

## Gujarats battered reputation

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**Till this month, the state was showcased as a safe and lucrative destination for investment. Now, all that has changed. Suresh R Menon looks at the impact of the riots on trade and industry**

It was only last month that the state government had made a big splash with the "Resurgent Gujarat" business meet. Speaker after speaker praised the speed with which the people had put the devastation caused by the January 26, 2001 earthquake behind them and started rebuilding their enterprises. Gujarat was showcased as a safe and lucrative destination for industries and investments. Nothing could have belied that perception more dramatically than the carnage of the past few weeks. Today, only a die-hard optimist would consider making fresh investments in the state. As for existing trade and industry, the recovery is unlikely to be as rapid as the one that took place after the earthquake.

A conservative estimate of the financial losses suffered by Gujarat during the last two to three weeks when commercial activity came to a virtual standstill in the post-Godhra carnage is put at Rs 2,500 crore. But more than the financial implication, the damage to the psyche of the small businessmen has been phenomenal.

Unlike the targetted riots, the impact on industry has been all-pervasive. While only select sectors have had to bear the brunt of a chain of earlier disasters, this time it is an altogether different story.

Units operating in automobile, chemical, diamond, engineering, entertainment, hotel, pharmaceutical, transportation, textile and tourism sectors have all had to take severe hits — direct and indirect.

In the automobiles sector, General Motors India (GMI) is reported to have suffered a 15 to 20 per cent production loss at its Halol plant following the mob attack on March 1, 2002.

According to GMI marketing official Rajiv Chaba, "We are in a very awkward situation; it's already clear that we won't be able to produce the 1,300 cars targeted for this month."

A showroom of a top dealer in Ahmedabad S P Shah was set on fire by a rampaging mob. Eighteen Honda City cars and 25 Opel Corsas were reduced to ashes. Eight Opel Astras were also gutted along with the trucks in which they were being transported.

Immediate losses to the chemical industries in Ahmedabad, Ankleshwar, Bharuch and Surat (which is normally referred to as the "Golden Corridor" of Gujarat) amount to more than Rs 300 crore, said Satish Shah, regional chairman of the Basic Chemicals and Cosmetic Export Promotion Council (Chemexcil).

Production has been adversely affected in chemical, dye-intermediaries and dyestuff units, which provide employment to over a lakh people, specifically due to absenteeism and the non-availability of local labour.

The production loss in the diamond industries of Gujarat, which accounts for the major share of India's exports of the commodity, is put at Rs 325 crore. Pravin Nanavati, president of Surat Diamond Association said, "Diamond output dropped 30 per cent during the riots."

According to Vallabhshai Patel, president of Ahmedabad Diamond Association, the maximum number of diamond cutting and polishing units are located in Ahmedabad's Bapunagar area, which is one of the most affected and communally sensitive areas of the country. About 1.10 lakh labourers of Ahmedabad lost earnings of Rs 15 crore during the first five days of riots, when most of the units were closed.

Out of diamonds worth roughly Rs 36,000 crore exported out of India annually, almost 90 per cent are cut and polished in Gujarat. The riots may result in the shifting of the entire industry out of Gujarat, fear industry leaders.

In the Halol-Kalol belt in Panchmahals district, even today most engineering units are crippled due to absenteeism. Harish Sheth, managing director of Halol-based Gujarat Setco Clutch Ltd, said, "Soon after the eruption of violence, most workers fled to their native villages. Wafer-thin attendance has brought production down to extremely low levels."

Gujarat Setco is a supplier of clutches to the Tatas and exports a substantial volume to the UK and the US among other countries. Naturally, the company is worried about the long-term implications of such production disruptions. General Motors, ABS Plastic and Safari are some of the well-known companies that have

their units in Halol.

The situation is no better for industries in Vadodara district which, incidentally, suffered negligible losses in the wake of the killer earthquake last year. About 80 per cent of the workers in about 1,200 units have gone back to their native places and will not be coming back till complete normalcy is restored.

Bhupendra Parikh, vice president of the Forum of Industries Association & Chambers, Vadodara raised several demands like extension of the time limit by three months for the payment of income tax and excise duty, raising the limit of letters of credit, banks deferring the recovery of interest by two months and extending loans to industries towards payment of employees' salaries.

Hotels in Ahmedabad and elsewhere have been the worst victims of arson and looting. According to Ahmedabad Hotel Owners' Association (AHOA), about 600 hotels were looted and then set on fire. Putting the total loss at Rs 250 crore, Narendra Brahmhatt, AHOA joint secretary, elaborated, "Hoteliers all over Gujarat have suffered heavy losses. Not just in cities like Ahmedabad and small towns like Patan and Mehsana, even the dhaba-type hotels located on highways were targeted by rowdies."

