



Confederation of Indian Industry

# Accelerating growth in Gujarat

A discussion note

KPMG IN INDIA

# Content



Foreward	1
Gujarat : A holistic growth story	2
Growth accelerators	5
Building a success story	7
The way forward	22

## Foreward



The success story of Gujarat stands out amongst the Indian states as one of the most dynamic growth stories. This was evident during the Vibrant Gujarat Summit, where the State attracted nearly USD 100 billion investments in January 2007. This figure is more than what China attracts as FDI in a year!

Gujarat's State GDP has grown by 12 percent in real terms in the last 12 years. This State is one of the key drivers of India's growth, where GDP is growing at a rate of 9.2 percent.

However, the State needs to benchmark itself with the best in the world – Dubai, Singapore, China – and not become complacent by doing better than other Indian states. Gujarat, therefore, should consider such growth accelerators that will enable it to draw the best in class and bring about a paradigm shift in the State. This needs to be fleshed out further to facilitate growth and become the economic driving force for India.

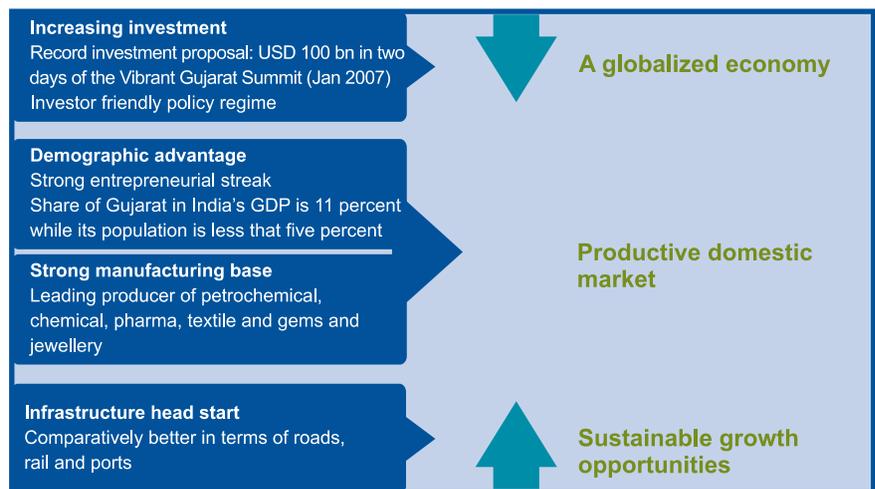
Clearly for India to grow at 10 percent, Gujarat needs to grow at 15 percent. This discussion note put forward by KPMG and CII identifies focus areas and an approach to make Gujarat 2015 vision a 'reality'.

**Pradeep Udhas**  
**Head – Markets**  
**KPMG in India**



jewellery sector, Gujarat accounts for 80 percent of the processed diamonds and 90 percent of diamond exports from India. These statistics clearly indicate that manufacturing plays a critical role in generating economic growth and development. Moreover, the diversity and concentration (in the form of clusters) of various manufacturing sectors has given this sector a unique vibrancy in the State's economy and policy

**Infrastructure:** The State offers great road connectivity and reliable power supply to its consumers. It has one of the highest per capita power consumption (1175 units, as compared to India's average of 592 units) and competitive commercial real estate rates in comparison to other states in India. Moreover, the State has easy accessibility to the western, middle-east and African markets. The State has 41 ports and provides for the longest coastline in India. Gujarat was amongst the first states in India to set-up an industrial park and is a leading State in harnessing wind energy. More importantly, this infrastructure has strong public policy support and is critical to the infrastructure needs of the country as a whole.



These building blocks have positioned Gujarat not just as a leading State of India, but also put forth the focus to design its growth story similar to those of other developed countries. A lot of initiatives that are underway are likely to make the State a strong contender for becoming a model state at the global level. The Government is overhauling the State's urban infrastructure at a total cost of INR 7,620 crore. In addition to this, Gujarat has planned a Metro Rail project for INR 4,300 crore along with private sector participation on a build-operator-transfer (BOT) basis. The Government is also keen to develop emerging sectors like biotech and has planned 15 projects for nearly INR 318 crore.

Further, the State has five of the country's top post-graduate institutes and is becoming a key educational hub. The State plans to raise investments around INR 510 crore for education and make Gujarat a prime destination for higher education in India. All of this and much more is being attempted at policy level, and both investors and industry players have provided impressive support to these policies.

Given such performance, Gujarat needs to build on its strengths and build new competencies for the emerging sectors. The State could meet these challenges by focusing on the existing sectors like oil & gas, ports & logistics, pharma & chemicals and gems & jewellery. Moreover, the industry and the Government could come together for attracting investments and creating support infrastructure for emerging sectors like ITES, food processing, hospitality and tourism and retail.

