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Foreword

In the context of tremendous damage and devastation caused by natural and man made calamities in Gujarat coupled with world wide recession due to various problems, the industrial and Economic growth has slowed down during the last few years. This is indeed a matter of concern for one and all as in terms of per capita income Gujarat has slipped from third position in India to fourth position in the decade of 90's vis-à-vis 80's. The decline in development expenditure and over borrowing has its address import on the fiscal health of the state. The malady is getting deep rooted and calls for drastic and strategic shift in Industrial policy so that Gujarat is again put on the path of rapid and sustained economic growth so that it forges ahead on the path of progress and prosperity trouble free and struggle free in the years ahead.

Macro and micro analysis of the slippage in growth momentum could be attributed to lack of investment both domestic and foreign both in manufacturing and economic and social infrastructure sectors ultimately leading to growing industrial sickness and unemployment in the economy. There is no denying the fact that the dismal picture on the investment front is a temporary affair and could be reversed by positive and constructive measures in the industrial policy to propel growth. It also calls for effective monitoring organisation at the state level to ensure follow up of implementation of policies and projects action taken report.

Besides, in our fast forward march for induction of new technologies and up gradation of technologies in existing industries, the prevailing old economy sector should not be elbowed out but should be rejuvenated and modernised with adequate care and concern with human face so as to enable us to face challenges and seize opportunities resulting from global competition.

In any event the new Industrial policy should pay greater attention an attracting investment and technology so as to ensure maximisation of production and productivity, enlargement of productive employment opportunities and enhancement of exports. Such measures coupled with empowerment of SSI sector in the state will revolutionize the path and pattern of our industrial growth. In short we want to regain vibrant industrial and economic growth at the earliest so that Gujarat's economy can go ahead and stay ahead.

The industry and trade of Gujarat is ever willing to work shoulder to shoulder with the state Govt. in its efforts for resurgence of Gujarat from the present morass and put it back on the path of throbbing industrial and economic growth.

The considered views and suggestions on various issues pertaining to new industrial policy are given in the enclosed note. We are sure they would merit due consideration of the committee before finalising the draft Policy.

7.7.2003
Ahmedabad

[Mahendra A.Shah]
President

Over all scenario

With the implementation of economic reforms and globalization, liberalisation and privatisation gaining firmer ground, Gujarat leap frogged in terms of industrial and economic development in the first half of the decade of nineties. The acceleration of industrial growth in Gujarat made it not only the industrial pulse of the country but also termed it as the industrial power house vis-à-vis many other states in the country.

However since September 02, there has been slow down in investment both domestic and foreign which had its far reaching effects on overall economic and industrial growth. Realising the gravity of the situation, it is indeed nice of the govt. to have started taking prompt measures to review & revise the industrial policy so as to attract investment and provide much needed boost to manufacturing, production and productivity, enhance employment opportunities and stimulate exports.

Possible reasons

Such dismal picture on the investment front can be largely attributed to continued spell of global recession, shadow of US-Iraq war and serious impact of massive natural calamities and man made calamities, sizable decline in development expenditure and growth of fiscal deficit etc. Unfortunately, the past turbulence was so much over blown for long on the national and international radar screen that it badly affected the image of Gujarat both nationally and internationally.

The aforesaid factors and forces seem to be responsible to a certain extent which had a negative impact for FDI and potential domestic investors. We have therefore to forge ahead on the path of progress and prosperity if we want to stay ahead in the race of states for sustained development.

Midway correction essential

The overall impact of slowdown in investment during last about six months, though not alarming calls for midway correction in terms of creating confidence among investors about incentive oriented govt. policy, special treatment to investors, (State guests) both domestic and foreign, hassle free rules and procedures, and assurance of safety and security to life and property. In short Govt. will have to undertake aggressive marketing campaign to sell Gujarat not only in India but also abroad so that position of Gujarat as an ideal or preferred destination is restored without any available delay.

Limitless Potential

Fortunately the entrepreneurial edge of the people of Gujarat is still sound and stable and investment climate will remain salubrious despite past turbulence which was of temporary nature. Although the task ahead is uncharted and uncertain, hence it is imperative that the govt. should put into operation schemes and strategies to attract and induce investors both domestic and foreign to invest in Gujarat where business potential is limitless and frontiers for industrial growth are endless.

Strength and weaknesses

Despite laudable objectives of the past industrial policies, we have been able to achieve only precious little on the industrial front in terms of mission and vision envisaged. This is evident from the fact that in spite of appreciable industrial cum economic growth achieved by Gujarat in first half of nineties, lack of balanced development and decentralisation of industries into non urban and backward regions hamper over all development.

