



The Narendra Modi model of development

As an impatient nation waits for the results of the 2014 general election, MintAsia takes a look at the Gujarat model, its economic spin-offs, and the flip side

By Maulik Pathak

May 9, 2014

A file photo of Tata's Nano plant in Sanand, Gujarat. Narendra Modi's style of governance is based on certain principles drawing on market signals, public-private partnerships that also include the social sector, decentralization of power, and an able administration that does not encourage open-ended subsidies. Photo: Abhijit Bhatlekar/Mint

Ahmedabad: In the space of a decade, Tunda Vandha, in Kutch district of Gujarat, has been transformed from a sleepy village of mud houses populated by cattle breeders into a prosperous industrial town.

In its vicinity are two of India's largest coal-fired power projects—[Tata Power Co. Ltd's](#) subsidiary [Coastal Gujarat Power Ltd](#) (CGPL) has set up a 4,000 megawatts (MW) plant and has plans to add 1,600MW more; [Adani Power Ltd](#) has built a 4,650MW power station.

The two plants brought Rs.40,000 crore into the local economy and changed the lives of local residents—the Rabari community, which has been widely represented as the face of Gujarat in tourism billboards, the menfolk clad in all white, sporting a turban; and the women in black *ghagra-cholis*, wearing gold or silver jewellery.

Dotted with *kutchi bhungas*—circular mud houses with thatched roofs—the place was a quaint tourist destination until early 2000 and attracted film-makers like [J.P. Dutta](#), who shot a part of his movie, *Refugee*, in the village, said [Mandabhai Rabari](#), deputy sarpanch (headman).

Mandabhai and his family sold about 5 acres of land to Adani Power for about Rs.30 lakh. His wife, Lakhiben Rabari, who once made Kutchi handicrafts, now works as a contract worker at the Adani Power plant.

“Earlier I earned Rs.1,500 per month by selling hand-woven garments. My eyes used to ache. Today I earn Rs.5,000 per month. Everybody in the village earns directly or indirectly from these two factories,” Lakhiben said.

With its remarkable transformation from an arid wasteland into an industrial hub over the past decade, Kutch is held up as a showpiece of the so-called Gujarat model of development that four-time chief minister [Narendra Modi](#), the Bharatiya Janata Party's (BJP's) prime ministerial candidate in the 2014 general election, says he wants to replicate in the rest of India.

The 63-year-old Modi has used his governance record in Gujarat, its rapid growth and the dynamism of its industry—a kind of “Shining Gujarat” campaign—to try and outshine his political rivals in the election.

Critics say that in the quest for big-ticket industries, from automobiles to so-called ultra-mega power projects, the state government has neglected basic social infrastructure such as education and sanitation. They say there has also been a price to pay for rapid industrialization—displacement of poor inhabitants, for instance. Sceptics question whether the Gujarat model can even be implemented on a national scale.

“Numerous initiatives that the state of Gujarat has taken in recent years confirm the unqualified faith of the rulers in the workings of the market and in the capacity of the private investor to meet the development needs of the state,” said [Atul Sood](#), a professor at Jawaharlal Nehru University (JNU) in New Delhi and a contributor to the book, *Poverty Amidst Prosperity: Essays on the Trajectory of Development in Gujarat*.

“As a result, governance in Gujarat has been fashioned to the needs of the private investor with public investment taking a back seat. So unquestioned is the faith in private investor that the investor is not just bringing the investment but also deciding the priorities of development,” Sood said.

Kutch benefited partly from a special tax holiday offered by the BJP-led central government in 2001 after a huge earthquake that left several thousand people dead and devastated the region. But it’s the two big power projects and an Adani Group port that have been at the vanguard of the region’s subsequent transformation.

Rajdeepsinh Jadeja, 24, who worked as a salesman in Mumbai, has started his own fabrication business in Tunda Vandha. “Emigration has stopped and people like me have returned to our village, thanks to these two large projects,” he said.

The Gujarat government did help the two companies acquire land for the power projects, but villagers say it was done with their consent. Tata Power and Adani Power did take over some grazing land, but, in return, provided cattle feed for those who owned the land, they said. The two companies also built toilets and a school for the villagers.

