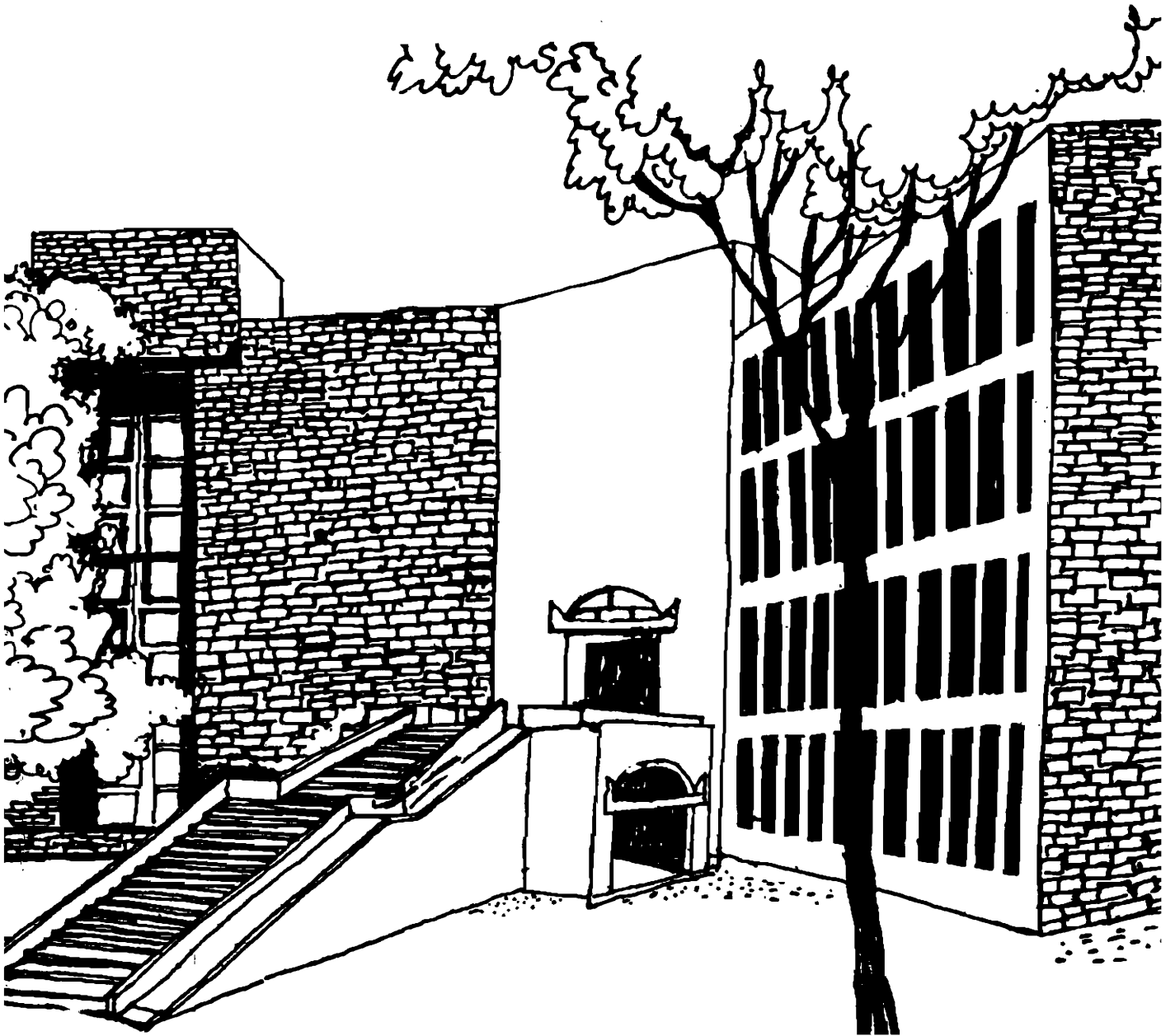




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LIBERALIZATION IN GUJARAT: REVIEW OF
EXPERIENCE

By

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Liberalization in Gujarat: Review of Recent Experience

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Abstract

Gujarat's industrial sector has substantially gained from the national policy of liberalization particularly after 1990-91. The state has also followed consistent policies and taken further measures to liberalize the state economy and simplify certain procedures to promote industrial activities. The Centre's efforts at liberalizing the industrial economy are, by and large, confined to the early nineties, whereas Gujarat has started its major efforts in this direction only after the mid-nineties. It is perhaps because of this reason that the impetus to the accelerated growth in the industrial sector in Gujarat continued significantly throughout the nineties.

