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Dispelling the import bogey

Liberalisation of consumer good imports carries no risk of dislocating domestic industries, says Uttam Gupta

RECENTLY, fianance minister Manmohan Singh's recipe for import liberalisation in the consumer goods sector has drawn strong opposition from none other than commerce minister Pranab Mukherjee. The issue has since snowballed into a major controversy with both the bureaucrats and their respective political bosses in the two most important economic ministries i.e. finance and commerce, taking extreme positions.

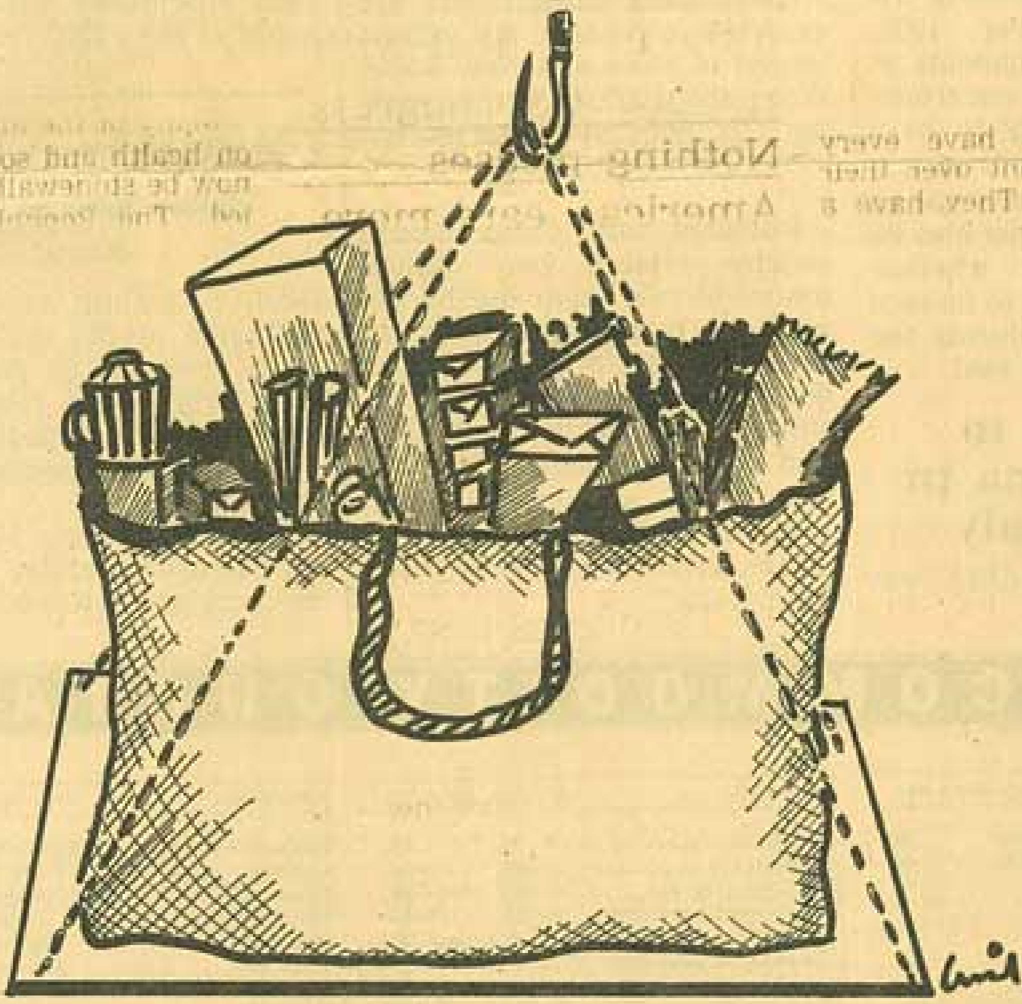
The former strongly believes that domestic manufacturers of consumer goods must face upto competition from imports now and that, during the last three years, the government has given them a level playing field by reducing customs duty on import of capital goods, raw materials and components. In contrast, the commerce ministry has argued that opening up of the consumer goods sector would exterminate the small scale industries, besides adversely affecting growth in the public sector and jeopardising employment.