Modi’s detractors such as Congress vice-president [Rahul Gandhi](#) and [Arvind Kejriwal](#), chief of the Aam Aadmi Party (AAP), say the Gujarat model is over-hyped and is a synonym for crony capitalism; they say it has only benefited a few big industrialists who received land at throwaway prices.

Big business

The Ahmedabad-based Adani Group, with \$8.7 billion in revenue in 2013, runs India’s largest merchant port in Mundra in Kutch, which has the capacity to handle more than 100 million tonnes (mt) of cargo.

The Adanis have also built India’s largest multi-product special economic zone (SEZ) in Mundra. The Modi government announced an SEZ policy in 2004 for the state—before the central government’s 2005 policy—to encourage the development of the export-oriented industrial enclaves. The policy offers easy labour laws and tax exemptions.

The Adani Group has acquired a lot of wasteland from various governments, including the Congress-backed one in 1993, but it was between 2005 and 2007 that it secured the largest portion of about 5,000 hectares out of a total 7,300 hectares, said an official at the group who spoke on condition of anonymity.

In reply to a question, state revenue minister [Anandiben Patel](#) informed the House in March 2012 that 54,656,819 sq. m (about 5,400 hectares) of land was given for Adani’s SEZ project at prices ranging from Rs.1 to Rs.32 per sq. m till December 2011.

Most of the investment and land acquisition for the project happened after 2005. The Adanis have invested about Rs.20,000 crore in the Mundra SEZ and port project, generating direct and indirect employment for about 150,000 people, said the same Adani group official cited above. “Adani has emerged as one of the country’s largest business houses in the last one decade or so. They were nowhere in the picture in the mid-nineties. The company has certainly benefited from the largesse of the state government,” said [Dwijendra Tripathi](#), an eminent business historian. [Gautam Adani](#), boss of the Adani Group, has in published interviews denied charges of crony capitalism and said he received no special favours.

“Crony capitalism should not be there. I definitely agree with that. But how you define crony capitalism is another issue,” Adani, 52, was quoted as saying in a recent interview with *Reuters*. “If you are, basically, working closely with the government, that doesn’t mean it’s crony capitalism.”

The state government, Adani said, had been a facilitator.

“You can say very well that land has been given to Adani,” he told *Reuters*. “So what? Has Adani taken away land and not developed anything?”

To be sure, state and national governments across the world offer incentives to attract industries and investments. And Gujarat doesn’t seem to have singled out Adani for any special treatment. Economist [Bibek Debroy](#), author of the book, *Gujarat: Governance for Growth and Development*, also argues that the state government’s policy of helping companies acquire land for industrial projects is all-encompassing and doesn’t exclude small enterprises.

“One view can be that no industries should be given cheap land or any fiscal incentives,” Debroy said. “Once you decide to give land for industries and form a framework, as has been in the case of Gujarat, there is no digression and this is very important. Anyone willing to set up an industry gets equal opportunity.”

Closer to Ahmedabad, the principal city in Gujarat, another village—Sanand—has been transformed into a bustling industrial enclave and is spoken of as the next automobile industry hub after the Sriperumbudur-Oragadam belt in Tamil Nadu, which accounts for 40% of the country’s automobile production.

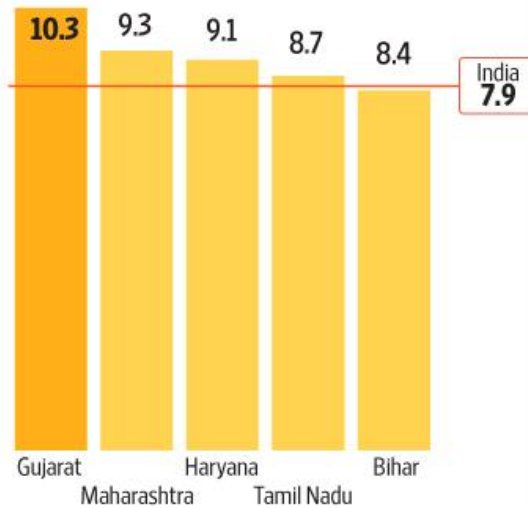
It all started in 2008 when [Tata Motors Ltd](#) turned to Sanand to set up a factory for making its [Nano](#) cars after protests by land owners drove it out of Singur in West Bengal. The state government offered some lucrative incentives to the car maker, including a soft loan of Rs.9,500 crore—at 0.1% rate of interest, repayable over 20 years.