Besides the infrastructure in terms of roads, ports, power generation and distribution, airports, communication etc. leaves much to be desired. What is worse we are heading towards a jobless growth scenario as employment in industries is on the decline. Even the incentive policy of the govt. has largely benefited the growth and development of industries in the Golden Corridor which constituted only 30% of the area, the rest 70% is still left out in the process of development partially to varying degrees.

In order to improve the situation and achieve significant progress in this direction, aggressive measures and efforts will have to be made to attract greater inflow of private capital and FDI in manufacturing, infrastructure sector, export oriented and sunrise industries in the state so that maximisation of productivity could be achieved, productive employment generation could be enhanced and exports could be augmented through diversification of product range and markets abroad. The new Industrial policy should take into consideration the aforesaid weaknesses in the industrial structure and arrange to take prompt remedial measures.

Development Strategy

For building a secure future, the coming millenium holds several challenges which will have to be met through suitable evolution of vision and development strategy. This underlines the need for viewing issues in an integrated manner. Considering the facts and circumstances of the financial health of the state it is evident that our development spending has dwindled whereas our borrowings are very high. In addition to above rising fiscal and revenue deficit also eats into the vitals of development activities. The inevitable result is slowdown in the tempo of industrial and economic development. This position needs to be reversed urgently by taking corrective measures so that tempo of development could be boosted.

Investment Destination

In spite of the recurring calamities in the past couple of years, Gujarat has posted a GDP growth rate of 9.8% at constant prices in 2001-2002. Things are looking up especially as the growth rate in the previous year was only 0.6%. The 34.3% growth in the primary sector was fuelled by a robust growth in agriculture sector, 3.8% in secondary sector and 6.5 % in the tertiary sector. Gujarat tops the list of states in India in per capita GDP in the industrial sector. The relevant statistics reflect a buoyancy which projects Gujarat's potential as the favoured investment destination in India.

Gujarat has remained an attractive location in the country for industrial investment as also Foreign Direct Investment. Currently investment proposals to the tune of 1,66,000 crores working out to 16.65% of the total proposed investment in the country are lined up. As regards FDI Gujarat accounts for 6.55% share in FDI approvals in the country. USA tops the list with 107 projects having direct foreign investment of Rs. 2637 crores.

Gujarat offers immense opportunities to investors in infrastructure and gas sector. The Gujarat Infrastructure Vision 2010 has already identified 383 projects with investment potential of 1,17,000 crores.

The New Industrial Policy should make most of the opportunities which are present and formulate a policy to showcase them.

Bright future ahead

The future of Gujarat is bright and promising but it will have to leverage its manufacturing edge by attracting investment both domestic and foreign, on massive scale and by expansion of production and productivity reducing costs and improving quality, enlargement of productive employment opportunities and enhancement of exports. According to one estimate 60% of Gujarat's manufacturing sector can effectively compete with that of the developed countries including China & about 40% of manufacturing sector has intrinsic strength to become locally competitive.

Thus the new industrial policy should aim at injecting vigour and vibrancy in the industrial climate which should encourage and induce the state to offer new packages and facilities to the prospective investors. The govt. will have to give them assurance

that peace and harmony as well as law and order are restored in Gujarat and are relatively much better than many other states in the country. Rapid resurgence of Gujarat calls for sound synergy between Govt. of Gujarat and vibrant and forward looking people of Gujarat at large. The GDP growth of 9% has kindled the hope and faith that Gujarat is again on the path of recovery and hence the process needs to be fortified by positive and pragmatic policies and strategies of the Govt. of Gujarat.

Priority areas for action

Viewed in the context above we now submit here below priority areas for action in the new industrial policy.

❖ Power availability and rates. It is significant to note that power supply lags behind power demand with the result that due to shortage quality and reliability of power leaves much to be desired. The power cost total expenditure in major industrial units works out to 4.3% to 11.77% whereas in chemical industry units it comes to 13.15% to 37.3% what is worse power cost to sales works out to about 7.5% to 8% which is very high. Even due to restrictions in captive power generation excess capacity is not fully utilised.

Electricity cost is the highest in Gujarat at Rs.5.50 and above per unit inclusive of taxes and duties which inevitably increase cost of production of industries adversely affecting competitiveness and growth of industries. Since most of the plants are coal based as adequate and regular supply of gas is not available. Besides high percentage of T&D loss and theft also results in higher cost. Immediate and effective policy measures be undertaken to rectify the situation in respect of above. Moreover, it is essential to permit cluster based power project plants on cooperative basis so that the benefits of low cost of power can be made available to SSI.