Liberalization in Gujarat: Review of Recent Experience

Ravindra H. Dholakia

I. Introduction

With democratic federal structure, it is possible to find different Indian states having distinct economic objectives and goals. It is also shown that they were actually following their own development strategies within the overall broad national plan strategy even during the period when the country seriously followed the development strategy based on central planning to a large extent (see Dholakia 1994). During the process of economic policy reforms and liberalization, the constraints and regulation of 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 would take advantage of this increased flexibility according to their physical capabilities, economic environment and ability to evaluate opportunities and risks involved. States may be required to reconsider their development strategies, alter necessary policy decisions and change institutional structure to attract more economic activities in their economies. Liberalization in Gujarat state during the nineties has to be seen in this context.

Development strategy in Gujarat state has been very clear and unambiguous ever since its inception in 1960 in according a high priority to industrialization as can be seen from various state plan 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 industrialization has been unbalanced growth with emphasis on directly productive activity (DPA) rather than on creating social overhead capital (SOC). The impact of liberalization on the state economy should, therefore, be examined in terms of the performance of industrialization in the state. The next section is devoted to this examination. In the third section, recent measures of liberalization and deregulation taken by the Gujarat government are described after discussing the concept of liberalization at the state level. The fourth section is then devoted to the initiatives and policy changes effected by the Gujarat government in the Small Scale Industry (SSI) sector during the nineties.

II. **Impact of Liberalization on the State Economy**

Gujarat is above the national average in terms of its per capita income and as a result, can be considered relatively better off. But in terms of the growth, its performance is not very impressive. Table 1 provides the comparison of the indices of net state domestic product (SDP) and net national product (NNP) at constant (1980-81) prices from 1980-81 to 1997-98. During the 18 year period, there are as many as seven years when the total real income (SDP) in Gujarat declined as

compared to the previous year. As against this, the national real income (NNP) marginally dropped only once during the 18 years. The economic growth in Gujarat

Table 1

Index Number of Net State Domestic Product of Gujarat and Net National Product at Constant (1980-81) Prices

Sr. No.	Year	Index of SDP in Primary Sector (Gujarat)	Index of Net State Domestic Product (Gujarat)	Index of Net National Product at Factor Cost
1.	1980-81	100.0	100.0	100.0
2.	1981-82	117.5	109.9	105.8
3.	1982-83	100.6	108.3	108.1
4.	1983-84	122.5	129.1	116.9
5.	1984-85	124.1	129.0	120.9
6.	1985-86	95.2	125.5	125.6
7.	1986-87	94.9	133.2	130.3
8.	1987-88	51.5	118.4	135.3
9.	1988-89	134.0	166.1	149.7
10.	1989-90	118.9	163.1	160.2
11.	1990-91	112.0	165.6	168.4
12.	1991-92	92.4	151.9	168.2
13.	1992-93	137.9	200.8	176.7
14.	1993-94	104.7	194.6	187.3
15.	1994-95	147.8	237.5	200.0
16.	1995-96	114.2	240.7	216.8
17.	1996-97	132.9	264.5	233.5
18.	1997-98	134.0	281.5	244.6

Source: 1. Directorate of Economics and Statistics, Gujarat State
2. Central Statistical Organisation, New Delhi

is more volatile and lacks stability. It is clearly brought out that it is the primary sector and more particularly agriculture which has been the principal cause of this instability (see, Dholakia, 1983; Iyengar, 1996). Agriculture and related activities is a declining sector in Gujarat. Its share in SDP was about 41% in 1980-81 which sharply declined to around 19% in 1997-98. This is indicative of significant structural changes in Gujarat's economy over the short period of 18 years.

After 1990-91, the economic policy reforms and the speeded up liberalization at the national level had considerable impact on the Gujarat economy. It can be seen from the Table 1 that the growth of real income in Gujarat during the eighties marginally lagged behind the national average. But during the nineties, it is considerably higher than the national average. Moreover, the experience of the year 1995-96 reveals that the state has also developed capabilities to absorb the relatively large adverse shock on its primary sector not allowing its aggregate real income to fall. Thus, national liberalization process seems to have stabilizing and growth accelerating impact on the Gujarat economy.

The impact of liberalization is not expected to be uniform across different sectors. In order to identify the impact-sectors in the Gujarat state economy, the following spline trend function or a piece-wise trend is fitted to the income originating in different sectors at constant 1980-81 prices in Gujarat over the period 1980-81 to 1997-98 (see, Gujarati, 1995):

$$\ln Y = a + bt + c (t - t^*) D + U$$

where the year 1990-91 is taken as t^* which represents the break point; U is the random error term; $\ln Y$ is the natural logarithm of the real income originating in the given sector; a is the intercept parameter; b is the basic trend-rate; and c is the parameter showing acceleration or deceleration in the basic trend-rate during the nineties. The results are presented in Table 2.