KEY METRICS

GDP GROWTH

(2002-03 to 2011-12)

(in %)

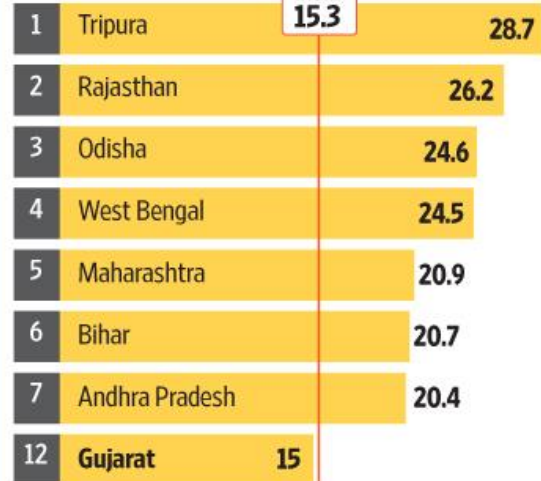


(Sikkim, Uttarakhand and Delhi are the only states that have grown faster than Gujarat.)

POVERTY ALLEVIATION

Reduction between 2004-05 and 2011-12

(Rank)

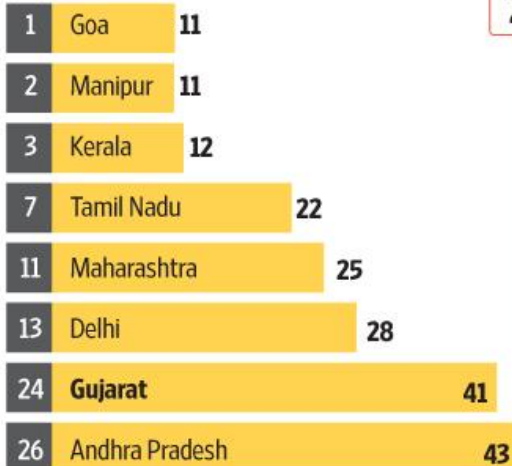


Figures show reduction in people below poverty line, in percentage points

INFANT MORTALITY RATE

(Deaths per thousand, in 2011)

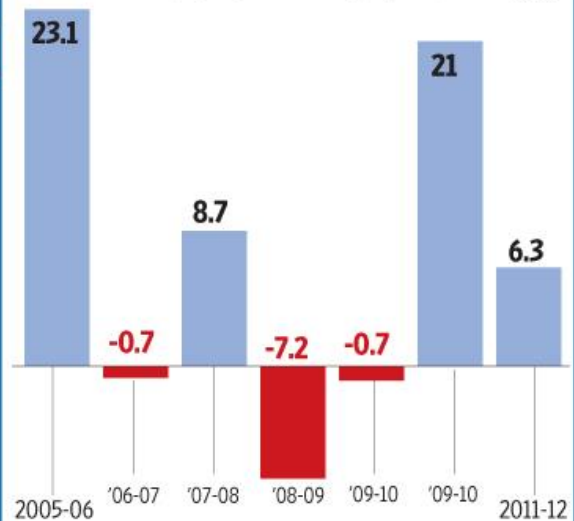
(Rank)



AGRICULTURAL GROWTH

(As compared with the national average growth of 3% between 2005-06 and 2011-12, Gujarat grew at 11% during the period.)

(in %)



Source: CSO estimates, SRS Bulletin, Office of the Registrar General and Census Commissioner, Planning Commission estimate based on the Tendulkar formula

While Nano's production at Sanand is yet to reach even half its installed capacity of 250,000 cars per annum because of a slump in demand (the car's been a flop), various other small and big industries have come up in the area in Tata's footsteps.

