



Strategy for Government of Gujarat to enable India to become a USD 5 trillion economy

Submitted by,
Task Force Committee,
Chaired by Dr. Hasmukh Adhia, IAS, Retd,
Former Finance Secretary, GoI

May 2022

Date:05/05/2022

To,
Shri Bhupendrabhai Patel,
Hon'ble Chief Minister of Gujarat,
Gandhinagar

Subject – Submission of report on “Strategy of Government of Gujarat for enabling India become a Five Trillion Economy”

Respected Sir,

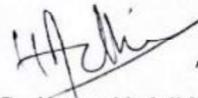
The Government of Gujarat in the Finance Department had setup a Task Force Committee on 8th February 2022, under my Chairmanship for working out the strategy of Government of Gujarat for making India a USD 5 trillion economy as per the vision of Hon'ble Prime Minister of India.

The committee met six times in a period of three months. The committee also held stakeholder consultations with many sectoral experts, through a series of 15 workshops organized by various universities / State government departments. Individually also I had individual meetings to solicit the views of some of the most prominent industrialists of Gujarat.

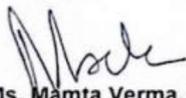
After all these deliberations, the Task force committee is pleased to present herewith the final report. We are pleased to say that the Committee has submitted its report well in time of 3 month given to it. The report clearly gives out a strategy to Government of Gujarat, sub-divided in sectoral strategies and sub-strategies. The report also gives implementation map for achieving the best results.

We are grateful to you for giving us this opportunity.

With Warm Regards,



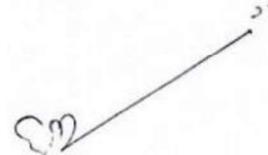
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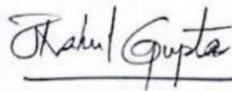
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Mr. Nimit Patel, Invitee

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List of abbreviations

Abbreviation	Description
AAI	Airport Authority of India
AI	Artificial Intelligence
AMC	Asset Management Companies
AP	Andhra Pradesh
BARC	Bhabha Atomic Research Centre
BAU	Business As-Usual Scenario
BILD	British Institute of Learning Disabilities
BIS	Business Induced Scenario
Bn	Billion
BPCL	Bharat Petroleum Corporation Limited
BPM	Business Process Management
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CMM	Capability Maturity Model
COE	Centre of Excellence
Cr	Crore
DEPC	District Export Promotion Committee
DFC	Dedicated Freight Corridors
DFCCIL	Dedicated Freight Corridors Corporation of India Limited
DGCA	Directorate General of Civil Aviation
DGCIS	Directorate General of Commercial Intelligence and Statistics
DIFC	Dubai International Financial Centre
DL	Delhi
DSIR	Dholera Special Investment Region
DTU	Delhi Technological University
EMD	Earnest Money Deposit
EoDB	Ease of Doing Business
EoLI	Ease of Living Index

List of abbreviations

Abbreviation	Description
EPF	Employees' Provident Fund Organization
EXIM	Export Import
FAME	Faster Adoption and Manufacturing of Electric and Hybrid Vehicles
FDI	Foreign Direct Investment
FEPA	Financial Education Programme for Adults
FI	Financial Intermediaries
FPI	Foreign Portfolio Investment
FSI	Floor Space Index
FY	Financial Year
GCT	Gati Shakti cargo terminal
GDP	Gross Domestic Product
GFCI	Gross Fixed Capital Investment
GHMIS	Gujarat Hospital Management Information System
GIC	Global In-House Centre
GIDB	Gujarat Infrastructure Development Board
GIDC	Gujarat Industrial Development Corporation
GIFT City	Gujarat International Finance Tec-City
Gitex	Gulf Information Technology Exhibition
GJ	Gujarat
GMB	Gujarat Maritime Board
GoG	Government of Gujarat
GoI	Government of India
GPLCL	Gujarat Port and Logistics Company Limited
GRIDE	Gujarat Rail Infrastructure Development Ltd
GSDP	Gross State Domestic Product
GSFC	Gujarat State Fertilizers and Chemicals
GSPC	Gujarat State Petroleum Corporation
GSRDC	Gujarat State Road Development Corporation Limited
GSVA	Gross State Value Added
GUJSAIL	Gujarat State Aviation Infrastructure Company Limited

List of abbreviations

Abbreviation	Description
GSVA	Gross State Value Added
GW	Giga Watt
HCL	Hindustan Computers Limited
HNI	High Net-Worth Individual
HPCL	Hindustan Petroleum Corporation Limited
IFC	International Financial Center
IFSC	International Financial Service Center Authority
IFSCA	International Financial Service Center Authority
IIIT	Indian Institute of Information Technology
IIM	Indian Institute of Management
IIT	Indian Institute of Technology
INR	Indian National Rupee
INR	Indian Rupees
IOCL	Indian Oil Corporation Limited
IoT	Internet of Things
IPO	Initial Public Offering
IR	Indian Railways
IT	Information Technology
ITeS	Information Technology Enabled Services
JCI	Joint Commission International
KN	Karnataka
KYC	Know Your Customer
LEADS	Logistics Ease Across Different States
LPG	Liquified Petroleum Gas
LRS	Liberalized Remittance Scheme
MGHL	MHC Global Healthcare Ltd.
MH	Maharashtra
MICE	Meetings, Incentives, Conferences, and Exhibitions
Mn	Million
MoHFW	Ministry of Health and Family Welfare

List of abbreviations

Abbreviation	Description
MoU	Memorandum of Understanding
MRO	Maintenance-repair and overhaul
MT	Metric Ton
M-TIPB	MSME Trade and Investment Promotion Bureau
MTPA	Million tonnes per annum
MVT	Medical Value Travel
NAAC	National Assessment and Accreditation Council
NCR	National Capital Region
NER	Net Enrolment Ratio
NH	National Highway
NHAI	National Highway Authority of India
NIRF	National Institutional Ranking Framework
NIT	National Institutes of Technology
NITI	National Institution for Transforming India
NIWS	National Institute of Water Sports
NOC	No Objection Certificate
NRI	Non-Residential Indian
NSE	National Stock Exchange of India Limited
NW	North West
OPEX	Operating expenses
PCPIR	Petroleum, Chemicals and Petrochemicals Investment Region
PFM	Personal Financial Management
PhD.	Doctor of Philosophy
PLI	Production Linked Incentive
PM MITRA	Prime Minister Mega Integrated Textile Region and Apparel
PPP	Public-Private Partnership
R&D	Research and Development
RBI	Reserve Bank of India
ROW	Right of Way
SDG	Social Development Goals

List of abbreviations

Abbreviation	Description
SEBI	Securities and Exchange Board of India
SEPC	State Export Promotion Council
SEZ	Special Economic Zone
SGST	State Goods and Services Tax
SGX	Singapore Stock Exchange
SIPC	Smart Industrial Port City
SIR	Special Investment Regions
SoU	Statue of Unity
SPECS	Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors
STPI	Software Technology Parks of India
TANSIM	Tamil Nadu Startup and Innovation Mission
TCS	Tata Consultancy Services
TN	Tamil Nadu
Tr	Trillion
UAE	United Arab Emirates
UK	United Kingdom
ULIP	Unified Logistics Interface Platform
UNESCO	United Nation Educational Scientific and Cultural Organization
UP	Uttar Pradesh
US	United States
USA	United States of America
USD	United State Dollar
VAT	Value Added Tax



Preface by Chairman

Preface by Chairman

If India has to achieve the target of GDP of USD 5 Trillion by FY 2026-27, Gujarat has to run faster because Gujarat is the growth engine of India. Gujarat has a share of 8.36 % in the national GDP in 2021. We need to accelerate our growth rate and achieve a share of 10% in the national GDP. This means Gujarat has to achieve target of GSDP of USD 500 billion by FY 2026-27. This would mean that Gujarat's growth rate in the next 5 years has to be at a CAGR of 14.5 % in nominal terms as against the track record of 12.3% in the last decade.