To enhance viability and competitiveness of industries, it is of paramount importance to reduce power rates by substantial reduction of duties and taxes and by bringing down T&D losses.

❖ Infrastructural lag. Economic and social infrastructure bottlenecks and costs thereof are prohibitive and costly as they not only hamper enhancement of productivity and competitiveness of our industries and exports but also hinder free flow of raw materials and finished goods in the domestic market. Inadequate facilities and congestion at ports, condition of roads being far from satisfactory ineffective working of railways and antiquated facilities at the airport etc. operate as impediments and add to the cost of transport and ultimately make the goods incompetent both in the domestic and international market. The exporters are placed in a precarious position on this count as they are unable to ensure timely delivery and honour their commitments. Although private sector investment in infrastructure has increased recently yet the requirements are so huge that the sizable funds would be required to improve the situation substantially. This calls for massive help and assistance of funds both domestic and foreign(FDI).Effective and efficient maintenance thereof is essential for promotion in capturing market share for our industries & trade in India and abroad.

❖ Incidence of taxation. It is relevant to emphasize the old economy industries viz. Textiles, chemicals and petro-chemicals, mineral based industries and others have already started losing competitive edge due to cascading effect of heavy burden of state taxation. Despite the predominance of chemical and petro-chemical industry in the industrial structure of Gujarat, it is facing serious problems of multiple taxation. It is significant to note that chemical industry involves value addition typically at five to six stages before a basic raw material is converted into a final product. While excise duty is eligible for cenvat at each stage, there is no mechanism for a similar treatment for sales-tax, octroi, TOT and similar levies. The cascading effect of these indirect taxes comes to about 38% which is not refundable and adds to the high cost structure of the industry. It is therefore imperative that VAT system covering various statutory levies including local levies should be implemented forthwith. Till VAT is implemented, as a stopgap

arrangement, industries should be allowed to set off the sales-tax paid on all raw materials used for export products.

Moreover, the rates of sales-tax should be lowered and surcharge should be abolished. The finished goods which are passing from more than one stage from different industries, should be allowed to avail "Set off" provision till VAT is implemented.

❖ Growing unemployment.

It is indeed surprising that in spite of rapidly increasing industrial and economic growth, the employment situation is progressively worsening and unemployment is on the rise. This is evident from the fact average annual growth rate in employment in Gujarat during 90's works out to negative whereas GDP growth rate comes to 9%. Even in the factory sector the employment per unit has decreased from 94.95 to 42.44 during 1960 to 2000. It is evident therefore that the employment does not respond to the rising industrial and economic growth - a situation which is productive of various imbalances and hike in crime ratio in the society.

It is now increasingly recognized that the ultimate goal of planning is human development in all its facets, yet no concrete results have been achieved in the direction of generation of employment opportunities. The net result is that the employment situation is worsening both in urban and rural areas. In this context, even necessary conducive conditions for vibrant self employment growth have not been created in the state in terms of development of infrastructure access to credit and market, as well as development of technical skills and soft skills and entrepreneurship. Unless and until productive employment opportunities are generated in various sectors of the economy on a massive scale, perceptible and sustained improvement in industrial and economic growth cannot be achieved.

What is worse, the mismatch between the skill requirements of employment opportunities and the skill base of the job seekers is becoming more and more acute in the process of rapid structural changes in the economy.

It is therefore necessary to orient the educational and training system towards improving its capacity to supply the requisite skills in medium and long term and introducing greater flexibility to respond to labour market changes.

❖ Finance - SSI & Small business.

It is distressing to note that out of 2.72 lakh units registered in Gujarat in Oct 2002, about 75% are working. Out of this during July-June-1998 only 21192 units were given disbursement by nationalised banks of the order of Rs.1265.11 crores whereas in the same period of 2000 there was sharp drop in the no. of units to 9460 whereas disbursed amount was only Rs.580 crores. The percentage of disbursement to SSI vis-à-vis total disbursement to the priority sector had dropped from 49.19% to 27.92% and same declining trend still continues.

Thus the major constraint to SSI units is non-availability of working capital. Despite the fact that banks are flush with funds and credit policy advocates liberalisation of finance for SSI, the picture in reality is other wise and SSI units are starving for want of funds.

The same situation is applicable to retail trade and small business and hardly about Rs.100 crores are advanced to about 29000 accounts. The same sorry state of affairs is continuing even in the last three years also.

