



Citizen-Centered Approaches
to State and Market



Gujarat: The Transition to a West Indian Tiger

2011

Institute for State Effectiveness

600 New Hampshire Ave NW
Suite 900
Washington DC 20037

+1 (202) 298-5959
info@effectivestates.org

© 2014

Gujarat: The Transition to a West Indian Tiger



I. Introduction

Gujarat today has become one of the most industrialized states in India despite the fact that at the time of its formation in 1960 it had few prospects, with a stagnant agriculture base, declining textile sector and poor infrastructure.¹ Gujarat's goal is not only to compete with other states in India but with the emerging economies of the East Asia.² The poverty level which was 46 percent in 1972/73 in Gujarat had been decreased to 16 percent by 2004/05³ while the national average was still 27 percent. From the growth rate of 5.7 percent in the 1980s, Gujarat's GDP increased to 10.4 percent in the 2002-2007 plan period, which is among the highest in India.⁴

II. Background

After its creation, Gujarat was governed by the Congress Party until 1995 through an alliance of Brahmins and Banias⁵ in the major cities and Patidars in the rural areas.⁶ The coalition and consensus between these elites gave the stability in Gujarat till late 60s. However, when other socio-economic groups started to challenge the dominance of these high caste elites, the political situation started to become tense which to some degree is the root cause of the Hindu-Muslim tension in Gujarat today. As the hitherto excluded groups especially Kshatriyas started to compete in the political arena in Gujarat and as the Congress party's hold started to weaken, there was a power shift which has led to the rise of the right-wing BJP. At the same time, Gujarat had for centuries being a trading region, and particularly from the 1960s onwards, became competitive with Maharashtra to the south, which shaped the industrial focus of the state.

III. Market-Building

Gujarat adopted three major market-building strategies. First, establishment of large scale enterprises producing power, cement, and fertilizers were given priority to create a nucleus for growth. Second, a twin strategy of building 'industrial infrastructure' and industries through Industrial Estate Program (IEP) was emphasized, to spread the industrial base and infrastructure throughout Gujarat.⁷ Third, the leaders of Gujarat established various intuitions which played a crucial role in shaping Gujarat's industrialization and development. These included:

- i) **Gujarat Industrial Development Corporation (GIDC).** The GIDC which was established as an autonomous public entity in 1962 became the backbone of industrial development in Gujarat. It organizes and coordinates industries and comprehensive industrial infrastructures in the industrial

¹ Sinha, Aseema. "Divided Leviathan: Comparing Subnational Developmental States in India." Phd Dissertation, Cornell University, 2000

² Shah, Amita. *Linking Industrial Growth with Rural Economy : A Case Study of Ankleshwar Industrial Estate in Gujarat.* Gujarat Institute of Development Research, Ahmedabad: Gujarat Institute of Development Research, 2001

³ Debroy, Bibek, and Laveesh Bhandari. "Exclusive Growth – Inclusive Inequality." *Economic Development in India*, 2007: 57-85

⁴ *ibid*

⁵ *Brahmins* are the highest caste group in the *Varna* system. *Banias* are the business and trader community.

⁶ Kohli, Atul. *Democracy and Development in India : From Socialism to Pro-Business.* New Delhi: Oxford University Press, 2009, page 287-513.

⁷ *Ibid*

estates of the state through land acquisition, infrastructure development, facility provision (schools, banks etc).⁸ The GIDC has been highly flexible, has partnered creatively with the private sector and has engaged with local communities to adapt industrialization to local needs and concerns.

- ii) **Industrial Extension Bureau (iNDEXTb).** The iNDEXTb is the investment promotion agency of Gujarat, providing a single point of contact for all investment related activities and promoting industry, commerce and trade. In its early days, the iNDEXTb established offices in Africa, to attract Gujarati entrepreneurs back to the state, and set up ‘single window facilities’ for these people to do business there. It also serves as the ‘industrial intelligence branch’ of the Government of Gujarat, to collect information on potential investors and new sectors for investments. To limit the political interference and to maintain its independence, the agency is funded by autonomous corporations, which has also allowed for closer coordination of activities.