The main growth driver of Gujarat has been manufacturing sector so far. The manufacturing sector in Gujarat has contributed 30% in the GSDP, which is the highest in the country. If we include energy & transport sector the share of industry is 48.40% in FY 20-21. However, the share of services in Gujarat's GSDP is 32.4 % in FY 20-21 as compared to share of services sector at 54% in India's GDP. The share of agriculture in Gujarat has remained more or less constant in the GSDP over several years.

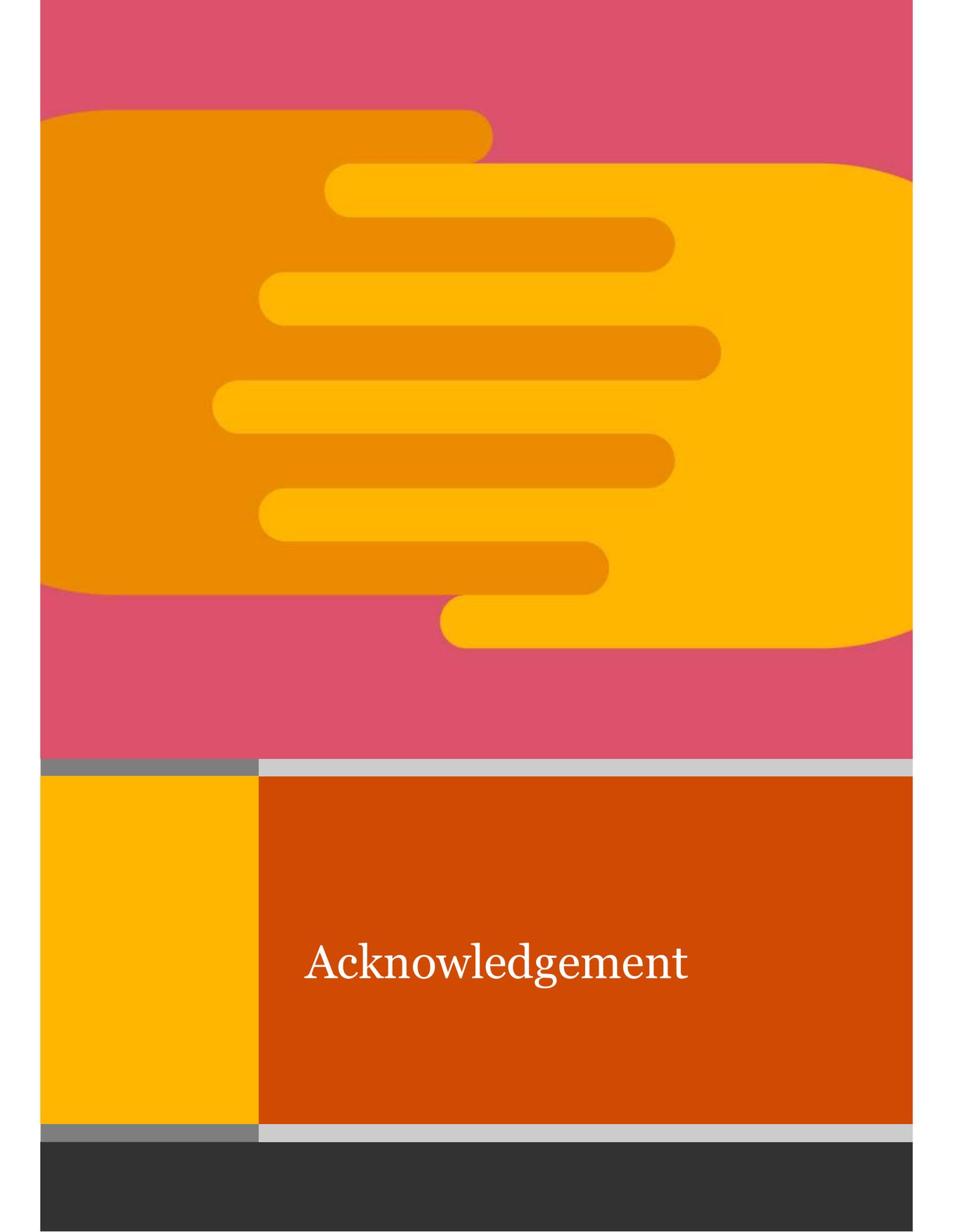
This report makes out a case for completely revamping the growth strategy of Gujarat in the next five years. The report suggests a number of strategies and sub strategies- sector wise in order to achieve this reorientation. Some of the main points suggested in report are as follows:

- The traditional manufacturing sectors of Gujarat have more or less saturated. This report identifies nine winning sectors, a mix of new as well as existing sectors, where the state government needs to focus. Gujarat should move into newer areas of smart manufacturing and green manufacturing in order to leverage their multiplier effects. Emerging technologies and better practices related to supply chain rationalization should boost traditional industries like textiles.
- The state needs to focus on all the services sector mainly IT/ ITES, Fintech, Tourism including medical value travel. The state needs to invest lot of money on providing high quality infrastructure for all these sectors. The government needs to spend money for attracting top class IT companies and tourism sector promoters. State needs to develop five or six clusters of tourism on the line of State of Unity (SoU) cluster.
- International connectivity from four or five major airports is urgently required to attract investment in services sector. All possible modern amenities, and cruise services, should be made available to develop Gujarat as a major destination for coastal and inland water tourism. Private sector participation, governmental interventions, and PPP models must be leveraged.
- Gujarat's strategic location provides it with the opportunity to be a leader in this regard by investing heavily in coastal development; strengthening economic opportunities for coastal communities; sustainably exploiting coastal ecosystem services; unleashing the region's potential for tourism; and boosting port activities. In the process, Gujarat could emerge as India's blue boulevard.
- Gujarat has to develop a robust ecosystem for industry-ready human capital, resulting in the rapid increase of the state's workforce. Opportunities afforded by the gig economy should be exploited. Quality improvement in higher education and lot of upskilling of workforce is required.
- The state has to go in a big way in promoting renewables, micro grids and electric mobility. The state is already ahead in renewable sector, but we need to go whole hog in promoting these sectors. Promoting green hydrogen and semiconductor manufacturing has to be in our radar.
- In agriculture the crop economy has more or less stagnated. However, precision farming with the help of technology can definitely increase the agriculture productivity substantially. There is larger scope of increasing rural income by way of promoting animal husbandry, horticulture, fisheries and poultry farming.
- Gujarat's blue economy has hardly been exploited to India's advantage despite the country's long coastline.