At the recently concluded Vibrant Gujarat Global Investor's Summit 2007, it was proposed to make Gujarat the best in the world by 2015. To be able to achieve this target, the State will have to focus on the growth divers or accelerators that can shift the process of economic expansion in the State. This could mean blending the enterprise nature of the people along with the infrastructure and capital availability. Further as Gujarat seeks to grow, it needs to focus on adopting fundamentals in terms of developing skilled workers, improving the quality of manpower, adopting environment friendly technologies, focusing on research and innovative sectors and adopting technology at the grassroots level. Thus, given the track record of the State these targets are easy to aim for the stakeholders.

## Growth accelerators

Gujarat, at present, is on the cusp of an industrial boom. New projects are being identified; slew of investments of over INR 150,000 across 12 sectors are made by the Gujarat Government over the next few years, aiming at an annual growth of 12-13 per cent by 2015. For all these investments to be realized, it is important to focus on turning this potential to be supported by growth accelerators that could sustain the existing momentum and build new focus areas.

For better analysis of the growth, we focused on some key growth accelerators to have over time given any economy the desired push in their growth journey. The identified accelerators were trade, infrastructure, policy, demographics and technology. Here, we have very briefly elaborated on the growth ramifications of these accelerators:



Historically **trade** is, driven by traditional comparative advantage, provided as key growth accelerator for economic expansion and national differentiation. As economies advance and diversify internally, trade helps to bring economies of scale, better market access and well integrated supply chain for various economic agents of any nation. Singapore is a good example of a nation State to have fully leveraged its geography and made trade as the basis of its growth and development.

**Infrastructure** has been considered as a key enabler that provides not just multiplier benefits for any expansion process, but is also considered critical for the sustainability of any growth process. Investing in well-planned and properly financed public infrastructure helps to bring vitality and direct growth to the benefit of the whole community. China's investment in infrastructure is one such example of economic growth.

**Policy**-led development entails direct and proactive public intervention to build the economic capacity, which in turn leads to increased investment and/or productive growth. ASEAN countries in second half of the last century followed a focused export led growth with active support and encouragement from their policy environment.

Any productive capacity of a nation fundamentally depends on its human resource. **Demographics**, as represented by the working age population have ramifications on the labour cost, skill availability and labour productivity. And, in today's globalized world these are key competitive advantages for any nation. India and China are considered to be favourably placed in terms of leveraging their demographics as growth accelerators.

**Technology** has provided strong growth impetus to many developed nations in their economic evolution. By enabling mechanization and new product development, technologies has brought exponential improvements in the overall productivity of the economy and build strong innovative culture amongst the human resource base.

All these factors are critical to evaluate the existing and future potential of a sector, in order to provide the big push in any economy. But along with these accelerators, it is also critical to evaluate the investment potential of these sectors, the global environment and the overall domestic supply and demand conditions.

Sectors	Domestic Supply & Demand	Global Environment	Investment Potential	Growth accelerators
Existing				
Oil & Gas	■ ■	■ ■	■ ■	■ ■
Ports & Logistics	■ ■	■ ■	■ ■	■ ■
Pharma & Chemicals	■ ■	■ ■	■ ■	■ ■
Gems & Jewellery	■ ■	■ ■	■ ■	■ ■
Textiles	■ ■	■ ■	■ ■	■ ■
Emerging				
ITES	■ ■	■ ■	■ ■	■ ■
Food Processing	■ ■	■ ■	■ ■	■ ■
Hospitality and Tourism	■ ■	■ ■	■ ■	■ ■
Retail	■ ■	■ ■	■ ■	■ ■

Low      Average      Above Average      High

To bring a clear focus on the growth sectors of Gujarat, KPMG analyzed complete a gamut of sectors (both manufacturing and services, categorized into existing and emerging) and rated them against the above mentioned parameters. This resulted in top five existing sector and four emerging sectors scoring highest points (in terms of demand supply potential, global environment, investment potential and growth accelerators)

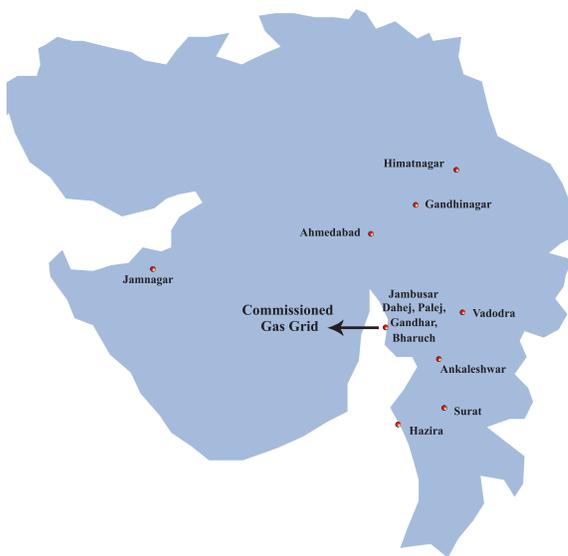
## Building a success story

The future success of Gujarat will depend on creating excellence in the above mentioned sectors, both in the emerging and the existing categories. In this section we have tried to give a more deeper understanding that reflects not just the statistical facts, but also the enablers, constraints and imperatives linked to each sector.