[Ford India Pvt. Ltd](#) followed [Tata Motors](#) to Sanand and has invested nearly \$1 billion in its new factory. The state-run Gujarat Industrial Development Corp. (GIDC) has acquired at least 2,000 hectares of land in Sanand to promote manufacturing. And so far, 425 companies, including [Bosch Rexroth India Ltd](#), [Hitachi Hi-Rel Power Electronics Pvt. Ltd](#), [Colgate-Palmolive Co.](#) and [Nestle India Ltd](#), have finalized plans to set up units on 450 hectares of land involving a total investment of about Rs.6,000 crore, said a government official close to the development.

Analysts have sat up and taken notice. A March report by US investment bank Goldman Sachs said India can add 40 million jobs in the next decade if states enact flexible labour laws such as in Gujarat.

Modi's governance style

Modi became Gujarat chief minister in October 2001, nine months after the earthquake.

Gujarat's image and reputation took a beating among investors after communal riots broke out in the state in 2002.

At a conference organized by the Confederation of Indian Industry (CII) in New Delhi in 2002, some leading businessmen asked Modi how he planned to regain the confidence of industrialists in Gujarat.

In reply, Modi came up with the idea of holding a biennial investment event called the Vibrant Gujarat Investors' Summit, launching it in 2003.

These events have seen companies and state government sign memorandums of understanding (MoUs)—pacts pledging investment—worth about Rs.40 trillion till 2011. Less than 10% of the money has actually flowed in.

The summits have tried to project Gujarat as the best investment destination in the country, besides providing a platform for industrialists including [Mukesh Ambani](#), [Ratan Tata](#), [Anil Ambani](#), Gautam Adani and [Anand Mahindra](#) to come and invest in the state, while showering praises on Modi and his governance style.

Ambani's [Reliance Industries Ltd](#) has been one of the largest investors in Gujarat, pouring at least Rs.1 trillion over the last 10 years, much of it going into expanding its refinery project in Jamnagar.

Modi has streamlined the process of clearing projects and tried to move to a so-called "single-window" system so that a person wanting to start a business in Gujarat has just one touchpoint with the government for all approvals. And this has benefited all forms of investments, said [Nilanjan Mukhopadhyay](#), Modi's biographer.

A key initiative Modi took in his early years as chief minister was the implementation of the *Jyotigram Yojana*—aimed at ensuring round-the-clock power supply to all villages of the state. Launched in 2003, the scheme was rolled out in most of the state's 18,000 villages by 2006 and led to improvements in both irrigation and the quality of life. Water for irrigation is supplied for eight hours a day in Gujarat, an accomplishment few Indian states can match. Its success inspired the launch of a similar scheme in 2006 at the national level.

The Modi government has tried to remove political interference in state-run companies by ending the practice of naming political appointees as chairmen. Loss-making public sector units like [Gujarat State Fertilizers and Chemicals Ltd](#) (GSFC), [Gujarat Alkalies and Chemicals Ltd](#) (GACL) and [Gujarat Urja Vikas Nigam Ltd](#) (GUVNL) and the erstwhile Gujarat Electricity

Board (GEB) were restructured and returned to profits by 2006. From being a power-deficit state, Gujarat today produces surplus power.

Denied entry into the West for about a decade because the 2002 communal riots in Gujarat happened under his watch, Modi has instead travelled to China a few times. Mukhopadhyay, who has written a biography on Modi titled *Narendra Modi: The Man, The Times*, says that the chief minister is quite inspired by the Chinese model and has spent a lot of time studying it. Modi combines Hindu cultural nationalism with economic development, just as the Chinese model is an amalgam of Han nationalism and rapid economic growth, says [Vivian Fernandes](#), author of a recently published book titled *Modi: Leadership, Governance and Performance*. “The Vibrant Gujarat summit during Navaratri 2003 had an uncanny resemblance to the development of Shanghai’s Pudong New Area as the ‘dragonhead of the Chinese economy’ after the Tiananmen Square massacre of 1989. Pudong’s development was meant to counter the effect of Western sanctions. Also, I see Kutch as a Shenzhen-like metaphor for port-led development in Gujarat,” Fernandes added.