Industrial houses in the consumer goods sector have no particular reason to get worried over liberalisation of consumer goods import, as these are not capital intensive industries and consequently, their financial stakes are modest. With the labour component being much cheaper by international standards, there is tremendous room for flexibility in terms of achieving cost competitiveness. And yet, if they are scared of competition from imports, that is predominantly because they do not want their hefty margins to get eroded. That they have enjoyed monopoly profits all along in the past is an incontrovertible fact. It is totally unfair and unwarranted to allow a few manufacturers to prosper at the expense of the consumers. And, this is precisely what the finance minister would seem to be aiming at.

The threat from imports is often exaggerated. Liberalisation does not automatically lead to flooding of domestic market with cheaper imports, which may even be desirable in the systematic exploitation of the consumer by the indigenous is the rule. Customs duty at appropriate levels may still be used to regulate imports. Besides, the imports by virtue of the sheer factor of logistics, face a natural disadvantage in terms of the availability in the international market, ocean transportation, handling and clearing at Indian port and internal movement.

The domestic manufacturer faces these constraints to a much lesser extent. Moreover, he can cater much more effectively to the consumer preferences, which even a MNC cannot easily match. Consumer demand particularly in rural India takes deep root in the cultural ethos of the countryside which the local industry understands best.

The small scale sector may face some adverse repercussions. The problem is not so much from imports but



from the medium and large scale industries within the country. Already, in the name of achieving economies of scale, technological upgradation and increasing exports, the government is contemplating allowing the big industrial houses to hold majority equity in areas reserved exclusively for the small scale sector.

The former on their own or in collaboration with the MNCs are already running over the thousands of small scale industries. The government should seriously address this source of threat which would have devastating employment ramifications rather than getting bogged down with non-issues.

The fear of adverse effect on employment in the public sector has been blown out of proportions. The biggest enemy of jobs presently is the persistent neglect of efficiency, cost effectiveness, work ethos in majority of the PSUs.

Now, when the reform process is thrusting the need to restructure or privatise or consider vacating the consumers good territory, large scale loss of jobs is inevitable. Liberalisation of consumer goods imports may, on the other hand, even create more avenues for employment through setting up of the procurement and distribution network for selling imported products.

More than apprehensions from the employment angle or the threat to the small scale industries, commerce minister Pranab Mukherjee's main worry was the possible impact on exporters.

The commerce ministry has even argued that with various direct supports hitherto available i.e. CCS or IPRS to exporters already withdrawn, taking away the support in the form of SIL, would virtually pull the carpet from underneath and substantially undermine the export drive. This clearly tantamounts to admitting that the good export performance i.e. 20 per cent in dollar terms during 1993-94, cannot be entirely related to the inherent competitiveness of Indian exports in as much it exposes the hollowness of the oft-repeated claim that increase in exports demonstrates the success of economic reforms. The much lower growth of about 9 per cent during the first four months of 1994-95 i.e. April-July 1994, brings into sharp focus the weaknesses of the economy.

The RBI has categorically ascribed the decline during the current year to domestic inflation adversely affecting the competitiveness of our exports besides exportable surplus being diverted for sale in the domestic market. Besides, there is the added factor of uncertainties in the traditional markets of FSU and Russia and problems connected with securing higher quota for exports to developed countries under MFA.

Both the finance and commerce ministries, are committed to maintaining a growth in exports of 20-25 per cent during the remaining three years of the Eighth Plan period. But, this goal can't be accomplished by adopting a segmented approach. Neither the continuation of subsidy to exporters nor special privileges like the SIL or the IPRS for engineering exports, nor a further depreciation of the rupee alone would help in the process.

We must not forget that even when the export subsidy was as high as 20 per cent of the GDP, prior to 1991-92, the growth in exports was far from satisfactory. During the reform period, even as the steep depreciation of the rupee has contributed to some acceleration during 1993-94, the competitive advantage conferred by it has been more than offset by rampant domestic inflation.

The issues that need to be addressed in a coordinated manner are containment of the Budget deficit, controlling inflation, check on administered price of inputs, restructuring of public sector enterprises etc. The government has, time and again, reiterated its commitment to these vital facets of reform, but without any marked success so far.

If only, the government could live upto these promises, there would neither be any need for continued subsidy nor for any further depreciation of the rupee. Contemplated liberalisation of the consumer good imports which is unambiguously consumer friendly and carries no risk of causing any major dislocation in the domestic industries need not cause any worry.