

Epitaph for the small industry

In the name of liberalisation, let the government not prepare the ground for the decimation of the SSIs, says **Uttam Gupta**



entrepreneur setting up a unit in the SSI sector are remote.

During the 70s and 80s, the SSI struggled hard to get a fair deal from the government and somehow managed to grow. In the 90s, however, they have been systematically sidelined even as the fascination of the policy-makers for the MNCs in the emerging global networking grew. Last year, the government even constituted a committee — popularly known as Abid Hussain committee — to review the policy of reservation *de novo* and make suitable recommendations.

However, much to the chagrin of the government, initially the committee was reported to have strongly recommended continuation of the reservation in respect of all the 836 reserved items. Taking note of the inability of the SSI industries to do as much as was expected of them by way

of technological innovations to enhance their competitiveness, the committee had, then, observed that this was not due to any lack of expertise or capabilities, but mainly due to constraints of inadequate credit from FIs and banks, as also due to untimely and short payments by the large companies including the government undertakings.

While this made a lot of practical sense, it is a mystery as to how in the report finally submitted to the government, the recommendations were reversed. The committee has now recommended complete dereservation of the SSI sector. That the government lost no time in making the announcement regarding dereservation of 14 items in the budget itself, further reinforces the apprehensions on this score.

Armed with the committee's report, the government could perhaps, have gone full

blast bidding goodbye to the policy of reservation. If it has restrained itself, this is mainly because of the unprecedented political fall-out of such a move. However, having made up its mind, in principle, the possibility of striking more blows — depending on the emerging political atmosphere — is not ruled out.

There is an urgent need for introspection as to whether the dereservation move is the right course in the interest of the national economy, and whether it will subserve the cause of social justice — the running theme in the common minimum programme (CMP). One cannot blindly give in to the much-trumpeted orthodox philosophy that once you have rapid growth of the GDP — induced by entry of MNCs — the lot of the poor will automatically improve.

The country is gripped by large scale poverty and unemployment. According to the government's own estimates, about 320 million people are below the poverty line. This is despite the high growth of six per cent plus of the reform era since 1991. Increasing gainful employment is the only viable means to alleviate poverty and enable the people to have a decent living.

Traditionally, agriculture has been the dominant provider of employment. Because of years of neglect and mismanagement, declining investment, deterioration in soil health and stagnating/diminishing trend in crop yields, agriculture is fast losing its shine. This has resulted in mass exodus from rural to urban areas.

Where can the swelling numbers in the pool of job-seekers be absorbed? Growth of employment in the private corporate sector in the 90s has been reduced to just half of the growth in the 80s. Things will not improve as further growth in this sector is highly capital-intensive, using mainly imported technologies. The governments, both at the Centre and states, are already overmanned. Due to budget compulsions, the stress is on trimming the size.

In the Central and state PSUs too, there is no scope for providing additional employment. On the contrary, there is the risk of heavy loss of jobs as the pressure for closing the perennially sick units builds up. In fact, the manner in which the BIFR is proposed to be recast through the contemplated amendment in SICA, will only accelerate the pace of closure. Restructuring of even profit-making PSUs too is aimed at retrenchment.

In sharp contrast, the SSI sector provides the only beacon of hope to the millions of unemployed. It is within the reach of the educated youth. In the name of liberalisation, let the government not prepare the ground for the decimation for the SSI sector.

THE industry minister, Mr Murasoli Maran, has strongly defended the government's decision — announced in the Union budget for 1997-98 — to dereserve 14 items, including ice-creams, biscuits and synthetic syrups, reserved for the small scale sector.

The minister has argued that "dereservation will not affect the truly small companies, but only, the large companies, including MNCs, operating in the sector with 'carry on business' (COB) licences". This tantamounts to an indirect admission of the fact that the MNCs already have a strong presence in areas exclusively reserved for the SSI sector; that they have been allowed to continue and grow despite the policy of reservation.

It goes without saying that the big companies were manufacturing the reserved items even before the policy of reservation came into effect in the 70s. They were, however, allowed to continue their operations even thereafter, by granting COB licence. Why were these companies not asked to pack up then?

Continuation of the MNCs under the COB cover could, perhaps, be justified on a temporary basis i.e., until such time as the small scale units came up on the required scale, thus preventing a sudden void in the production and availability of the reserved items. Moreover, the expectation was that the former would extend necessary support by way of providing technology and skills to the latter before eventually withdrawing from the scene.

Events have, unfortunately, not moved along the desired course. The MNCs have stayed much longer than necessary. No credible action has been initiated against them despite their having violated the conditions of the COB licences. Far from that, the MNCs have been encouraged to consolidate their hold on the SSI territory by creating loopholes in the policy of reservation. For instance, they were allowed to hold 24 per cent equity stake in the SSI companies. The MNCs could also operate in the reserved sector provided they undertook to export 75 per cent of the production.

In recent years, attempts have even been made to relax these conditions i.e., increase in the permissible equity holding to 49 per cent and lowering of the export obligation to 60 per cent; all in a bid to make going smooth for the MNCs once they have entered or to facilitate hassle-free entry of those waiting in the wings.

The threat will, however, be to the existing SSI units who cannot match MNCs' strength and hence, run the risk of being completely eliminated. Moreover, with a number of MNCs dominating the entire market, the chances of a small Indian