Economic freedom

Like the Chinese again, Modi seems to have a fondness for big projects—be it building what is proposed to be the world’s largest statue, that of India’s first home minister [Vallabhbhai Patel](#) or setting up a new city in Dholera.

Located about 80km from Ahmedabad, Dholera is being built on the lines of Shanghai. It’s been conceived as a futuristic city, built over an area of about 360 sq. km, where every home will be connected with gas, water, Internet and electricity through a smart grid.

“The overall perception of Gujarat has drastically changed since 2001, and today it is among the first three choices (Maharashtra and Tamil Nadu are the other two states), if not the first, for anyone looking to invest in India,” said [Piruz Khambhatta](#), chairman and managing director of [Rasna Pvt. Ltd.](#), an Ahmedabad-based company that sells beverages and food products under the popular brand [Rasna](#).

“There is industrial peace and the government’s approach is pro-business which means files are not unnecessarily held up. The education and healthcare systems have also improved under Modi’s leadership. One also needs to laud the entrepreneurial spirit of farmers who have not obstructed projects as in other states,” said Khambhatta.

The *2013 Economic Freedom of the States of India* report, published by Cato Institute with Indicus Analytics and the Friedrich Naumann Foundation in New Delhi, put Gujarat at the top of an index of governance quality, growth, citizens’ rights, and labour and business regulations among the country’s 20 largest states.

The Gujarat model under Modi’s rule has laid emphasis on economic growth that would ultimately reduce poverty and create employment—some would say classic trickle-down at work.

“It is a well-accepted model, focusing on basic amenities like roads, electricity and water. However, Modi has implemented it very efficiently. The government has encouraged private participation in areas like electricity and, as a result, Gujarat is today a power surplus state,” said [Ravindra Dholakia](#), who teaches economics at the Indian Institute of Management-Ahmedabad (IIM-A).

Modi’s style of governance is based on certain principles drawing on market signals, public-private partnerships that also include the social sector, decentralization of power, and an able administration that does not encourage open-ended subsidies, economist Debroy said.

To be sure, experts question whether the Gujarat model of development can be replicated at a national level in a country with wide regional disparities and political dispensations of varying persuasions in charge of state governments.

“Modi’s political philosophy is to give more flexibility and freedom to the participants. He provides more market opportunity to both the consumer and producer. If you consider this, it can be made applicable everywhere in the country,” IIM-A’s Dholakia said. “But if you go into the specificity of the Gujarat model, like encouraging industrial growth or investing more into farming, then it won’t work everywhere. Every state has its own way of maximizing growth. Modi has time and again opposed centralization of power with the UPA government. According to me, his role at the centre will be of an advisory and facilitative (nature) and not dictatorial.” Foreign investors hope he would be able to adopt on a national scale policies of the kind he has put in place in Gujarat, by pursuing an anti-corruption drive, reducing inequality and improving the infrastructure, said [Daniel Murray](#), head of research at EGF Asset Management. ([See Street Wisdom](#)).

“However, talk is cheap,” he added. “While Modi does have some pedigree as a successful reformer at the state level, to maintain foreign interest, it will be necessary for policy implementation to be swift and decisive after the election, something which may be more difficult to do in national government.”

Critics have their say

The Modi model has no dearth of critics and for good reason, perhaps. For there have been mis-steps along the way.

E-governance initiatives, such as the computerization of land records, have helped check petty corruption, but not removed it. While Modi has built a personal image of an incorruptible politician, two of his ministers, [Babubhai Bokhiria](#) and [Purushottam Solanki](#) have been named in financial scandals and are fighting legal battles. Bokhiria has been convicted by a local court in Porbandar for illegal mining and Solanki is accused of involvement in a Rs.400 crore fishing scam.

In September 2013, a panel headed by [Raghuram Rajan](#), now the Reserve Bank of India governor, recommended a new index of backwardness to determine which states need special aid. The committee ranked Gujarat 12th out of India’s 28 states.

National Crime Records Bureau data shows that since 2001, when Modi assumed office, 6,466 people employed in agriculture have committed suicide in Gujarat. To be sure, the data also shows 26,587 farmers in Andhra Pradesh killed themselves in the same time, and 44,769 in Maharashtra did too. And both states were ruled, for at least part of the period under consideration, by Congress governments.