Table 2

Trend Rate of Growth, 1980-81 to 1997-98

Sr. No.	Sectors	Basic Trend Rate		Acceleration/Deceleration		R ²
		Co-efficient	Standard errors	Co-efficient	Standard errors	
1.	Primary Sector	-0.0037	(0.01942)	0.0475	(0.04352)	0.1668
1.1	Agri. & Animal Husbandry	-0.0076	(0.02166)	0.0556	(0.04856)	0.1484
2.	Secondary Sector	0.0695*	(0.00673)	0.0412*	(0.01509)	0.9737
2.1	Manufacturing	0.0716*	(0.00947)	0.0435*	(0.02122)	0.9525
2.2	Reg. Manufacturing	0.0722*	(0.01082)	0.0539*	(0.02424)	0.9446
2.3	Unreg. Manufacturing	0.0709*	(0.00874)	0.0043	(0.01959)	0.9403
3.	Trade, Transport etc.	0.0616*	(0.00626)	0.0034	(0.01403)	0.9585
4.	Banking etc.	0.08317*	(0.00439)	0.0177	(0.00984)	0.9897
5.	Public administration & other service	0.0552*	(0.00304)	-0.0060	(0.00682)	0.9858
6.	Tertiary sector	0.0673*	(0.00282)	0.0072	(0.00633)	0.9929
7.	Total NSDP	0.0440*	(0.00663)	0.0381*	(0.01486)	0.9478

* Significant at 5% level of significance.

Note: The year of break in the trend is taken to be 1990-91.

It can be seen from the results that the primary sector in general and agriculture including animal husbandry in particular do not show any systematic time trend over the 18 year period in Gujarat. Similarly, the liberalization of the nineties have hardly any significant perceptible steady impact on the growth performance of these sectors in the state. On the contrary, the secondary and tertiary sectors in Gujarat not only have well-behaved positive basic time-trend but also show statistically significant high rates of growth over the period. Thus, the economic growth of the state is sustained by its secondary and tertiary sectors which is quite consistent with the development strategy followed by the state. The results reported in Table 2 also clearly reveal that it is only the secondary sector in Gujarat which shows a positive and significant growth acceleration during the nineties. The manufacturing sector in Gujarat has shown the real impact of liberalization in the nineties. The trend rate of growth in the real income in the sector is about 11.5% during the nineties. Within the manufacturing sector, however, it is the registered manufacturing which shows a significantly high growth acceleration with liberalization. The unregistered manufacturing sector which includes the cottage and tiny sector units along with several small scale units, does show high and statistically significant growth acceleration. Thus, liberalization and economic policy reforms have impacted the production and income of mostly the large-scale manufacturing in the state. It seems that the state has not contradicted the centre's initiatives in liberalization and economic policy reforms but has facilitated through its own action the large-scale manufacturing activities in Gujarat. In the democratic

federal structure of India, the major role of the state governments is to control and regulate the activities of the small-scale, cottage and tiny sector units. The state level initiatives in liberalization should have their impacts on the performance of such units in the state. In the next section, we turn to a brief review of the liberalization measures taken by the Gujarat government during the nineties.

III. Liberalization in Gujarat:

Liberalization, as discussed above, is a process of relaxing or reducing the direct restrictions, regulations and controls on the economic activities by the government. These direct interventions are conceptually similar to the quantitative restrictions. As against this, the government can also control and regulate the economic activities indirectly by imposing tariffs, charging fees, levying taxes, etc. which are conceptually similar to the price-based interventions. Economic policy reforms include changes in the government policies of both these types. Liberalization, however, covers only a part of the economic policy reforms inasmuch as it pertains to the relaxation of the measures of quantitative nature. At the central government level, the policy of economic liberalization was seriously followed and speeded up since 1991. The state governments were expected to cooperate by following consistent policies and further facilitate liberalization by taking measures within their control.

In the context of influencing industrial activities at the state level, the states have been using three distinct instruments, viz. (a) providing tax and cost related incentives; (b) provision of infrastructure and input supplies; and (c) granting

approvals and clearances to the units (See, Sengupta, 1996). The tax and cost related incentives are essentially the price-based interventions. The other two are quantity based interventions where the progress of liberalization at the state level can be examined.