Gujaratis have been known for their business acumen and entrepreneurial spirit for centuries. However, after the creation of Gujarat in 1960, the state geared itself towards becoming an ‘entrepreneurial state’ focusing on the ‘demand side of the economic growth equation’. This has included identifying investment opportunities that the private sector may either have overlooked or been reluctant to pursue, including opportunities in new markets, or with new products and within new industries. Other key market-building reforms have included:

- i) **Port Liberalization.** Despite having 1600 km of coast line (one third of the total coastline of India), Gujarat’s ports did not have much traffic till the 1990s.⁹ The Indian Constitution had stipulated that the ‘major ports’ will be the jurisdiction of the federal government and only the ‘minor ports’ under the state governments. Gujarat began to develop minor ports, and the Gujarat Maritime Board (GMB) encouraged joint ventures, provided a significant portion of the equity, and facilitated quick passage for investors through the bureaucratic gauntlet of clearances. Once a joint venture began turning a profit, the GMB would disinvest its equity stake and use the proceeds to start work on another port. GMB also experimented with various forms of managing the ports, including Captive Jetties, Greenfield ports, Joint Venture ports and Private Ports. The liberalization of ports became so successful in Gujarat that the traffic growth rate of GMB has been 34% while the National Traffic Growth rate is only 13.14%.¹⁰ From 2000 to 2010, there has been a 300% increase in the volume of traffic in GMB ports.¹¹ Gujarat today has 43 out of 142 intermediate and minor ports handling around 80% of the traffic of intermediate and minor ports in India.
- ii) **Infrastructure.** Gujarat pioneered regulatory frameworks and implementation mechanisms for Private Public Partnerships in infrastructure development.¹² Realizing that the government’s involvement alone would not be enough to meet the demand for infrastructure in the state, the Government of Gujarat formally opened up private sector participation in infrastructure projects through Gujarat Infrastructure Development Act (GIDA) in 1999.

Under the Act, the Gujarat Infrastructure Development Board (GIDB) was also established to facilitate the flow of funds from private sector into the infrastructure sector and ensure coordination among various

⁸ Directorate of Economics and Statistics 2008. Also see <http://www.gidc.gov.in/internal.html>

⁹ See http://www.gidb.org/downloads/gmb_status.pdf

¹⁰ See Traffic Statistics, <http://www.gmbports.org/showpage.aspx?contentid=1278>

¹¹ Ibid

¹² See GIDB, 2009

agencies. The GIDB sought to bring in the private sector as far as possible in ports, rails, roads and power, and now hospitals and schools.¹³

IV. State Transformation

Encouraged by the success in business, industries and infrastructure, the Government of Gujarat is implementing various innovative models in social infrastructures in which Gujarat has historically been weak. This innovative approach can best be explained by looking at one such successful approach in detail: *Chiranjeevi Yojna* (CY), in the health sector, which aims to reduce maternal and infant mortality rates.

CY was introduced because private healthcare is preponderant in Gujarat, but costs are high, and as a result poor families cannot afford to seek health services, particularly during child birth. The CY approach is effected by:

1. Public-private partnership model: private providers are screened and enrolled by the government to ensure that they meet the minimum facilities for performing Emergency Obstetric Care (EmOC).
2. Empanelled private providers then agreeing to perform free child delivery for women below the poverty line, for which they were paid a lump-sum amount of for every 100 deliveries.
3. The empanelled provider receiving an advance, because delay in payment has hampered various other private sector partnerships by the Indian government.
4. Targetting stakeholders (particularly women) through awareness generation, contract management and scheme monitoring. There has been extensive community and local bodies' involvement in the program, while district health officials have only played the role of facilitators and local leaders and NGOs have monitored results.

At the end of the first year of implementation, 133 empanelled private providers (which covered 61 percent of total private providers in these 5 districts) had carried out 31,641 deliveries (30,000 women). An Indian Institute of Management report found that the “institutional deliveries in the five districts increased from 38 per cent to 59 per cent with no maternal deaths and 13 infant deaths reported in the pilot districts. The scheme has experienced 4.7 per cent of caesarean operations among the BPL expectant mothers which is much less than average of 15 per cent complications assumed in financial calculations.”