Others point out that Maharashtra and Tamil Nadu have been more successful than Gujarat in drawing foreign direct investment. “Gujarat’s growth story is a great piece of fiction which is marketed well through a lot of PR (public relations) agencies and other compradors. The real-life condition of the (project- evicted) farmers and the poor is constantly blocked by this propaganda machine,” says [Navdeep Mathur](#), who teaches public policy at IIM-A.

Modi’s political opponents accuse him of making tall claims.

In 2005, Modi made a dramatic announcement that the state government-owned Gujarat State Petroleum Corp. (GSPC) had discovered 20 trillion cu. ft (TCF) gas in Andhra Pradesh valued at \$50 billion and production was to begin by 2007. However, the directorate general of hydrocarbons (DGH), the country’s top nodal agency for oil and gas production, has till date

certified less than 2 TCF as recoverable reserves. GSPC is yet to begin production from the block.

In September 2008, the Gujarat government ordered 13 profit-making state-run companies to contribute 30% of their profit before tax into a welfare fund.

The move led to a sharp fall in the shares of some of these companies and drew criticism that the interests of minority shareholders were being bypassed. The state had to finally withdraw the move after some investors went to court.

The Sabarmati Riverfront project in Ahmedabad, likened to the London Docklands, the Singapore waterfront and Mumbai's Marine Drive, was opened to the public in 2012.

That project, which led to the beautification of the city with the river Narmada flowing through it, also caused the displacement of poor residents.

It was only after they took legal measures that the Gujarat high court ordered the city's civic body to rehabilitate and resettle about 11,000 affected families.

Misgivings

"Their livelihood has been lost and the place where many of the evicted families have been rehabilitated is far from their work area, with some residing near the city's garbage dump-yard, devoid of basic civic amenities," said Beena Jadhav, a city-based activist who works with slum dwellers and displaced people.

The Shanghai-like Dholera project is expected to cost Rs.38,000 crore and create housing facilities for 500,000 people over 30 years, according to estimates by UK-based Helcrow, the company that planned the development. But Dholera is a low-lying area that gets flooded in the monsoon and the cost of landfills will cause the project cost to shoot up, said an official familiar with the project, who spoke on condition of anonymity. The first phase of the city was to be completed by 2016, but it is running behind schedule and land acquisition has been stuck because of local protests.

Another much-publicized project is a business hub being built by the [Gujarat International Finance Tec-City Ltd](#) (GIFT) that has been showcased as the state's answer to global financial centres.

But while the project has begun and two towers have already been built, it has failed to draw many investors.

Even local residents who have benefited from the Modi model have their misgivings.

"Villagers of Navi Nar, Goyar Sama and Luni in Kutch are fighting a legal battle in the Gujarat high court to avail the *gauchar* (pastoral) land that has been given to the Adani Group by the state government. A final decision in the matter is pending," said lawyer [Anand Yagnik](#), who is representing some of the villagers.

Adani Group did not respond to an email query seeking comment.

In Tunda Vandha, resident Vanka Raja Rabari said: "One of the major challenges we face is of air pollution, given the proximity of the plants to our houses. The coal dust from the Tata Power factory enters our house and could cause severe health problems."

The villagers have complained to the state pollution control department and some action has been initiated but our problem has not been completely resolved, he added.

[Hardik Shah](#), member-secretary of the Gujarat Pollution Control Board, said the department had served a show-cause notice to Tata Power and sought an action plan to control emissions from its plant.

"The company would like to reiterate that the ambient air quality in the area has not deteriorated due to power plant operations... In addition to the green belt, the company has set up wind

barriers for preventing coal dust from the coal stockpile getting airborne due to coastal winds,” Tata Power said in response to an emailed query.

There’s lustre and hype surrounding Modi’s Gujarat model discourse, but there are fundamental concerns as well. The change is symbolized above all by the Rabari community of Tunda Vandha, as the face of Gujarat abandons its traditions and way of life to make for industrial development.

“We are losing our traditional culture, be it living in Bhungas or herding our cattle. But we are only to blame for it, for our next generation is not interested in preserving these values,” said Vanka Rabari.