### Existing sectors

## Oil and Gas

### Oil and Gas hubs in Gujarat



### Background

Gujarat is looking at moving forward to become the 'Petrocapital' of India. Gujarat accounts for 54 percent of India's onshore crude and 39 percent of onshore Natural Gas Production. It has about 46 percent of India's installed refining capacity and 60 percent of India's total crude oil import facility. The Government has announced MoU's worth USD 4.5 billion and investments worth USD 5.7 in Gujarat.

Gujarat has a well established gas grid of 550 kms and it plans to expand the same to 2,200 kms with investment worth USD 500 million. Investments have been proposed to build new LNG terminals in addition to the existing terminals in Dahej and Hazira, are underway.

### Enablers

The State offers immense opportunities across the energy value chain. Progressive and investor friendly industrial policies, including rationalization of tax regime, power reforms and SEZ development coupled with the logistical proximity to the Middle East gas resources are among the significant growth enablers for the sector. Gujarat has well established distribution gas network and the LNG terminals at Hazira and Dahej have led to a strong local consumer base. Presence of cooperatives such as IIFCO, KRIBHCO, power companies like NTPC and GEB and industrial majors such as Reliance have led to a vibrant energy sector in Gujarat. The Jamnagar refinery is the largest in India in terms of refining capacity and also is considered as the biggest grassroots refinery in the world. Gujarat has oil & gas reserves located at Ankleshwar, Mesana, Tapti High, Hazira, Bharuch, Gandhar, Dahej, Jambussar, Palej, Kalol and isolated gas fields around Ahmadabad. In addition to this, it has discovered oil reserves in Dholka and Khambat.



### **Constraints**

Constraints faced by oil and gas sector in Gujarat are the same faced by the Indian Oil and Gas industry, as the sector is regulated by the Government of India. Any international event in the sector directly affects the Indian oil and gas sector as the industry has strong global inter linkage. Gujarat has huge potential for retailing of fuel as it is expected to experience major movement of goods. However, Gujarat's high sales tax on petrol and diesel affects the marketing margin of the OMC's and discourages them from setting up shops in the State. With major refineries springing in the State, the potential impact of the environmental lobby is eminent.

### **Imperatives**

With crude touching an all time high, alternative fuels, viz; natural gas and bio-diesel will play an important part in driving the growth of Gujarat's economy. With huge wasteland as its assets, the State should encourage production and consumption of bio-fuel. This will reduce its dependency on expensive fuel.

The State can also leverage its proximity to the Middle- East and well developed gas infrastructure to become self-sufficient in natural gas. Gujarat has the potential to develop itself as a preferred destination for strategic storage of oil reserves.



## Ports and Logistics

### Background

Gujarat, situated on the Western Coast of India, is a principal maritime State endowed with favourable strategic port locations. There are 41 ports, of which Kandla is a major port. Out of the remaining 40 ports, 11 are intermediate ports and 29 are minor ports under the control of Gujarat Maritime Board. These ports can be broadly classified into three categories:

1. Three all weather ports viz: Porbandar, Okha, and Sikka
2. Seven ports are all weather lighterage ports
3. The remaining 30 ports are fair weather lighterage ports for sailing vessels and fishing boats

In 2005-06, Gujarat ports handled cargo traffic of 103.9 million metric tones. Thirty five percent of India's exports are routed through Gujarat. By 2015, it is estimated that Gujarat's port will handle 400 million tonnes (39 percent) of the country's total throughput.

### Enablers

The prominence of Gujarat is by the virtue of having nearly 1,600 kms long coastline and being the nearest maritime outlet to the Middle East, Africa and Europe. Gujarat features the Gulf of Khambat and the Gulf of Kutch, and both offer logistical advantage for reaching the northern and western hinterland. This helps to capitalize on the strong manufacturing and trading base.

Gujarat is considered as one of the advanced States in terms of infrastructure. The State has a total road length of 73,619 kilometers and has India's first four lane highway. A knowledge corridor and IT parks are expected to come along Gandhinagar, Ahmedabad, Rajkot, Jamnagar, Bhavnagar, Surat and Vadodara.

The State has 11 airports under the operational jurisdiction of Airports Authority of India. Apart from AAI airports, six airstrips are being developed by the State government.

A rail freight corridor is underway in the western region, starting at JNPT (Mumbai) and ending in Delhi, passing through Valsad, Surat, Vadodara, Ahmedabad, Mahesana, Palanpur.

Some major ports are connected to the main rail corridor and these routes would act as feeder routes. The region in and around Mahesana can be developed as a hub of warehouse facilities as all major rail routes converge in this area.

It is not just the State government; even private players are taking keen interest in building the State's dream of Vision 2015. JK White Cement and Adani Group, for instance, are developing the Greenfield port at Dholera and the Reliance Group is building a port facility at Sikka.

