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SSIs: A prisoner of the multinationals

The arguments being put forward to allow MNCs to enter manufacture of SSI items are ridiculous. Doing away with reservations for SSIs would not only impede employment generation, it would also have other serious implications, says Uttam Gupta.

THE latest in the series of attempts to induce multinationals to make inroads into the manufacturing of SSI items, is a move initiated by the ministry of food processing industries to seek de-reservation of eight items which include, amongst others, biscuits, ice-cream, sugar confectionery, bread and pickles.

In a note submitted for consideration by the department of small scale industries in the ministry of industry, it has reportedly argued that keeping the items in the reserved list constrains the growth of food processing sector and compromises on the hygiene and quality of the food products. This is a totally perverse interpretation of the underlying facts.

That various industries, including those in the food processing segment, should grow at a rapid pace, is an issue over which there can be no disagreement. However, the critical point is how we bring it about and who should be the major players in production, distribution and marketing of these items.

In this context, we should not ignore the underlying philosophy of the SSI policy, that is to achieve growth by setting up of a large number of industries on small scale, employing labour intensive technologies which, in turn, ensures higher levels of employment and a better distribution of income.

Having decided, in principle, that we have to go in for small scale operation, we can look for a suitable technology. Here again, the emphasis must necessarily be on indigenously developed technology considering the enormous risk associated with import dependence. In the later route, you not only have the perennial burden of royalty and know-how fees, there is also a serious risk of the growth of the industry coming to halt, at any time, depending on the mood of the technology supplier.

The irony is that in several cases, while the manufacturing is being done by Indians using indigenous production processes, the sale and marketing is through the networking of the MNCs. Such a practice is totally contrary to the national economic interest and the government should work out measures to curb it.

For manufacturing on small scale, certain amount of investment in plant and machinery is unavoidable. In this respect, the existing limit for an industry to qualify for the SSI status is Rs 60 lakh. Whether or not the existing limit is adequate, is a question by itself. In fact, the government is already contemplating an increase in the limit to reflect the inflation factor.

In the name of increasing the investment limit, however, the government should not ignore the fundamentals i e manufacturing must continue to be with the small scale operators. In fact, it would be desirable to bring the supply and distribution too within their fold wherever these operations have been taken over by the MNCs. To argue that since investment requirements are a bit higher, therefore, the multinationals should be allowed to step in, is outrageous.

The investment ceiling, even as per the contemplated revised limit of Rs 3 crore, is peanuts by MNC standards. We should seek their support in setting up of highly capital intensive and technology intensive projects. There is no logic in inviting them to invest in the SSI sector. Financial support should be provided to the SSI manufacturer.

The point about hygiene and quality is being pushed to ridiculous heights. There is absolutely no linkage between hygiene and quality, on the one hand, and scale of operations, on the other. Such problems may exist even in medium and large scale industries. In any case, the solution to these lies with the authorities, who should take up their job seriously and bring the defaulters to book.

When, the Delhi administration can go to the extent of cancelling the licence of Kentucky Fried Chicken (KFC) restaurant on the basis that one or two flies could be spotted in the kitchen, there is hardly any reason to believe that the authorities cannot enforce quality standards in other industries. To a certain extent, we seem to have become prisoners of a mindset that only MNCs can ensure quality and good hygienic conditions.

Even as the MNCs have nothing more to give in addition to what we have and what we are capable of doing on our own, their unfettered entry into the manufacturing of items under the hit list of the department of food processing, will seriously undermine the viability of the existing SSI units and thwart the chances of more such units being set up. This, in turn, will throw hundred of thousands of workers out of jobs, not to talk of no increase in the level of employment.

The government has, time and again, affirmed its commitment to provide increasing employment, and is even spending huge money in various employment generating schemes e g the Jawahar Rozgar Yojana, the PM Rozgar Yojana and the KVIC led programme which provides loans to SSIs. All these efforts will be seriously jeopardised if the policy of SSI reservation is diluted by allowing the MNCs entry into areas reserved for the SSI sector.

The employment of women particularly in rural areas, is a major issue. About 20 per cent of the allocation under the Jawahar Rozgar Yojana is earmarked for supporting employment of women. Activities like making bread or pickles or rice milling, are best suited for them. By allowing multinationals into these areas, we shall be negating the very basis for providing employment to the women folk.

From the national economic viewpoint, the foreign exchange implications of allowing MNCs in the SSI sector are too important to be ignored. Given the huge profit margins in the SSI sector, their repatriation will make a deep cut in the limited foreign exchange reserves. This will be in addition to the loss of foreign exchange earnings consequent to the closure of domestic SSI units which export a part of their production.

The government may not feel the pinch now because of too much foreign exchange in the kitty. But, with the impending explosion in imports on various counts, apart from mounting debt servicing burden and exports not keeping pace, it will not be long before we plunge into a serious crisis.

It is imperative that we address these basic questions and galvanise various efforts to ensure that there is rapid expansion of the SSI sector for the benefit of the unemployed. Needless to mention that the fruits of this growth will remain within India and will be for the Indians.