurship. Gujarat Industrial Development Corporation (GIDC) has set up mega estates, particularly for chemicals at Ankleshwar, Panoli, Vapi, Vatwa, Jhagadia, Vilayat and Dahej to facilitate further development and growth

Food Processing: Gujarat has strengths in agro-based industry in terms of natural resources, established industrial infrastructure, vast pool of technically skilled manpower, hard working and enterprising farmers, established network of Agriculture Produce Markets (APMCs) and well developed co-operative sector for providing various farm inputs including agriculture credit. The state government attempts to make an investment of about Rs 350 crore from 24 different projects. Terminal markets envisage offering a one-stop solution - cleaning facility, grading, sorting, packaging and palletization of fresh horticulture produce. On the basis of fruits and vegetables and locations for development, the markets have been proposed at Ahmedabad and Surat. Total project cost is estimated to be Rs 95 crore. This will be in line with crop-specific cluster development for agriculture and horticulture crops cultivated in Gujarat. It may have a Food Park with a cluster of 40-50 units at one location. Estimated cost of the entire project is Rs 56 crore. Government feels that through these projects the food processing industry can provide rich dividends to overall economic development of the economy.

SEZ: Since the inception of the Special Economic Zone (SEZ) concept in India, Gujarat has always been on the cards. The first SEZ of the country was established at Kandla, Kutch district in 1965. Since then on a consistent basis SEZs are being developed in the state owing to its vast resource of skilled and unskilled labor, technological and infrastructural facilities, coastline of 1600 km longest in the country, and most importantly the spirit of entrepreneurship, which is found at a lower scale in other parts of the country. The state has chalked out plans to draw investments of over Rs 41,000 crore from various port-based projects. While a special economic zone at Dholera on the lines of the state's dream of transforming Ahmedabad into a port-based city is all set to

come up, various green-field projects at Mithivirdi, Vansi Borsi and Bedi are also in the pipeline. The state government is planning to set up three projects under the title of ship building/ ship repairing yard with an estimated investment of Rs 900 crore each. A multi-project SEZ, which will cater to the chemical and petrochemical units, is likely to come up at Dahej with an investment of about Rs 900 crore. In the Vibrant Gujarat Global Investors Summit 2007 SEZ was the focus. 26 Memorandum of Understandings were signed for an investment of Rs.1.4 lakhs crores however all were with local SEZ developers but no foreign investors.

Conclusion and Policy Recommendation

The above analysis of the main economic drivers of Gujarat reveals that the state has very high growth potential in near future. The state has successfully carved out a formidable position in industrial and manufacturing sector together with service sector. However the main drawback of the Gujarat model is its negligible performance in agricultural sector and regional imbalance in development. The fruits of high growth rate and development are limited to the main land Gujarat. The tribal region of south and north Gujarat is lagging behind other parts in terms of economic and industrial development. Further the state cannot achieve remarkable success in social and human development indicators. The public investment in education and other social sectors are low. Absence of English educated young population has indeed affected flow of FDI also.

The enterprising and commercial mind set in Gujarat has brought the state a fore runner in economic development. The state has not only acquired and maintained its forth rank in per capita NSDP, but it has also taken quantum jump in the post liberalization period by attracting highest industrial development. The progress in economic diversification however doesn't seem to be sustainable as the primary sector has lagged far behind distorting the agriculture industry linkages. Along with this the rapid industrialization has affected environment also. The limited achievement of the state in the field of employment and poverty as well as human development are closely linked to the macro development path. So the state needs a corrective path to make it equitable and sustainable. The alternative is to broaden the base of development through environment friendly and employment intensive development path. Only an inclusive model can make economic growth and development sustainable.

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