It is highly discouraging that even financial assistance disbursed by All India financial institutions has decreased by 60% during 1999-02. The trend needs to be reversed.

While interest rates have shown sign of softening and the prime lending rate has been revised, yet the actual lending rate which SSI units have to pay varies from 4% to 16% while the international rate is only 2%. Even large scale or multinational industry

in India is availing finance at 6% to 9%. This disparity in interest rates and burden is also responsible for negative growth of industry and even closure of SSI's. It is therefore reasonable and necessary that interest costs for SSI be reduced by making available finance between 8% to 10% Even the bank charges and guarantee cost for sanctioned limit works out to about 2% which is required to be reduced. Besides pressure be brought on nationalised banks not only to augment credit deposit ratio from 46% to 65% and thereby enhance availability of finance to SSI and small business at concessional rate. The policy for SSI sector need to be oriented and restructured on sounder lines so as to provide momentum to its all round growth and development.

❖ **Sickness** in SSI
The key issues facing SMEs relate to growing number of sick units which are either closed or non operational as they might be struggling for survival. The situation is grim as not only about 24% of units in SSI sector are sick but also even the same % operates in case of medium and large units. Inadequacy of finance, distortions arising out of natural and man made calamities, continued recession due to uncertainty in world environment and rigidities of labour law and their implementation are some of the major causes responsible for the above situation. The increasing industrial sickness in large and small scale units is a matter of serious concern and calls for prompt remedial measures in the new industrial policy. It is highly essential to encourage and strengthen SME's through provision of facilities and incentives for ancillarization and sub-contracting. Besides they should be empowered to facilitate technology upgradation and improve the quality of the products so that they can effectively compete in the domestic and international market.

Unviable and inefficient units should be allowed to closed down and relocate the resources including labour to more efficient uses. RBI nursing programme for SSI be made more effective in practice.

❖ **Outdated** labour laws
In the emerging context, the need to revamp the labour legislation and to make labour laws rational and simple cannot be over emphasized. The key issue is modifying and rewriting obsolete labour laws, and making them customer focused business and employee friendly strengthening mechanisms for effective monitoring of the labour laws. In short there is urgent need for complementing and supplementing industrial policies with labour laws to ensure financial viability and expeditious growth of domestic industries as well as foreign investment in new ventures.

Feasibility of growing relaxation to SME units from the operation of labour laws for a period of at least five years required to be examined in the new policy so as to provide much needed momentum to SME growth and development through enhancement of productivity and spare them from undue pressure and corruption.

It is also high time to introduce hire and fire policy and link wages with productivity and efficiency so as to enhance competitiveness of SME products in the domestic and world markets. Even pragmatic exit policy needs to be implemented with social concern in view.

❖ **Cluster** development
Although Gujarat has developed 73 clusters in respect of commodities like chemicals, dye stuff, pharmaceuticals, brass parts, oil engines, ceramic tiles, ship breaking, re rolling, art silk power looms, diamond cutting and polishing etc. yet none of them have been declared as centres of economic and export excellence. In the new Exim policy last year centers like Tirupur for hosiery, Panipat for woolen blankets and Ludhiana for woolen knit wear have been provided various incentives and facilities but they have not achieved desired progress due to infrastructural lags.

Now the Govt. of India is considering to declare 7 more industrial clusters for such central assistance. It is highly essential for govt. to ensure that some centers of Gujarat like Ahmedabad/Baroda, Vapi for chemical and dyes, Surat for art silk and diamond and Rajkot for oil engine industry be declared as centres of excellence. The new policy should aim to achieve this target for organic growth and development of clusters.

❖ **Environment**
The environmental impact assessment requirement by Ministry of Environment and Forest is a matter of serious concern for chemical industry including dyestuff industry. Even though 30 units in

dyestuff industry have submitted their EIA report and most of them are members of CETP with given undertaking to meet CETP inlet norms, yet MOEF New Delhi is not agreeable and is asking all industries to meet GPCB norms at their own out let and not CETP inlet norms. Such a situation is highly objectionable and hence cannot be justified on rational grounds.

To resolve this issue, it is suggested that industrial units which are situated in GIDC estates and who are members of CETP should not be required for submission of such report. Those units which are outside GIDC estates should be exempted from such submissions provided they have sufficient facilities to treat their effluent or are members of secured land fill sites, for disposal of their hazardous waste.

In short EIA requirement should be made for new industries and not existing industries so that they can plan their establishment in that manner, even public hearing for existing units should be dispensed with and modification of pollution control norms is necessary.