Preface by Chairman

- The services sector growth is around urban agglomeration. Gujarat needs to create many world class urban centres such as GIFT City. A lot of investment is required in urban sectors to provide all amenities such as metro rail, ring roads, urban mass transport, urban housing etc.
- Gujarat is a state of entrepreneurs. The state can promote this spirit by having a top-class ecosystem for promoting start-ups.
- While Gujarat is already ahead in exporting manufacturing items, we need to establish a leadership in export of services also. Measures are suggested in this report to promote this.

This report builds upon the existing knowledge of senior government officials, private sector stakeholders and consultant. The wide stakeholder consultations have enabled bringing all these ideas to enable Gujarat's accelerated growth in one place in this document. We are confident that the state government will make best use of this report by putting in place a robust implementation mechanism.

The image features a complex abstract design. The top half is a light pink background with a large, stylized hand-like shape in shades of yellow and orange. This shape is composed of several horizontal, rounded rectangular bars of varying lengths, creating a sense of depth and movement. Below this, a thin grey horizontal line separates the top section from a lower section. The lower section is divided into two main color areas: a vertical yellow bar on the left and a larger orange area on the right. The word "Acknowledgement" is centered in the orange area in a white, serif font. At the very bottom, another thin grey horizontal line is present, followed by a solid dark grey bar.

Acknowledgement

Acknowledgement

At the outset Task Force Committee is grateful to Hon'ble Chief Minister of Gujarat, Shri Bhupendra bhai Patel, for having given us this opportunity to prepare such a report. We are also grateful to the Hon'ble Finance Minister and Principal Secretary Finance for initiating this work.

This report is a result of continuous and coordinated efforts from all the Task Force Committee Members that include Shri M.K. Das, IAS (Additional Chief Secretary, Ports and Transport Department), Smt. Mamta Verma, IAS (Principal Secretary, Energy & Petrochemicals Department), Shri Milind Torawane, IAS (Secretary (Economic Affairs), Finance Department), Shri Rakesh Shankar, IAS (Secretary (Planning), General Administration Department) and Shri Dr. Rahul Gupta, IAS (Industry Commissioner).

The study has also benefitted from the suggestions and inputs of Co-opted Members of the Task Force Committee that includes Shri Tapan Ray, IAS Retd., (Managing Director and Group CEO, GIFT City Co. Ltd), Shri Punamchand Parmar, IAS Retd., (Former Additional Chief Secretary, Agriculture, Farmers Welfare and Cooperation Department), Shri Mukesh Puri, IAS (Additional Chief Secretary, Agriculture, Farmers Welfare and Cooperation Department), Shri Manoj Agrawal, IAS (Additional Chief Secretary, Health & Family Welfare Department), Shri S.J. Haider, IAS (Principal Secretary- Education Department (Higher & Technical Education)), Smt. Anju Sharma, IAS (Principal Secretary, Labour, Skill Development and Employment Department), Shri Vijay Nehra, IAS (Department of Science and Technology), Shri Hareet Shukla, IAS (Secretary, Tourism, Devasthanam Management, Civil Aviation & Pilgrimage), Shri Dr. Vinod R. Rao, IAS (Secretary (Primary & Secondary Education), Education Department), Shri Jai Prakash Shivhare, IAS (Managing Director, GUVNL, Vadodara, Former Commissioner of Health, Medical Service & Medical Education and Ex-officio Secretary (Public Health & Family Welfare)) and Shri Rajkumar Beniwal, IAS (Additional CEO, Gujarat Urban Development Mission).

Task force committee acknowledges participation and support received from Mr. Lalit Narayan, Director, Directorate of Employment & Training and Mr. Rakesh Pandya, Director, Directorate of Economics & Statistics, GoG.

Our sincere thanks to Shri Dr. Rahul Gupta, IAS (Member Secretary) for the providing overall coordination support between the Task Force Committee Members, Co-opted Members and all other key relevant stakeholders concerned.

The Task Force Committee expresses sincere gratitude to Shri S.J. Haider, IAS (Principal Secretary- Higher & Technical Education) and his department for organizing insightful workshops / seminars to brainstorm and gather insights on how sectors such as Disruptive Technologies, Blue Economy, Energy & Renewables, Tourism & Hospitality, Manufacturing & MSME, Healthcare, Medical services and Nutrition, Rural economy, Desert economy, Natural resource and forest products, Ports transport & logistics, Sports sector, Education sector and IT / ITeS, can contribute and help Gujarat towards achieving India's target of USD 5 trillion economy. The Task Force Committee is also thankful to Shri Mukesh Puri, IAS (Additional Chief Secretary, Agriculture, Farmers Welfare and Cooperation Department) and Shri Manoj Agarwal, IAS (Additional Chief Secretary, Health & Family Welfare Department) for organizing consultative workshops for Agriculture & Allied activities and Healthcare sector respectively.

Timely efforts and sharing of key data points required for this study from various state departments including Agriculture, Farmers Welfare & Co-Operation Department, Industries Commissionerate, Department of Science & Technology, Industrial Extension Bureau (iNDEXTb), Directorate of Economics and Statistics, Finance Department, Energy & Petrochemicals Department, Labour, Skill Development and Employment Development, Ports and Transport Department, Gujarat Infrastructure Development Board, etc. are commendable.

Acknowledgement

The Committee would also like to thank Mr. Nimit Patel (General Manager-GIDB) and Smt. Priyanka Kumar (Senior Manager (Projects)-GIDB) for overall program management and implementation of this mandate.

The Task Force Committee acknowledges the valuable assistance provided by PricewaterhouseCoopers Pvt Ltd (PwC) team led by Mr. Mohammad Athar (Partner) along with Mr. Rohan Shah (Associate Director) as overall project manager in assisting the Task Force committee in timely preparing and delivering a high-quality study report. The Committee also appreciates support from other PwC team members that include Mr. Shashank Tripathi (Partner), Mr. Manoranjan Pattanayak (Executive Director), Mr. Hitesh Chaniyara (Executive Director), Mr. Sudhanshu Bohra (Director), Mr. Probal Ghosh (Director), Mr. Nimish Vora (Director), Mr. Mehul Gupta (Director), Mr. Nishant Shah (Associate Director), Mr. Mandeep Ahuja (Associate Director), Ms. Archita Bose (Associate Director) and Ms. Srividya Krishnan (Manager) for providing their valuable inputs on respective sectors.



Executive summary

Executive summary

Economic growth ambition for Gujarat

India intends to achieve the target GDP of USD 5 trillion by 2026-27 in nominal terms¹. In 2021-22, India became a USD 3.09 trillion economy in nominal terms. Average annual nominal growth for the last 10 years (2012-13 to 2021-22) is nearly 10.5 percent. Therefore, if the past growth rate is sustained, India would be USD 5 trillion economy by 2026-27 in nominal terms.

The target of USD 5 trillion economy by 2026-27 is contingent on growth at the State level. Five states, i.e., Gujarat, Tamil Nadu, Maharashtra, Uttar Pradesh, and Karnataka constitute approximately 49 percent of the nominal GDP of the country. All five states have grown at an average annual nominal growth of nearly 10 percent or more during the pre-COVID period (2012-13 to 2019-20) and have the potential to grow at a rapid pace in the coming years.