### **Constraints**

Against this future potential, the supporting infrastructure and connectivity issues are a concern. At present, the integrated plan that connects the entire supply chain seems to be missing from the link. Gujarat currently has only one international airport. The State needs to address issues related to Inland Container Depot (ICD), Warehouses, Container Freight Station (CFS) and Last Mile Connectivity (LMC) to ensure that cargo loading and berthing issues run without any hindrances.

### **Imperatives**

An integrated port development strategy that consists of creating policies required to develop port facilities and infrastructure. This would help in increasing the traffic to the port and enhance the process of industrialization in the State. To achieve the Vision 2015, port capacity should increase at a faster scale. The Government also needs to expedite the evaluation process of the Kalpa-Sar project.

Gujarat needs to focus on increasing its air cargo activity at the domestic and international airports. Gujarat must aim to develop the air cargo with an intention of replicating the success of Frankfurt in India. For instance, Pune is aiming to create an educational hub by promoting itself as the Oxford of the East.



## Pharmaceuticals and Chemicals

### Background

The state of Gujarat accounts for 40 percent of India's total pharmaceutical production and 17 percent of its exports. Gujarat's pharma industry is valued at USD 3.6 billion. There exist over 3,000 drug manufacturing units. The State houses several established companies such as Torrent Pharma, Zydus Cadila, Alembic Pharma, Sun Pharma and Dishman Pharmaceuticals, which have operations in the world's major pharma markets.

The State contributes to around 20 percent of India's total chemical production. It produces about 98 percent of total soda ash, 90 percent of liquid chlorine and 66 percent of phosphatic fertilizers. Gujarat also houses India's only chemical port terminal, which has a capacity of 3 million metric tonnes.

### Enablers

Several factors have contributed to Gujarat's well established pharmaceutical industry. Gujarat is a strong pharmaceutical manufacturing hub having a large number of small and medium manufacturing units. Its rich base of supply of active pharmaceutical ingredients has attracted several multinational players such as Wyeth, Sanofi-Aventis and Abbott to set up facilities in Gujarat. There are several pharma clusters around Ahmedabad, Baroda, and Vapi. Over 300 large projects in the sector have already been commissioned; while over 100 are under implementation.

Gujarat has a strong base of diversified chemical industry, with approximately 700 large and medium scale units and 31,000 small scale and other factory sector units. Over 1,300 projects of the chemical and allied sectors have been commissioned.

Gujarat has a strong infrastructure backing with good connectivity of road, rail, air and water. The well established linkages with raw material and machinery suppliers are significant growth drivers for the industry.

### Constraints

Over the last couple of years, Gujarat has witnessed an exodus of several small and medium scale manufacturing units to other states, which offer more attractive fiscal benefits. Lack of adequate fiscal sops compared to other states can pose a serious threat to this industry in Gujarat.

At a time when companies, especially foreign players are looking at setting up operations in India (specifically) in the area of clinical research, there is limited enrolment of medical students in comparison to other states.

**Imperatives**

The availability of well established chemicals industry, which has stronger linkages with pharma API/intermediates, should be utilized to boost the high growth Contract Research and Manufacturing Services (CRAMS) sector. This could make Gujarat a strong sourcing base for global pharma companies.

The Government must also focus on providing more fiscal incentives to attract investments from Indian as well as foreign players in knowledge intensive areas like clinical research and development.

Ancillary services industry such as bio-informatics, which can facilitate and boost research and development activities and other high-end activities should be given priority.

Ensuring strict adherence to pollution control norms in the chemical industry is an imperative for sustainable growth and development of the State.



## Gems and Jewellery

### Background

The Gems & Jewellery industry is a fascinating industry in many ways: traditional, on one hand and glamorous on the other. It is undergoing a gradual change from an object of investment to a fashion accessory. It is one of the fastest growing industries in the country and contributes to about 15 percent of India's total exports. With diamond and jewellery units located in the cities of Gujarat — Ahmedabad, Palanpur, Bhavnagar, Valsad, Navsari and Surat — it becomes one of the main contributors to the gems & jewellery industry in India.

Almost 80 percent of the cutting & polishing of diamonds (processing) is done in Gujarat. Ninety percent of total diamonds in Gujarat are processed by about 10,000 diamond units located in and around Surat, alone.

Gujarat's Gems & Jewellery sector is expected to grow at a rate of 15-20 percent in the current financial year. The future growth is likely to be driven by increased exports to US and other international markets and through domestic consumption.

### Enablers

Gujarat offers a unique combination of demographics, supply base, government initiatives and production capacity. Gujarat has the talent pool needed to support this industry. India's leading institutes such as Indian Diamond Institute and National Institute of Fashion Technology are located in Gujarat. In addition to this, the skilled labour is easily available and the labour costs are relatively lower as compared to other states in India. Gujarat offers economies of scale for capacity expansion due to large number of units and technology upgradation.

### Gems & Jewellery clusters in Gujarat



### Constraints

Even though the Gems & Jewellery industry is large in Gujarat, most of it is unorganized. At present, only 140 units in Gujarat have Hallmark. Thus, the industry needs to be governed by strict trade and quality norms. The State is more focused on the processing of diamonds in terms of rough cutting and so on. There is a lack of forward integration into manufacturing jewellery.