Besides all indirect taxes levied by State Govt. viz. Octroi, sales-tax be fully exempted in respect of purchase of machinery, equipment and raw materials. Electricity duty and sales-tax which are levied on consumption of power for effluent treatment be exempted. Moreover power load connected to effluent treatment plant should not be treated as connected load of the factory and should be exempted.

■ Treated effluent discharge norms
As industries and pollution are two side of same coin and, considering its impact on environment it is highly essential and desirable to study in detail and come out with some concrete techno-economic viable solutions and till then, industries should be permitted to achieve the norms as per the recommendations of Rathi committee.

Further, the treated effluent of industries should be allowed to mix with domestic sewage. This will give a lot of dilution and will ensure that norms are meet. This practice is followed in all developed countries and hence, individual outlet discharge should not be considered.

The Pollution Control Board should accept refractory COD of higher limit if, BOD is within limit of 100 mg/L as no known techno viable technology is prevailing to reduce refractory COD and TDS other than by dilution.

Till then, in any case, prescribed norms should be made practicable and techno-economy viable.

■ Tourism Development.
Despite the fact that Gujarat possesses tremendous potential for tourism development which can operate as our engine of growth yet we have to develop a coherent strategy and time bound action plan for coordinated development of tourism in Gujarat.

Even though Gujarat commands 1/3 of the coastline i.e. 1600k.m. in the country, the coastal belt of Kutch and Saurashtra has remained undeveloped in the process of tourism. It is therefore essential to workout a blue print for development of the coastal area and the same be marketed to provide entrepreneurs with necessary technical and financial input. The govt. of Gujarat will have to move central govt. for necessary exemption from coastal regulation act and rules.

Comprehensive plan for tourism-eco tourism, pilgrimage tourism, coastal tourism and adventure tourism needs to be prepared and leading parties both domestic and foreign be invited to participate in it.

Policy initiatives are required on the part of state govt. to counter marketing strategies of rival states of Rajasthan, Goa and Kerala.

Provision of sound and efficient and modern infrastructure facilities are essential for rapid and sustained growth of tourism in Gujarat through central and state cooperation and private sector participation.

Govt. should frame simplified investor friendly policies for development of heritage hotels, star hotels, restaurants, recreational resorts, theme park resorts, theatres and entertainment and cultural complexes. Investment from private sector and FDI be invited on massive scale to boost tourism in Gujarat.

❑Technology

It is now universally acknowledged that success and survival of industries in the new millennium largely depends on the advances made on the technology innovation front and up gradation of technology in the existing industries both large and small so that they can achieve productivity and competitiveness at the earliest.

In this knowledge based era, what is important is the human talents and human resources development, which eventually become the critical factor to decide on the success or failure of any industry or region. Gujarat has reasonably succeeded in terms of development of software technology. However wider canvass of Infotech industry per se needs to be explored whether it is call centre, or other IT enabled services. Another area with vast potential is bio- technology. With the rich bio-diversity coupled with right type of environmental and human factors, there is immense potential for development of bio-technology in Gujarat. Leading segments in Information technology sector which call for development are computer software and hardware, consumer electronics, industrial control equipment, communication and broad cast equipment and strategic electronic equipment.

It is time we make determined march ahead in this direction so as to reap the maximum benefits of this sunrise industry. If we do not leap frog in this direction then it is apprehended that we will be left out in the race and will be relegated into the background vis-à-vis some of the Southern States viz. A.P., Karnataka and Tamilnadu. These issues need to be addressed in the new industrial policy adequately and effectively so as to provide much needed boost to its development which is the crying need of the day.

❑Exports

Despite the fact that Gujarat accounts for about 17% of the total exports of the country, a lot more needs to be done to diversify and consolidate manufacturing capacity, enhance productivity and competitiveness and increase market access to newer markets which are opening up due to globalisation and liberalisation. In view of increasing competition in all sectors due to implementation of WTO agreements, all possible efforts will have to be made by the govt. to ensure level playing to the local industries.

Although 2 SEZ are at Kandla and other at Surat are operating yet their performance needs to be fortified so that they can treble their exports in the near future from the present level of about Rs. 800 crores. When new SEZ are to be created at Dahej and Mundra it is highly essential that they should be given tremendous boost from the beginning so that more investors are attracted to them. Besides Gujarat is lagging behind in developing agri-export zones despite tremendous potential in agri based export goods.

The govt. will have to reinvent and reinforce export strategy so that Gujarat zones put up better performance on export front. This necessitates for a comprehensive policy for promotion of exports so as to attract more and more investment and promote employment and exports.