It is anticipated that Gujarat would make an important contribution towards the economic growth of the country. Accordingly, the State may propose a target to become a USD 500 billion economy by 2026-27 in nominal terms and have nearly 10 percent share in India's GDP by 2026-27 from 8.36 percent in 2020-21. To achieve this goal, Gujarat has to attain a higher growth in industry and services sector. Over the last several years, the agriculture sector has benefited from significant productivity gain and the productivity is plateauing now. The sector is expected to grow at slightly lower rate in the next few years. To account for the resulting shortfall in GDP, the Industry sector would need to grow at 14.9 percent and services at 16.3 percent; up from last ten years annual average growth of 13.3 percent and 11.8 percent respectively. The enhanced role of the service sector is expected to be supported by factors such as increasing purchasing power, leading to demand for services such as professional services, tourism spending, business services, and financial services. Detailed suggestions on supply-side of services sectors is provided in subsequent paragraphs.

Economic growth strategy framework

The framework builds on the economic pillars of Gujarat economy i.e., 1) Agriculture, 2) Manufacturing and 3) Services sector. Growth drivers in form of Focus sector and sub-sector opportunities have been proposed to be identified within these pillars. In addition, to enable growth of these Pillars and Focus sector opportunities, "Enablers" have been identified which include - 1) Transport infrastructure & Logistics, 2) Energy and 3) Education, Skilling and Start-up eco-system development.

Lastly, strategic interventions (Investment targets, Policy initiatives, Infrastructure project development, Institutional interventions, etc) shall be proposed that not only help in addressing current challenges, but also help achieve a higher / induced economic growth for the State of Gujarat.

¹ Article on "India to become a 3 trillion Dollar Economy this year and a 5 trillion Dollar Economy by 2024-25" by Press Information Bureau, Government of India, dated 05 July 2019. <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1577411>

Agriculture & allied activities

In the socio-economic context of Gujarat, Agriculture has a very significant role, as more than 40% of the State population is directly or indirectly dependent on it for their livelihood. Crop and Livestock sector contributes ~15% in the state's GVA reflecting its significance. Contribution of agriculture and allied sectors (crop and livestock sub-sector) to the state's nominal GVA has declined from 17.80% to 14.20% during FY 2011-12 to 2020-21. The major reasons for the decline are increase in GSVA contribution of manufacturing & services sectors and decrease in net sown area due to factors such as erratic rainfall in the past few years.

Crops sub-sector remains the major contributor over the period; however, the contribution of allied sub sectors has increased during the last five years. This reflects the scope of allied sectors to augment the contribution of the sector to the state's GVA. However, there is stagnation in production of agricultural crops which reflects the need for diversification. The Gujarat government has taken several initiatives to boost agricultural sector growth and support the farmers. In continuation to this growth process, Government of Gujarat aims at a holistic and sustainable growth of agriculture and food sector. The State is in line with the national vision of doubling farmer's income, increasing agricultural productivity & production, reducing wastage across the supply chain and ensuring food security for all in the state.

To attain desired vision, the task force recommends following five thematic areas for the overall improvement and growth of the agricultural and allied sectors:

- i. **Incremental growth to efficient growth** through (1) Scientific and timely use of high-quality seeds and planting material, (2) Har khet ko pani: Increasing the net irrigated area, (3) Improving farm mechanization level, (4) Improving crop intensity and (5) Increased push on extension programmes such as Krushi Mahotsav etc.
- ii. **Innovation and creative disruptions:** Creating creative disruptions in the current agricultural practices through innovations to improve the share of agriculture and horticulture in the state GVA.
- iii. **Market orientation and processing:** Strengthening the marketing and processing infrastructure of the state to ensure better price realization and improved value addition.
- iv. **Shift towards diversification** by increasing the share of horticulture, dairying, fisheries, poultry, and goat and sheep sub sectors among the livestock sectors.
- v. **Agriculture Extension Bureau:** Setting up of a separate division/cell on the lines of INDEXTb for promotion of investment in agribusiness and food processing.

Manufacturing sector

The manufacturing sector in Gujarat has contributed around 32% to the overall GSDP during FY 15 to FY 20². Gujarat's economic profile is similar to that of the leading global manufacturing hubs like, China, Thailand, South Korea, etc. wherein the manufacturing sector contributes around 30% of the GSDP. Gujarat is also the no.1 state in India in terms of share of manufacturing sector in GSDP. Manufacturing GSVA has witnessed around 13% CAGR (Nominal) during FY 13 to FY 22³.

Gujarat shall aspire to transition towards an industry mix that is dominated by sectors that are high on value addition (GSVA / Output) and have comparatively higher employment generation potential (No. of new jobs per crore investment). Parameters like global trade, local market share, local growth, national imports, investment attractiveness and inclusion in any of the GoI initiative has been considered to identify focus sectors for

² Report on State Domestic Product, Gujarat State 2019-20 (Base Year 2011-12), Directorate of Economics and statistics, Govt. of Gujarat. Value at current price

³ Report on State Domestic Product, Gujarat State 2019-20 (Base Year 2011-12), Directorate of Economics and statistics, Govt. of Gujarat. Value at current price

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Gujarat. Focus sectors identified are; 1) Automobile, 2) Apparel, 3) Basic metals, 4) Electronics, 5) Electrical machinery & equipment, 6) Food processing, 7) Pharmaceuticals and 8) Textiles.

Within each of these focus sectors, the following subsector and emerging sectors have been identified: 1.1) Motor vehicles (Electric vehicles, Alternate fuel vehicles), 2.1) Wearing apparel (including knitted & crocheted fabrics), 3.1) Basic iron and steel, Precious and other non-ferrous metals (green steel, specialty steel), 4.1) Electronic components and domestic appliances (mobile manufacturing, semiconductor and fab manufacturing), 5.1) Batteries and accumulators (Li / Hydrogen batteries, Advanced Chemistry Cell battery, Solar PV), 6.1) Processing and preserving of fruit and vegetables, 7.1) Pharmaceutical, medicinal chemical & botanical products and 8.1) Spinning, weaving and finishing of textiles (technical textiles).

To promote growth in the above-mentioned sector and sub-sector opportunities, the task force recommends hard and soft interventions around key strategic intents as follows:

Timely execution of new manufacturing investments - It is proposed that the state shall be required to attract new investments worth around INR 5 Lakh crore in focus sectors by end of FY 23 and ensure that these projects start commercial production by FY 25 / FY 26. The state might consider setting up a new committee/Task force to enable investments in priority sectors along with exploration of new investment promotion avenues.

Enhanced and diversified Industrial infrastructure – After review of the current supply and demand for next 5 years i.e., till FY 27, it is estimated that there is need for development of new industrial parks of around 19000 acres. Vadodara (2,892 acre), Surat (2,521 acre), Jamnagar (2483 acre), Mehsana (2,410 acre), Valsad (1,298 acre), and Rajkot (1,144 acre) are the key districts having land supply deficit. The sectors contributing to the overall land demand in the districts comprise Basic metals, Electronics, Electrical machinery & equipment and Automobiles.