### Imperatives

A vocational training center needs to be developed for high-end jewellery manufacturing. A global diamond trading center should be established which will enable domestic and foreign buyers to buy diamonds from the center. For speedy development of Gems & Jewellery industry in Gujarat, the State must focus on developing SEZs and Diamond Park in Gujarat, which will define the industry as an organized sector. It should focus on encouraging high skilled professionals, which will help in expanding the reach of the industry in manufacturing, designing and other aspects of the business.



## Textiles

### Background

The textile industry is one of the oldest and the most important sectors of the Indian economy. Gujarat's textile industry contributes in a big way to the industrialization of the State. About 33 percent of cotton production in the country is from Gujarat and the State contributes to about 35 percent of the woven fabrics from the organized sector in India. The city of Surat alone, contributes to 40 percent of art silk fabric produced in India and is the largest production base for man-made fabrics. Further, 23 percent of the State GDP comes from textiles. Gujarat contributes around 20 percent of textile exports from India and 6 percent of garments export in India. In the early 1990s, Gujarat saw a dramatic change in the textile industry scenario with the entry of denim manufacturing. Arvind Mills, Soma Textiles, Modern Denim started manufacturing denim in Gujarat, and soon the State was known as 'India's land of denim'.

### Enablers

Large availability of raw material like cotton has significantly contributed to the growth of textile sector in Gujarat. Proximity to ports and other mode of transport, liberal labour policies, cheap raw material and well developed textile machinery industry is attracting companies to set up units in Gujarat. In recent times there has been a shift of the textile hub from Mumbai to Gujarat, largely due to lower cost of real estate in Gujarat. The State is also supporting development of SEZs by giving tax incentives.

### Constraints

Even though the textile industry is among the largest sectors in the State, it is highly unorganized and fragmented. The unorganized industry dominated by small traders and merchants serve as hindrances in the growth of the retail sector and industry exports. Although, Gujarat houses some of the leading organizations like Arvind Mills and Soma Textiles the apparel segment is not well developed. The State contributes to only 6 percent of garments export in India.

### Imperatives

Technology is the key to success in the textile industry. Thus, the Government must aim to develop processing capacity and encourage technology upgradation funds. This will give more opportunities to the existing players and encourage new players to start their venture in the State. The retail boom is catching on fast across the country. The State should, thus focus on building retail opportunities in textiles & garments to meet the growing demand in the country. Gujarat has large availability of both natural and man-made fibers as basic raw materials and non-woven fabric manufacturing base, which is the key for developing technical textiles. Thus, the State must leverage on available resources and should focus on expanding the portfolio of technical textiles.



## Emerging sectors

### ITeS

#### Background

IT-ITeS companies in Gujarat have grown from less than 10 in 1996 to about 415 by the end of 2004-05. The software exports have grown from a meager INR 4.75 crore to INR 200 crore, during the same period. With Ahmedabad, Gandhinagar and Baroda emerging as ITeS hubs, Gujarat now has more than 50 companies in Information Technology Enabled Services (ITeS) segment, and operate more than 11,000 seats. Recently, 127 companies in ITeS segment have been registered with the Commissionerate of Information Technology.

The State has one of the largest optical fiber network in the country with more than 60,000 kilometers network. In the recently held 'Vibrant Gujarat IT Summit', 19 companies signed Memorandum of Understandings (MoU) to invest a total of INR 11,067 crore. In the recently announced IT policy, the Government has targeted to create 200,000 jobs by 2011 in this industry.

#### Enablers

Gujarat offers relatively lower cost of operations, due to lower cost of real estate and lower compensation level. Superior physical infrastructure coupled with strong policy impetus will significantly enhance the growth prospects of IT-ITeS industry in Gujarat. The communication network, which is the backbone of IT-ITeS industry, is strong in Gujarat. It has one of the largest optical fiber networks in the country with more than 60,000 kilometers network.

In the recently announced IT policy for 2006-2011, the Government has taken various steps to promote IT-ITeS industry. Some of the policy initiatives include; a) Stamp duty waiver for IT park developer and concession for IT-ITeS units, b) Development of Special Economic Zones, which provides various financial incentives, c) Exemptions from payment of electricity duty for five years from commencement of operations, d) Exemptions from power cuts, and e) Simplification in labor laws.

#### Constraints

Compared to the southern states, Gujarat has been lagging behind in the IT-ITeS industry. Software exports from Gujarat is just a fraction of exports achieved by other cities. For instance in FY 2005, Pune, Bangalore, Hyderabad and Chennai registered software exports of INR. 5,841, INR. 27,000, INR. 8270 and INR. 10,800 crores respectively, and Gujarat exported software of INR. 200 crores only.