In the second half of the nineties, there have been major liberalization 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 with continuous improvements taking place in the policy upto now. The power sector is opened up to the private sector. There have been now clear statements, on the Captive Power Policy (CPP) for the own use and Independent Power Policy (IPP) for the suppliers to the grid. These policies still leave some scope for modifications and improvements, but the basic statements are made and implemented. As a result, 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. Gujarat has, therefore, not experienced any major power-cut in the last 3 years. As a result of this significant liberalization initiative, the state which faced severe shortage of electric power in the past, experienced marginal oversupply of electric power recently. The state government, therefore, introduced the Tatkal Yojana with high registration fees for new agricultural connections.

Similarly, in the other infrastructural sectors like ports and roads also, the private participation is now encouraged. Build-Operate-Transfer (BOT) policy on

the lines of the Phillipine's and Chilean experiences is being adopted. Concepts of private ports or the private companies owning their jetties are being implemented. Liberalization to allow private participation in the matter of storage of specialized cargo is under consideration. 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 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. Generally, the Association of the shed-holders in the particular location is given the responsibility. 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.

Another major liberalization 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, recently the government has introduced the Town Planning Act which requires the buyer to surrender 50% of the land for various purposes including infrastructure development. Previously the proportion was 33%. There is already some protests and controversies regarding this Act. It is too early for quantitative assessment of the impact of all these measures on the urban economy of Gujarat.

In the matter relating to making the land available to industries, the unique measure taken by the Gujarat government recently 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 and encourages rapid industrialization. Considering low agricultural productivity and high density of industries with necessary infrastructural support in the state, this measure may be justified.

The state government has also abolished the turnover tax in 1997. If octroi is abolished from the state, it would be considered a major initiative towards increasing the efficiency of movements of goods within the state by the trade and industry. However, the abolition of octroi has become a highly controversial issue since the

local bodies and the bureaucrats have not been able to find a satisfactory solution in terms of reliable and implementable alternative to octroi in the state. But, the state government has at least stopped granting new monopoly contracts to private parties (*Thekas*) to collect octroi in the state since 1st April 1999. This measure in itself has given some relief to the trade and industry in Gujarat.

IV. Liberalization in the SSI Sector:

As seen in Section II above, Gujarat has continued to achieve high growth in the registered and unregistered manufacturing sectors during the nineties. 14,063 SSI units were registered during 1996-97 and 14,631 SSI units were registered during 1997-98 in the state. The cumulative SSI registration in Gujarat as on 30th November 1998 stands at 2.21 lakh units. The regional spread of the new SSI units registered in the state during 1997-98 shows that hardly 5.5% of the units are located in the metropolitan areas. About 57.3% of the new units are located in the urban areas excluding the metropolitan areas. Thus, only 37.2% of the new units are located in the rural areas (Government of Gujarat, 1999). The emerging urban centres and smaller towns are largely attracting the new SSI units in the state. The district and nagar panchayats are, therefore, likely to play important role in attracting the industry and trade. The state industrial policy upto 2000 A.D. accords priority to promote identified thrust industries including electronics, engineering, ancillaries, garments, gems and jewellery, food and agro-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 decentralizes 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 investments upto Rs. 40 lakhs 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 data-base 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
- (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:

<u>Sectors</u>	<u>Authority granting Approval</u>
(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, environmental clearance is also required and 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 benefits.

A major step is taken in Gujarat in 1999 to prepare and published citizen's charter for all DICs. In this charter, not only all procedural requirements are enlisted but even the time limits are prescribed for various clearances and approvals needed -- when all necessary documents and evidences are provided by the applicants. 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 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, Aggmark/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. Deregulation and liberalization in this regard 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.

V. Concluding Remarks:

Gujarat's secondary sector has certainly gained from the national policy of liberalization particularly after 1990-91. The state has also followed consistent policies and taken further measures to liberalize the state economy and simplify certain procedures to promote industrial activities in the state. However, most of these initiatives have been taken very recently -- after 1996. It is, therefore, too early to examine their impact on the state economy quantitatively. Centre's efforts at liberalizing the industrial economy to a large extent are confined to the early nineties. Gujarat, as we have discussed above, has started its major efforts at the state level liberalization only after the mid-nineties. It is perhaps because of this reason that the impetus to accelerated growth in the industrial sector in Gujarat

continued significantly throughout the nineties. It is to be seen whether the trend of liberalizing the state economy continues at the same rate or accelerates in future. The state government's commitment to liberalize and provide greater transparency in administration, control and regulation will be the deciding factor besides the attitude and co-operation of the state bureaucracy.

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