It is recommended to expedite development of the sectoral parks in the state namely a) PM MITRA Park (1,142 acre) at Navsari, b) Bulk Drug park (1007.71 acre) at Bharuch, c) Ceramics park (1,051 acre) at Morbi, d) Toy park (241 acre) at Ahmedabad & Rajkot, e) Bio-tech park (16 acre) at Vadodara as well as industrial areas like Dholera SIR, Mandal-Becharaji SIR. The state shall also consider / evaluate development of new thematic / sectoral industrial parks such as Coastal economic units, Special Economic Zones, Export related CFCs for Testing & Certification, Electronic Manufacturing clusters, Future of mobility parks (Auto, EV, Batteries), High tech engineering park (Machinery, Electrical machinery, Other equipment's), Mega food processing parks, Chemical clusters, Green Hydrogen park / Hydrogen valley, Metal clusters, Power and Renewable energy equipment park and Mega Leather cluster in the state.

Competitive incentive policy – After review of sectoral policies of the focus sectors in other key progressive Indian states, it is proposed that GoG may also introduce specialized incentive scheme or amend the existing Industrial policy 2020 for reducing the cost of doing business and improving the investment attractiveness to target focus sector investments into Gujarat.

Export enablement - To enhance export potential of the state, it shall target 17% CAGR in manufacturing exports from FY 22 to FY 27. Setting up a state level Export Promotion Council (Gujarat Export Promotion Council) at Gandhinagar shall also be considered. In addition to this, the state government shall initiate dialogue with Government of India so that they negotiate with foreign embassies for having favorable / competitive tariff structure in target markets i.e., USA, Germany, France, China, UK, Belgium, Mexico, Spain, Canada, Hong Kong, Japan, Singapore, Italy and Switzerland. This shall enable scaling up exports to the existing destinations as well as open up new export markets for Gujarat.

Implementation of the strategic interventions discussed above shall not only enable the state to achieve the targeted growth but also enable integrations with global value chains through targeting manufacturing and export opportunities that have high demand in the global trade. Lastly, the State may promote sustainable manufacturing through decarbonization and Net-zero initiatives in the identified focus sectors and sub-sectors.

Service Sector

The Service sector is an integral part of the Indian Economy, contributing 61% in FY21 to the Indian GSV⁴, and employing ~32% (2020) of the total employed population of India⁵. The GSV of the service sector in India grew at a CAGR of 7.6%⁶ from FY16 to FY21.

Gujarat's Service sector GSV has shown higher growth rate than India at 10.5% from FY16 to FY21, also increasing its contribution to the GSV from 35.6% to 37.3% in the same time period⁷. However, Gujarat ranked 7th in its contribution to the National Services sector GSV in FY20⁸. To enable Gujarat to play a greater role in India's vision of USD 5 trillion, this report identifies strategic interventions in the key focus sectors within the Service sector. It is targeted that Gujarat's service sector nominal GSV grows at a CAGR of 16.3% between FY22 and FY27, to reach USD 171.5 Billion by FY27.

To enable this growth, key focus sectors are identified within services, through a strategic framework which considers three criteria: (i) Historical Trends, (ii) Future Outlook and (iii) Champion Services. To support the growth of the Services sector, the Task Force recommends that a Commissionerate may be established exclusively for services, housed under an appropriate department, for undertaking of interventions in close coordination with relevant departments.

The focus sectors identified are IT & ITeS, Financial Services, Healthcare, Tourism, Real Estate and Transport and Logistics, where Transport and Logistics is an enabling sector. An overview of the key growth opportunities, challenges and strategic interventions for each of the focus sectors are given below.

IT – ITeS sector

The Indian Information Technology/ Information Technology Enabled Services (IT/ITeS) sector has contributed immensely to positioning India as a preferred investment destination amongst global investors. From 2016-2021, revenue from this sector has grown at a CAGR of 6%⁹ to \$195 bn in FY 2020-21 (E) with a GDP contribution of 8%¹⁰. The growth is led by IT exports. According to a NASSCOM report, it is projected to be a USD 350 billion industry by FY 2026¹¹.

In Gujarat, the IT-ITeS sector exports grew at 14% annually between 2017-18 and 2020-21¹², they were valued at INR 3,976 Cr¹³ in 2020-21. To boost the growth of the sector, the state government has come up with a new IT/ITeS policy 2022-2027¹⁴. It has set an ambitious target of INR 25,000 crores of exports by 2027. To achieve this, private investment would have to be attracted and an IT ecosystem needs to be developed.

At present, Gujarat has a low footprint of IT companies and needs to address key challenges to strengthen factors such as human capital, innovation ecosystem, air connectivity and infrastructure. The IT/ITeS policy addresses a lot of these challenges and its implementation should be fast tracked. Further, for attracting more

⁴ Handbook of Statistics on Indian Economy, Components of Gross Value Added At Basic Prices, RBI, 2021, Available at: <https://m.rbi.org.in/scripts/PublicationsView.aspx?id=20701> <https://www.rbi.org.in/scripts/PublicationsView.aspx?id=20408>

⁵ India - Employment In Services (% Of Total Employment), Trading Economics, Available at: <https://tradingeconomics.com/india/employment-in-services-percent-of-total-employment-wb-data.html>

⁶ Handbook of Statistics on Indian Economy, Components of Gross Value Added At Basic Prices, RBI, 2021, Available at: <https://m.rbi.org.in/scripts/PublicationsView.aspx?id=20701> <https://www.rbi.org.in/scripts/PublicationsView.aspx?id=20408>

⁷ PwC analysis, Data source: Socio-Economic Review: Gujarat State, Directorate of Economics and Statistics, 2022, Available at: https://gjecostat.gujarat.gov.in/uploads/publicationsecanagement/SER202122eng03_03_22_13_39_12.pdf

⁸ Handbook of Statistics on Indian States, Gross State Value Added by Economic Activity - Services (Current Prices), RBI, November 2021, Available at: <https://m.rbi.org.in/scripts/PublicationsView.aspx?id=20701>

⁹ Revenue trend, MeitY, Available at <https://www.meity.gov.in/revenue-trend>

¹⁰ Software and services sector, MeitY, Available at <https://www.meity.gov.in/content/software-and-services-sector>

¹¹ Indian-it-sector-growing-at-almost-twice-the-rate-of-eco, Shila Phadnis, 2022, Available at <https://timesofindia.indiatimes.com/business/india-business/indian-it-sector-growing-at-almost-twice-the-rate-of-eco/articleshow/89602308.cms>

¹² STPI Annual Reports, Software Technology Parks of India, Available at <https://stpi.in/en/stpi-annual-reports>

¹³ STPI Gandhinagar, MeitY, Available at <https://gandhinagar.stpi.in/en/about-stpi-gandhinagar>

¹⁴ IT/ITeS Policy 2022-2027, Department of Science and Technology, Gujarat, 2022, Available at <https://gil.gujarat.gov.in/Media/DocumentUpload/IT%20POLICY-Final-2022.pdf>

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investments, the state should encourage creation of channels of dialogue between the government and the senior leadership of the top IT companies.