For the development of IT-ITeS sector the most important requirement is the availability of talent pool. Gujarat underscores in availability of talent pool as compared to other ITeS hubs in the country like Gurgaon, Mumbai and Bangalore. The number of engineering institutes in Gujarat (42) are much less as compared to other states like Karnataka (124), Maharashtra (163) and Andhra Pradesh (285), resulting in inadequate talent resource. Lack of proficiency in English is another factor that act as a hindrance for the growth of voice based ITeS activities.

### **Imperatives**

As discussed earlier, inadequate talent pool is the main obstacle restricting the growth of this industry. In order to become a flourishing IT-ITeS industry, the State not only needs skilled labor, but also assured supply of it. The Government is in the process of planning various initiatives like promoting training institutes, which will impart domain specific skills required by ITeS companies and collaborate with NASSCOM for "NASSCOM Assessment of Competency."

The State can focus on the Knowledge Process Outsourcing (KPO) segment. The available talent pool of Chartered Accountants and commerce graduates can be employed in processes like Finance & Accounting (F&A) and other back office operations.

Gujarat is known outside the country through the non-resident Gujarati population. The State can leverage on the existing network of these people in the western world for exploring business opportunities for the IT-ITeS industry.



## Food processing industry

### Background

The Indian farming sector has come a long way since independence. India is the world's second largest producer of food next only to China. Over the last few years, a shift has been observed in the Indian food consumption pattern. These changes have given rise to the emerging industry of food processing. This industry is one of the largest industries in India; as it constitutes about 13 percent of manufacturing GDP and employs over 12 million people. Gujarat has witnessed an impressive agricultural growth in the last five years and is the largest producer of castor and tobacco in India. Gujarat boasts of being the leader in exports of processed food and vegetables in India with a strong base of 3,700 small scale and 150 large & medium scale food processing units. Companies such as ITC, Amul, Hindustan Lever, McCain have explored the potential of this sector in Gujarat.

### Enablers

Gujarat with a strong agricultural base, 3.6 million hectares of irrigated land and well developed agro research capabilities is well positioned to drive the growth of food processing industry. Gujarat offers a large number of incentives to set up food processing units. Hassel free policies such as single window clearance, a strong agricultural marketing network with over 200 Agricultural Produce Marketing Committees (APMCs) and over 110 cold storages are some of the enablers that have facilitated the rapid growth of this industry. The State also provides financial incentives by offering interest subsidies to agro-industrial units and air & sea freight subsidies for agro exports.

### Constrains

However, there are concerns that need to be addressed to take food processing industry to the next level. With a large number of intermediaries, the sector still remains largely unorganized. A weak supply chain tends to be the cause of large amount of wastage of perishable foods. Due to these reasons, the processed food tends to be more expensive than fresh foods, which limits its local consumption.

### Imperatives

With only 2 percent of India's total agriculture and food produce currently being processed, the country offers huge potential for growth. To ensure rapid growth of this industry in Gujarat, the Government should ensure a more efficient supply chain by increasing linkages between food processing industries and farmers. Crop planning and farm advisory to farmers would help produce better quality of processed food. Promoting agricultural export zones, encouraging contract farming and developing an expansive cold storage infrastructure would enable Gujarat to lead the way in tapping this opportunity.



## Hospitality and Tourism

### Background

The State Government decided the year 2006 as "Tourism year", keeping in view the importance of tourism industry as an important factor of the development process and generator of large scale employment. The Government formulated "Gujarat Ni Chetanyatra" – Gujarat tourism policy for the year 2003-2006. Total of 38 Memorandum of Understanding (MOUs) for 69 projects in the tourism sector amounting to INR 20,821 crore was signed at the recent Vibrant Gujarat Global Investor's Summit.

The efforts of the Gujarat Government worked in some measure as the State registered an increase of 32 percent in tourist arrivals in 2006, compared to the figures of 2005. The State witnessed 2.5 million domestic tourists and 50,000 foreign tourists. The average contribution of tourism industry to the State's GDP is close to 2.5 percent, while the comparable figure for India is 5.3 percent. The average foreign tourist spend per person per day is close to USD 700 to 1050.

With world class health facilities, zero waiting time and most importantly, one tenth of the medical cost in US or UK, Gujarat is becoming a preferred medical tourist destination. About 1,200 to 1,500 NRI's, Non Resident Gujaratis (NRG's) and a small percentage of foreigners come every year for different medical treatments. Gujarat contributes close to 25-31 percent of the total medical tourism business in India.

### Enablers

The Government is cashing on the thriving business and industrial development in the State. The State has enhanced tourism fund allotment from INR 30 crore to INR 100 crore in this financial year, of which INR 60 crore would be spent exclusively on improvement and upgradation of tourism related infrastructure and basic facilities.

As part of the tourism year festival, the Government organized a mega event for "Navaratri" in an effort to promote event based tourism. In addition to this, the State has introduced 'Walk in the Ashram' tours in Sabarmati ashram, which has a historical connection with Mahatma Gandhi

The tourism sector in Gujarat has attracted dozens of hoteliers, because of its proximity to leading tourist states. Hotels have lined up INR 10,635 crore worth of investments, which are expected to create 26,370 jobs. Medical tourism is a recent concept in India and Gujarat has been able to match world standards in almost all areas of treatment.