The government of Gujarat has now expanded the program to the entire state and the number of women reached has already increased to over 1 million, providing a model that is being replicated elsewhere in India.¹⁴

V. Key Factors

Key factors as part of the Gujarati transition have included efforts to:

¹³ See http://www.gidb.org/gidb/cms.aspx?content_id=18

¹⁴ See Women & Child Development Projects & Initiatives <http://www.gujaratindia.com/initiatives/initiatives.htm?enc=TEnmka18rLd9cWRBUEx85lswwfZZ+o8b+w+YfQPy7dU93tk/rnr0H+OnwOK0bubK2dqUjsldCIiTFIjZdUcWn/5YFP5V6WVmxepkMLjY894AEfJwh2EljdTaOZ3IIUvH4W9EGD3L1txLeXBWaeYyQ==>

- i) **Consensus Building and National Ownership.** Consensus was achieved primarily by allowing continuity while accommodating change in the political climate. Gujarat has highly factional politics, but has managed to maintain growth and economic development despite sporadic violence and disquiet. The consensus on the need for growth is shared widely- the private sector and business community continuously interact with politicians which informs policymaking; while at the same time, the government has maintained relatively neutral institutions, strategies which have minimized opposition and made ‘credible commitments’ that have subsequently been fulfilled. This has created a virtuous circle of trust and development.
- ii) **Building Systems.** During the early years Gujarat focused heavily on creating functional and durable institutions to guide economic development. Some of these were copied from other states- the GIDC was based on the Maharashtra Industrial Corporation (MIDC), for example. Others were the Gujarati government’s experimental institutions which later became national models. iNDEXTb and Gujarat Energy Development Agency (GEDA) are exemplary institutions which today are replicated by other states and even by the federal government at the central level. As the institutions are ‘sticky’ they played vital role in shaping the industrialization and development agenda of Gujarat even during the shifts of the political power.
- iii) **Learning Organization via Problem Solving.** In any reform process, there are winners and losers. It is key that reformers minimize opposition to ensure that positive changes are not blocked before they can take effect and that positive-sum solutions can be created. The industrialization in Gujarat has been a labor intensive process and thus has benefitted all strata of society. While the growth of India at the national level and many other states has been service led growth (with fewer jobs created in the process),¹⁵ the growth in Gujarat has been in industry and manufacturing led leading to significant employment. Even for the socially backward groups, this process became a ‘redistributive mechanism’ which ultimately helped minimize the opposition for the reformist Gujarati government. Furthermore, the Government of Gujarat made efforts to geographically distribute this industrialization process (to medium size towns and cities) to further support the industrialization and reform process. For example, as early as the 1960s, the Industrial Estate Program (IEP) developed a ‘project linkage approach’ for developing industrial estates with regional development as the major driving force.
- iv) **Management of the Regional and International Environment.** States have to be creative in managing relations with the center in a federal system, and Gujarat is a perfect example of this creativity. Gujarati leaders have creatively ‘sidelined’ and ‘aligned’ with the center’s policies according to the state’s interest. At times, Gujarati bureaucrats in Delhi carried out high level but low key ‘economic diplomacy’ while at other times they carried out ‘industrial espionage’ to attract investment to Gujarat. After the economic reforms of 1991, Gujarat immediately aligned with the center’s policy by announcing its own new industrial policy and aggressively implementing it. The Government of Gujarat constituted State Finance Commission in 1992 which prepared “Agenda for Reform” the recommendations of which were followed by the government and all the political parties.
- v) **Continue Innovating and Experimenting.** The Government of Gujarat never has been timid in terms of experimenting with various policies and reforms, through piloting projects in specific contexts and then rolling these projects out to scale when feasible. The government built one industrial estate initially, for example, and there are now more than 200. An informal ‘tea club’ developed into the highly successful ‘iNDEXTb’ which in turn has been replicated by various

¹⁵ See Dholakia, Ravindra H. *Growth Acceleration and Potential in Gujarat*. Ahmedabad: Indian Institute of Management, 2006. See also Hirway and Shah (2001)

other states in India. The *Chiranjeevi Yojana* was piloted in 5 districts Gujarat and now running successfully state-wide.

VI. Conclusions

Gujarat's progress is significant but the transition is not complete. The poverty level in Gujarat is still higher than states like Andhra Pradesh (14.80%) and Kerala (14.79%). Gujarat also has one of the lowest human development index scores among major Indian states.¹⁶ A shrinking of the liberal space has been another disquieting factor in Gujarat.¹⁷ The factional politics and riots are not new but the riot of 2002 which many believe was a pogrom does not bode well for a state which is supposedly aspiring to inclusive development. As Gujarat celebrates its 50th anniversary, it faces critical challenges in terms of consolidating the progress to date and addressing these further challenges. Whether the 'Gujarat miracle' in economic terms can be translated into progress in social sectors remains to be seen.

¹⁶ibid

¹⁷ See, Economic and Political Weekly, "Moditva and the Shrinking of the Liberal Space", Letters and Politics, 2008