For human capital development, promotion of English skills by introducing in non-English medium schools, setting up of more English medium schools, teacher training courses and dual language textbooks may be done. Fast tracking the setting up of 7 CoEs in universities, notified in Jan 2022¹⁵, in addition to the AI School/ CoE (envisaged in the state IT / ITeS policy) should be ensured. To encourage innovation, creation of sandboxes for IT industry, where live testing of new products or services can take place in a controlled environment as done for Financial services in GIFT should be done. The coverage of the Electronics and IT/ITeS Start-up policy (2016-21) and SSIP 2.0 policy (2022-27) may have a deeper focus on encouraging startups in the state, especially in sectors such as health-tech and fin-tech.

Financial Services

The Financial Services sector in India has been growing at 9.4% CAGR, from FY16 in FY20¹⁶, contributing ~9% to India's GSVa in FY20. Further, the Financial Services sector projected outlook in India is positive, especially for capital markets and the FinTech market. The FinTech market is projected to grow at ~48% from FY20 to FY25.

The Banking and Insurance sector GSVa of Gujarat, grew fast at ~11% CAGR from FY16 to FY20, ranked 4th ¹⁷ in Banking and Insurance and contributed around 7% to the Indian Banking and Insurance GSVa. The State can strengthen its Financial sector by utilizing the already strong infrastructure where Gujarat's GIFT City is well positioned, to become the International Financial Gateway of the country. The International Financial Services Centre (IFSC) is becoming preferred destination for International Financial Services Activities.

In order to attract investments, Gujarat needs to address key challenges at IFSCA and strengthen factors such as Business Environment, Reputation, Human Capital and Infrastructure. The long time for setting up a Business (90-120 days) and stringent KYC norms need to be addressed at IFSCA, along with providing a level playing field to IFSC under the Liberalized Remittance Scheme. While the state has some clear advantages as an investment destination, it needs to further strengthen key areas such as state competitiveness, start-up ecosystem, innovation ecosystem, enabling FinTech's, skilling for Financial services and in English language, access to schooling and connectivity to International Finance Centers.

Strategic interventions aim at accelerating GIFT City's growth as a Global Financial Center and in becoming a FinTech hub. These interventions may create a favorable ecosystem for financial activities and attract key financial sector players to make investments in the state. Some key interventions for growth as a financial hub include promoting Global In-House Centre (GIC) at GIFT IFSC, establishment of International Arbitration center and separate court, preferential treatment to IFSC for Investment in India, developing new products for trading at IFSC Exchanges, and development of foreign currency clearing and settlement system. To develop human capital, it is recommended that an International Fintech Institute be set-up and partnerships with FinTech industry for digital skills may be developed. To promote innovation and startup, Gujarat may look at providing Startup Seed grant and Accelerator kit and enabling knowledge exchange for Innovation.

Healthcare sector

Indian healthcare market is growing at a fast rate and this growth has been led by the hospital industry comprising 80%¹⁸ of the market. With rising income levels and ageing populations, the demand in hospital industry, both in the domestic and international markets is expected to grow further.

¹⁵ Education department, Government of Gujarat

¹⁶ PwC analysis, Data source: Handbook of Statistics on Indian States, Gross State Value Added by Economic Activity - Banking and Insurance (Current Prices), RBI, November 2021, Available at: <https://m.rbi.org.in/scripts/PublicationsView.aspx?id=20697>

¹⁷ Maharashtra, Delhi and Tamil Nadu rank above Gujarat

¹⁸ NITI Aayog Report – Investment Opportunities in India's Healthcare Sector, Available at https://www.NITI.gov.in/sites/default/files/2021-03/InvestmentOpportunities_HealthcareSector_0.pdf

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Gujarat has been the best performing state in the Sustainable Development Goals (SDG) 3 (good health and wellbeing goal) as per SDG India Index & Dashboard, 2020-21 of NITI Aayog¹⁹. It has renowned local multi-specialty hospitals but certain infrastructural gaps, including no. of beds, physicians, and nurses, exist in the state. The state can strengthen its healthcare industry by using the opportunity to attract leading national hospital chains, which presently have a low footprint in the state.

To further growth of the healthcare industry, Gujarat needs to implement strategic interventions for the overall healthcare sector, Medical value travel and Health tech. To address the immediacy of the issues, the government needs to increase healthcare expenditure as a portion of budget by 50% (from the current 5% of budget to 7.5% of budget).²⁰ For increasing private sector participation, PPP models should be encouraged for setting up specialty and super specialty hospitals, especially in Tier 2 or 3 cities. To enhance Medical value travel, benefits related to capital subsidy and electricity duty which are provided to hotels as part of the state tourism policy, should be provided to Medical Value Travel (MVT) players as well.

To aid human capital development, private investment in medical education needs to be encouraged. A health recruitment board for recruiting doctors, nurses, etc. May be set up on the lines of police recruitment board to make the process more effective. Innovation ecosystem for health tech may be promoted by creating a healthcare Innovation fund. In addition to this, healthcare startups should be encouraged similar to any other startup receiving benefits under the State's startup policy/ IT/ITeS policy.

Tourism

Gujarat has long been a key tourist destination in the country. The tourism sector contribution to the state GDP has experienced high growth from 5% in FY 2015 to 8% in FY 2020. The tourist footfall has also increased at a CAGR of 15% between 2009- 2018. However, it has not realized its full potential ranking 9th and 12th in domestic and international footfall, respectively. Further, majority of the domestic tourists are intra-state.

The state have potential to improve its air connectivity with key source countries for international tourist. Gujarat has been strong in tourism segments like nature, cultural, religious, spiritual tourism etc.; However, it can diversify its product offerings to other segments like rural tourism, ecotourism, cruise tourism, adventure tourism etc.

Gujarat can overcome these challenges and propel tourism further in the state through strategies and interventions categorized under three key objectives of increasing tourist footfall, increasing length of the stay and diversifying products and offerings. Statue of Unity (SoU), Kevadia can be developed as an iconic tourism village in a phased and planned manner through master planning and vision plan for 20 years, by adopting a phase wise approach for unlocking land. Gujarat should liaise for national and international recognition of its tangible and intangible assets for global marketing. Promotion of International Buddhist circuit can be a key initiative in driving international tourist footfall in the state. The state can develop key circuits like the SoU Circuit and the Saurashtra Circuit to extend length of stay of the visitors. Gujarat has many key festivals and planning events around these festivals can elongate the length of stay of the visitors. It can diversify its product offering through exploring segments like eco-tourism, adventure tourism, sea cruise, geo tourism etc. Government of Gujarat can leverage central government's revamped Swadesh Darshan Scheme to develop new tourism circuits in the state.

Improvement of air connectivity, both internationally and domestically, will be critical for the sector. Improved domestic air connectivity in the Saurashtra region can give a significant boost to tourism in the region. The state can prioritize developing/ improving connectivity (road, rail and airport) to at least its five key tourism destinations. Gujarat can enhance the quality and quantity of hospitality infrastructure in the state by rationalization of license requirements, single window clearance with defined timeline for hospitality sector and

¹⁹ https://www.NITI.gov.in/writereaddata/files/SDG_3.0_Final_04.03.2021_Web_Spreads.pdf

²⁰ Times of India, available at https://timesofindia.indiatimes.com/city/ahmedabad/states-allocation-to-health-dipping/articleshow/82416176.cms#aoh=16512797317976&referrer=https%3A%2F%2Fwww.google.com&_tf=From%20%251%24s

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by providing industry status to hospitality sector. Easing regulations and setting guidelines for creating tourism assets in regulated areas of Gujarat would drive and encourage private investment in tourism product creation. The Tourism Department will require enhanced financial outlay to undertake the necessary interventions through large infrastructure development projects, encouraging private investment and marketing destination in Gujarat.