Complementary businesses like the traders of provisions, vegetables, edible oil, milk and milk products have lost trade worth Rs 55 crore. Newly built cine-multiplexes, theatres and amusement parks remained completely closed for more than a week in the State. With the tension continuing and people preferring to remain indoors, these establishments have been unable to meet even their running expenses since then.

Though Gujarat can by no stretch of imagination be considered a fascinating tourist destination, market analysts estimate loss to the tourism industry at Rs 1.5 crore per day. Repeated natural disasters like cyclone and earthquake in the State followed by the 9/11 terrorist attack on the World Trade Centre in USA had already dealt a severe blow to the tourist traffic.

Even before the tourism industry could recover, the riots have added another serious setback. According to sources, because of the nature of the industry, it takes herculean efforts and a long time to restore normalcy to tourism activities after such incidents.

US-based World Travel and Tourism Council has put Gujarat on the watchlist and most tourist operators have cancelled their package tours and stopped further bookings for Gujarat. The Royal Orient Train, a major tourist attraction, has had to cancel its four trips. The losses to the tourism business in Gujarat are simply incalculable said an operator.

Fare and freight losses everyday due to the clogging in movement of wagons and cancellation of journeys is estimated by the Ahmedabad region of Western Railway at Rs 1 crore.

"The amount refunded to some 18,000 passengers in the first three days of March was Rs 54.08 lakh," said Raj Kumar Meena, chief area manager and officer on special duty, Western Railway, Ahmedabad. As many as 104 railway staff quarters were burnt in four railway colonies located between Vatva and Sabarmati. The actual loss of property destroyed is yet to be estimated.

The Gujarat State Road Transport Corporation (GSRTC) has estimated its loss at Rs 12.50 crore. Transport companies have lost Rs 70 crore worth of business apart from the Rs 70 crore worth of goods burnt in godowns and loaded trucks.

Akhil Gujarat Truck Transport Association's president, Nandlal Thapar is more emphatic, "The industry has lost business worth Rs 500 crore. There are 3,00,000 trucks plying in the State; they carry 22 million tonne of goods per day. With the suspension of transport operations, the industry has come to halt."

More than 1,000 trucks were damaged and quite a few drivers were killed on the highways, leaving transporters and truck drivers under a spell of fear.

After four days of riots, claims have started flooding the insurance companies. As on March 8, the four general insurance companies had registered a total of 2,131 claims involving Rs 96.21 crore in Ahmedabad alone.

Many companies have lodged claims under the Riot, Strikes, Terrorism and Malicious Damage Cover (RSTMDC). Insurance companies had to refrain from entertaining any new claim till March 15 apprehending a further deterioration of the situation.

The Gujarat Chamber of Commerce and Industry (GCCI) has pleaded with the authorities to accede to some demands of industries for urgent relief. Relaxation in electricity duties, extension of deadline for payment of sales tax and also for payment of excise duty are some of the main pleas.

The government of Gujarat has not responded yet. However it is learnt that the state government has already drawn up an economic package for units hit by the riots and will be announcing it in the Vidhan Sabha by the end of this week (before March 23).

Meanwhile, the State Level Banks' Committee is also planning to announce various relief measures as per the standing guidelines of the Reserve Bank of India

soon.

The Confederation of Indian Industry (CII) had convened a meeting to consider commissioning of a study to assess the economic impact of the situation arising out of the virtual paralysis of administration.

In the meeting, it was decided to involve government officials, academicians and NGOs to revive the economy and to create an "Ekta Rehabilitation Fund" supported by both the government of Gujarat and the centre.

CII has also decided to approach the National Council for Applied Economic Research for a study of the social and economic development of the communities affected by the violence.

Can all this put Gujarat back on track? Many now say that an exodus of industries to other states is a distinct possibility. Madhya Pradesh and Chhattisgarh may manage to woo a big chunk of Gujarat's entrepreneurs due to their proximity and comparatively peaceful environment.

There are some 500 joint-venture firms, mainly in the areas of software development and manufacture of parts and components, who are likely to be the prime candidates for such relocation.

An analyst who specialises in a global accounting and consulting firm says, "The image of Gujarat has definitely been tarnished and many multinational companies are even drawing parallels with the Palestine-Israel conflict."

Unless some immediate and serious attempts are made to dispel the gloom that has descended on the state after the Godhra carnage, infrastructure projects at Positra, Dahej, Palej, Hazira and Pipavav may face irrecoverable losses owing to the loss of enthusiasm of foreign partners.

Hence, the challenge before Gujarat this year is even more daunting than the one to rebuild towns and villages that disintegrated in the wake of the 2001 earthquake. Here the major thrust would be on rehabilitating the psyche of the people — and it will take more than money, bricks and mortar to repair that.