### Constraints

In spite of possessing a variety of tourist attractions such as wildlife, scenic beauty, pilgrimage centres, exotic traditional crafts, beaches and a varied healthy

and tasteful cuisine, the State has been ranked number 7 in terms of tourist arrivals in India. The State can accelerate the pace of tourism development by improving the tourism infrastructure and aggressively promoting tourism in India and outside. In recent years, Gujarat has faced increased competition from other states who have aggressively promoted tourism e.g.: Kerala- "Gods Own Country" and "Maharashtra Unlimited" campaign.

### **Imperatives**

The State must focus on developing new forms of tourism like Oceanarium (under water theme park, marine archeology museum (like underwater museum in Dwarka) and cruise tourism. It could encourage setting up of new tourism destination projects like heritage hotels, *havelis*, restaurants, amusement parks and in-flight catering.

Human Resources Development is an important aspect of service industries. Tourists depend on travel agents and guides for information. hence trained manpower is an important aspect for the tourism industry. The Government should look at improving the supply of trained manpower for this industry. This will also help in creating employment opportunities for the people of Gujarat.

The State can possibly consider relaxing prohibition on liquor as it is important to promote the State not only as a business destination, but also as a place where people can relax and rejuvenate. This will encourage more holiday dwellers.



## Retail

### Background

India's retail sector is one of the fastest growing sectors in the Indian economy. Gujarat, which has a strong middle class population and one of the highest per capita GDP, is now becoming a preferred destination for the organized retail sector. This is evident with the spurt of malls in the State with companies like Prozone that are looking at setting up their first two malls in Rajkot and Surat before entering other cities in India. Raymond, too, started its first kids apparel store, Zapp, in Ahmedabad before entering markets like Mumbai and Pune.

### Enablers

The unit retail space in Ahmedabad is 2.3 square feet per household, which is amongst the highest in India as compared to four for NCR (Delhi) and 2.5 for Pune. The cost of rentals is also lower compared to other cities in India providing an incentive for the industry to flourish.

Apparels and jewellery retailing offers tremendous opportunities for the sector. Gujarat, which, is the hub for textile and jewellery manufacturing in India is well positioned to exploit this opportunity. The better availability of power supply in the State would also fuel the consumption of consumer durables.

The entrepreneurial skills of the local population coupled with Government initiatives of development through public private partnership are acting as a growth drivers for the sector. The Government plans to open 1,000 fair price stores in public-private partnership in various cities of Gujarat. The Government is also increasing tie-ups with co-operatives and private retail players to accelerate the growth of this industry.

### Constraints

Though the retail industry is on a growth trajectory in the State, there still remain a few road blocks that needs to be addressed. Lack of adequate and trained human resource is an area of concern. There is an increasing pressure on sourcing and retention of staff leading to a steep rise in employee wages. Supply chain inefficiency remains a cause of concern leading to increase in business costs.

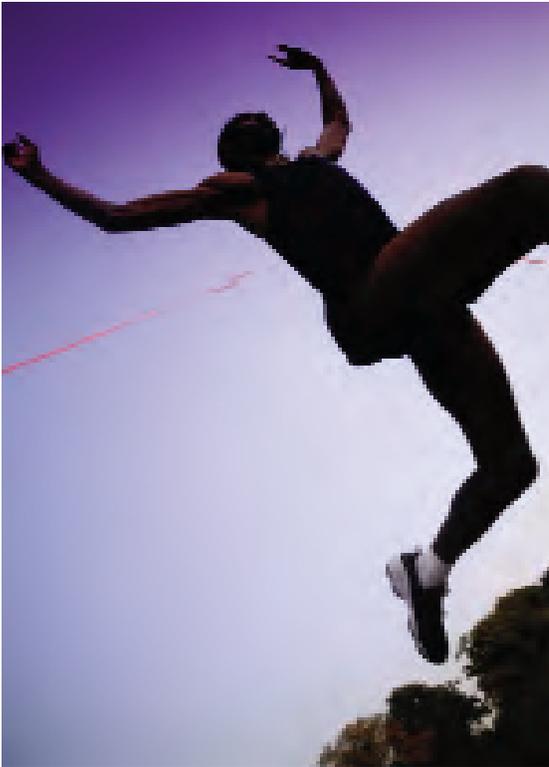
### Imperatives

With organized retail constituting only three percent of the total Indian retail, the country offers a huge potential for growth. The State could aim to increase the availability of specialized courses like retail management, which can go a long way in addressing the issue of lack of quality human resources. This will also help the Government in achieving the objective of employment generation.

To ensure the rapid growth of the industry, the Government should ensure a better supply chain infrastructure by increasing the linkage between farmers and retailers.

Gujarat has witnessed an impressive agricultural growth in the last five years. Going forward the sector is expected to do even better, which would increase the rural purchasing power, providing a good opportunity for rural retail business. With Government's initiatives, Gujarat could lead the way in tapping the great Indian retail opportunity.