Real Estate

The real estate sector in India witnessed a rapid growth over the last 2 - 3 years and remained resilient even during the COVID - 19 pandemic. The construction sector was one of the Top 3 sectors that received maximum FDI in India during 2020 - 2021. This growth was made possible due to several policy reforms brought in by the Government of India which was conducive to growth such as Real Estate Investment Trusts (REITs) going live, increase in the cap of FDIs to 100% in the real estate sector, housing for economically weaker sections, reduction in stamp duty and a stable repo rate. Currently, the sector is the second largest employer in the country after agriculture, employing about 52 million people.

Currently, the organized real estate market in India is dominated by activity in the 7 cities of NCR, Mumbai, Pune, Kolkata, Bangalore, Chennai and Hyderabad. The activity is primarily driven by commercial space offtake by IT/ITeS tenants triggering demand for allied asset classes like residential, retail, hospitality, etc. Gujarat's organized real estate activity is currently limited to Gujarat International Finance Tec-City (GIFT) city at Gandhinagar and few developments at Ahmedabad, Surat and Rajkot. The development, albeit at nascent stages, has gained head start with announcement of new IT/ITeS policy (2022 – 2027). However, it is to be noted that Gujarat has significant potential to unlock in this segment as 2 of the top 10 growing cities in India viz. Rajkot and Surat are in the State.

As per Ministry of Electronics and Information Technology (MeitY), it is proven that the IT/ITeS sector is one of the biggest employment generators and has spawned several ancillary industries such as transportation, real estate and catering, security, housekeeping etc.. Further, the IT/ITeS sector is one of the highest employment generators, creating four indirect employment for every direct employment generated. The employees in the IT/ITeS sector are also among the highest paid employees in the country, earning 24 per cent higher than the national median, thereby having a higher spending propensity. It is therefore suggested that there may be renewed focus on promoting IT/ITeS and Banking & Financial services in Gujarat to replicate the success stories of top markets like Bengaluru, Hyderabad, etc.

Further, as mentioned above, the growth trajectory of the real estate segment is triggered by the growth of key economic drivers of the city as every asset class under the real estate sector houses the demand triggered by economic drivers. Hence, to galvanize the cogs of growth for the real estate sector, the key interventions that would be required for Gujarat is devised to be a 4-point agenda which is an amalgamation of policy triggers, institutional reform support, infrastructure enabler, soft power via branding and promotion that promotes high address value and top of the mind city/ State recall. In a nutshell, some of the strategic interventions required are revised masterplan to be formulated that would identify clusters of growth and provide Floor Space Index (FSI) relaxation in specific growth clusters (such as 1 km along the ORR be demarcated as special development zone – lesser conversion charges, shorter approval timeframe (while majority of the approvals have been moved online and happening in timebound manner) effective implementation of the already existing schemes would be critical, stamp duty/ registration charges rebate and FSI relaxation for commercial utilization), land monetization strategy for underutilized government land parcels and transit-oriented land parcels – to be evaluated via Public Private Partnership (PPP), incentives by the Government to developers who develop Environmental, Social and Governance (ESG) compliant buildings, single window clearance to reduce turnaround time on approvals, reviving of riverfront development projects at Sabarmati, Tapi, etc. through revalidating product mix and allowing PPP with international developers to bring best in class infrastructure with a mix of high revenue, high footfall generating assets such as high end commercial (IT & BFSI parks), food & beverage hub, river facing premium residential, hospitality, etc. which possess a strong potential to convert as organized Central Business District (CBD) of the cities. Further, granting of a 99-year

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lease for private developers would ensure recurring cash flows. To complement the popular Statue of Unity (SoU), creation of a niche positioning for the zone by way of demarcating a special tourism zone in the area would add value to the entire ecosystem.

Additionally, branding and promotion of the policy along with infrastructure interventions would be critical to achieve high address value and top of the mind recall both Nationally and Internationally. This would include promoting ESG compliant buildings, branding and positioning the SoU as an alternative Meetings, Incentives, Conventions and Exhibitions (MICE) destination which would put the State on the global map. The same can be achieved via aggressive branding and promotion methodologies such as social and digital media campaigns, creating and airing infomercials, hosting flagship events, active participation in Global Investor Meets, etc.

The next section describes the position of Gujarat in terms of key economic enablers i.e., i) transport infrastructure & logistics, ii) energy and iii) education, skilling and iv) financing that shall enable the growth drivers over the coming years as well as recommended key strategic interventions that shall be implemented to further strengthen the enabling ecosystem of the state.

Transport Infrastructure & Logistics

Gujarat has always been at the forefront to develop the transport & logistics sector to complement the overall economic growth of the State. The 5 key segments across the transport and logistics sector of Gujarat have been evaluated: Ports, Roads, Rail, Aviation infrastructure and Logistics infrastructure and services. Gujarat is a port-led economy, as it accounts for ~40% of all cargo handled at the Indian port. With India aiming to achieve USD 5 trillion cargo, the port traffic at GMB ports is expected to reach above ~750 Mn MT by FY2027 creating the opportunity for significant port capacity augmentation across the coastline of Gujarat. From the road infrastructure standpoint, Gujarat has a relatively better 2 and 4-lane road infrastructure than other key states contributing to India's GDP. With an increase in economic activity across the state, majority of the traffic is expected to be utilizing the road network of the state. . For the next 3-5 years, the Government of Gujarat (GoG) may focus on the augmentation of the road capacity at major production and consumption clusters across Gujarat to reduce overall congestion on the roads. With respect to rail infrastructure, Gujarat has better rail connectivity in comparison with neighboring states; further, DFC connects key industrial centers with the rail line. Within the next 5 years, augmentation of rail capacity is required especially near key industrial and commercial hubs to increase modal shift from roads to rail especially from freight standpoints. With respect to Gujarat's aviation infrastructure, Ahmedabad followed by Surat are key airports witnessing growth in passenger and freight traffic; other regional airports are unable to attract traffic due to cost competitiveness with other modes. GoG may partner with the Central Government agencies such as AAI and DGCA to enhance air freight and passenger movement in Gujarat. In the logistics infrastructure, Gujarat leads the State logistics ranking for three consecutive years and has maintained its rank through strong policy initiatives and logistics-related institutional mechanisms. A sustained focus on monitoring logistics gaps and identifying opportunities to reduce logistics and economic costs for all the stakeholders is imperative for GoG to align with the steep economic growth aspiration.

Energy

Energy is the key enabler for growth across sectors. Considering the accelerated economic growth leading to \$500b economy by FY27, power utilities would witness 40% growth of energy consumption over the next 5 years. The Government of Gujarat has already decided to not add any conventional power capacity in Gujarat. Further, Gol's 'Panchamrita' concoction for COP26 climate commitment would raise the Renewable energy (RE) Purchase Obligations steeply to achieve 50% of electricity from renewable energy by 2030. It is estimated that by 2027, Gujarat utilities would need to procure additional 21 GW of renewable energy. That will increase the share of RE from 27% to 56% in terms of capacity and from 11% to 35% in terms of energy over next 5 years. Such a huge scale of additional variable and intermittent RE capacity into the power grid will have significant impact on the grid management and the way the remaining generation capacity operates.

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Gujarat is a leader in terms of quality power supply. To accelerate economic growth, the cost of electricity for industries require optimization. RE capacity would grow at 4.7 times faster than intra-state transmission capacity. Ramp rates for conventional capacity would need to rise six-fold from the present unless grid balancing mechanism are introduced. It needs a strategic approach to prevent major constraints in faster economic growth.

Energy Strategy maybe centered around three drivers - ensuring reliability of the power supply, sustainability with growth, and affordability for all. For energy utilities, the focus may be on rapid up-scaling of distributed renewable energy generation, migrating power supply to agriculture during daytime with renewables, preferring RE-Hybrids for utility-scale procurement, attracting private capital in emerging areas of offshore wind/ floating solar, etc., and advanced planning to protect grid-stability in high RE environment. In addition, Green Hydrogen Parks, Green Tariff, RE powered electric mobility and export of RE to other states would boost investments in the state.

Action points are proposed on policy and regulatory matters, institutional interventions, enabling ecosystem, supporting Infrastructure and driving innovation in the energy sector of Gujarat.

Education, Skilling and Start-up Ecosystem

All Sectors of the economy require a skilled workforce that is Industry ready and can contribute effectively to improved productivity and higher growth of the sector. For inclusive development of a Nation, it is important to provide Quality Education to all.

Gujarat in 2019-20 had a Gross Enrolment Ratio (GER) of around 93.8 for elementary level, (standard 1 to standard 8), 77.4 for secondary (standard 9-standard 10), and 43.3 at higher secondary (standard 11-standard 12). Gujarat ranks at 4 in School Education Quality and has high percentage of qualified teachers at all education levels. The state therefore may look at further increasing enrollment and nurture the young minds to make them future ready. While the State has already taken several initiatives, it should also continue to focus on academic research and grooming the education providers/facilitators.

For higher education, Gujarat ranks second²¹ in India in total number of universities, with more than 100²² universities. The state has also several sectoral universities like IITRAM²³, IITE²⁴, Rashtriya Raksha University, Kamdhenu University, etc. Further, to create an enabling environment for quality education, the state government has come up with a roadmap for accelerating the effective implementation of the National Education Policy 2020. The state government is also going to support and nurture the ideas of youth in different verticals such as i-Hub and Student Startup and Innovation Policy (SSIP 2.0).

Given the Technological revolution, focus on promotion of digital content development and last mile delivery of higher education centers via open sources to train in such disruptive technologies, shall also play a key role in educating the students and making them digitally literate. For enabling growth especially through disruptive technology, strengthening the startup ecosystem in the state shall also be a priority. India is the 3rd largest startup ecosystem in the world²⁵ and with Gujarat's strong foundation, especially with the new IT and ITeS policy and Startup and Innovation Policy, there is an immense potential for the startups to contribute to Gujarat's growth story.

The State needs to implement strategic interventions for strengthening the Education, Skilling and the Start-up ecosystem. For education, a talent pool in sync with aspirations for future should be developed, English education curriculum should be promoted, ESG compliance related courses should be introduced,

²¹ International conference of Academic Institutions, Jan 2022, Available at <http://gksgujarat.org/icai-brochure.pdf>

²² Education department, Government of Gujarat

²³ Institute of Infrastructure, Technology, Research and Management

²⁴ Indian Institute of Teacher Education

²⁵ Key Highlights of Economic Survey 2021-2022, PIB, 2022, Available at: <https://pib.gov.in/PressReleasePage.aspx?PRID=1793829#:~:text=The%20highlights%20of%20the%20Economic,real%20terms%20in%202022%2D23.>

establishment of Centers of Excellence may be fast tracked, and ongoing initiatives shall be augmented. To further develop the skills of the workforce, skill development may be mainstreamed in education, reskilling and upskilling requirements should be identified, skilling programmes should be aligned to future needs, and collaboration may be encouraged not only for workforce training but also for capacity development of trainers. The state may also take initiatives to promote Startups and disruptive technology through implementation of Student Startup policy.

Financing High growth trajectory

The Government of Gujarat can boost services sector through various means. One of the channels is establishing an enabling policy and regulatory environment for services sector in Gujarat. This has been adequately elaborated in the preceding paragraphs. In addition, the Government can also develop services sector through provisioning of 'public good'. Public good due to positive externalities are normally under-provisioned. The Government of Gujarat can ensure effective provisioning of such public goods such as enabling infrastructure for IT/ITeS, Tourism, and Healthcare, and availability of adequate skilled workforce through establishment of educational institutions meeting the service industry requirements.

Gujarat would require (i) increase in public spending and (ii) reorientation of public spending towards services sector. Gujarat had spent 10.3 percent of GSDP in 2019-20 while other states with similar per-capita income reported higher public spending as percent of GSDP, i.e., Andhra Pradesh (16 percent), Haryana (13.6 percent), Karnataka (13.2 percent), Kerala (13.9 percent), Maharashtra (12.4 percent), Tamil Nadu (13.4 percent), and Telangana (14.2 percent). Similar trend emerges if public spending is normalized by population. Public Spending, for the purpose of analysis, includes revenue expenditure, capital outlay and loans and advances given by the State Government. Further, Gujarat has sufficient fiscal headroom to enhance public spending. A comparison of budgeted fiscal deficit (1.64 percent of GSDP) for 2022-23 and fiscal limit (3 percent of GSDP) shows that the State has additional resource envelope of nearly INR 29,961 crore in 2022-23. Public Debt of the State is also within limits. As per 2021-22 RE, public debt as percentage of GDP was 16.5 percent as against the FRBM target of 27.1 percent of GSDP. In 2022-23 BE, it is budgeted to go down to 15.88 percent. Therefore, the State has enough resource envelope and efforts need to be made to develop quality project proposals in the services sector.

Apart from direct borrowings by the State, the Government of Gujarat can also provide guarantees to the public sector enterprises so that these public sector enterprises can raise funds from the market. In 2021-22 RE, outstanding guarantees were to the tune of INR 3,089 crore as against the permissible limit of INR 20,000 crore. This provides additional fiscal space to the State of Government.

Apart from increasing public spending, the Government of Gujarat can also reorient resources to services. The State spends nearly 11 percent of the total expenditure in subsidies and nearly 70 percent of the subsidies are spent on energy and petrochemicals, and industries and mines. Reallocation of resources to services sector is expected to support growth ambition of Gujarat in the coming years.

Way forward

It is proposed that a full time Program Management Unit (PMU) may be set up in the concerned State government agency (GIDB or Industry Commissionerate, GoG) for next 5 years, which helps the concerned departments in implementing the interventions proposed and also helps the Government of Gujarat to monitor and evaluate the status of implementation of the proposed strategic interventions.