# The way forward



The vibrancy and buoyancy of Gujarat’s economy is unmistakably clear today, which is supported by a strong entrepreneurial culture of its people and strong infrastructure focus of its policy makers. All these factors provide the State with an ideal platform to leapfrog to a much higher growth trajectory, which makes its performance comparable to global benchmarks.

This global comparative perspective is critical for Gujarat to dream bigger and achieve the vision of much improved economic performance. The government of Gujarat is actively working on various initiatives and ideas to continue the momentum at a broader level and gain acceleration for its core industry sectors. Moreover, this can lead to a more broad based improvement in the living standards of all sections of Gujarat’s society, thereby leading to an inclusive growth environment.

Given the impressive achievements of the State so far, it would be beneficial for Gujarat to focus on some key enablers that would fulfill the above mentioned outlook. We believe that the State government needs to focus on enhancing three critical pillars of their economic expansion: global networking and communication, building on the infrastructure and bringing about focused implementation. Global branding, already an advantage for the State, can bring improved investments; especially in sectors that require huge infusion of capital. The existing infrastructure of Gujarat now needs to achieve global standards and this would need active policy intervention. And all of this would require focused and well executed programme implementation.



To strengthen the pillars it is important that a well planned and well sequenced action steps are taken. These could include the following:

- Establish ‘Gujarat 2015 Advisory Council’ involving the Government, International thought leaders, national / state business leaders and academicians. We believe that this council could act as a think tank for the government that would originate initiatives and guide stakeholders.

- Creation of a mechanism to study specific recommendations and develop time-bound roadmap, received by the state government and submitted by the advisory council. This process would ensure that all the recommendations are scrutinized rigorously and converted into a practical and detailed roadmap.
- Establish programme office to channel investments, monitor various initiatives and fast track projects. This office would link various elements of these growth projects, ensure speedier implementation and monitor the progress in a planned manner.
- Setting up of Gujarat desks in US, UK, Germany, Netherlands, Taiwan, Japan, Australia, etc would serve as critical components of global brand and communication strategy of the State. These desks would actively promote the State capability and could utilize the network of the global Gujarati community.

All of the above mentioned steps are indicative, and could result in a simple, but and effective way to improve the investment and productive capability of the state of Gujarat.

## Key Contacts

**Pradeep Udhas**

Head - Markets

Tel: +91 22 39835400

Fax: +91 22 39835040

e-Mail: [pudhas@kpmg.com](mailto:pudhas@kpmg.com)

**Sanjay Aggarwal**

Executive Director

Tel: +91 22 39835102

Fax: +91 22 39836000

e-Mail: [saggarwal@kpmg.com](mailto:saggarwal@kpmg.com)

**Navin Agrawal**

Executive Director

Tel: +91 22 39835501

Fax: +91 22 39836000

e-Mail: [navinagrawal@kpmg.com](mailto:navinagrawal@kpmg.com)

This discussion note could not have been written without valuable contributions from Priyankar Bhikshu, Preeti Sitaram, Jiten Ganatra, Meghana Biwalkar, Remedios D'Silva, Archana Dabral, Nitin Dehadraya, Ranjeet Javeri, Amiya Swarup, Sitanshu Sheth, Aman Kaushik, Devesh Bhatt, Amit Shah, Nandita Kudchadkar, Amit Chhallani, Mehul Desai, Ashwini Kulkarni, Rajiv Somani, Sanjay Kumar and Anish Tripathi.

in.kpmg.com

## KPMG in India

### Mumbai

KPMG House, Kamala Mills Compound  
448, Senapati Bapat Marg,  
Lower Parel,  
Mumbai 400 013  
Tel: +91 22 39896000  
Fax: +91 22 39836000

### Delhi

4B, DLF Corporate Park  
DLF City, Phase III  
Gurgaon 122 002  
Tel: +91 124 2549191  
Fax: +91 124 2549101

### Pune

703, Godrej Castlemaine  
Bund Garden  
Pune 411 001  
Tel: +91 20 30585764/65  
Fax: +91 20 30585775

### Bangalore

Maruthi Info-Tech Centre  
11-12/1, Inner Ring Road  
Koramangala,  
Bangalore 560 071  
Tel: +91 80 39806000  
Fax: +91 80 39806999

### Chennai

Wescare Towers  
16 Cenotaph Road, Teynampet  
Chennai 600 018  
Tel: +91 44 24332533  
Fax: +91 44 24348856

### Hyderabad

II Floor, Merchant Towers  
Road No. 4, Banjara Hills  
Hyderabad 500 034  
Tel: +91 40 23350060  
Fax: +91 40 23350070

### Kolkata

Park Plaza, Block F, Floor 6  
71 Park Street  
Kolkata 700 016  
Tel: +91 33 22172858  
Fax: +91 33 22172868

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. Information obtained from secondary and media reports.

© 2007 KPMG, an Indian Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative. Printed in India.