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Stop encroachments

Dereservation will exterminate many SSIs and lead to substantial loss of employment, says Uttam Gupta

THE interpretation given by the law ministry that frozen desserts cannot be treated differently from ice-cream may appear to have given a jolt to the ambitious plans of MNCs to enter this sector. But this is only half the truth. From the government's angle, frozen dessert is now an item exclusively reserved for SSI units and MNCs like Brooke Bond Lipton India are therefore, prohibited from producing it; however, the fact remains that unless the authorities initiate appropriate action, the law has no meaning.

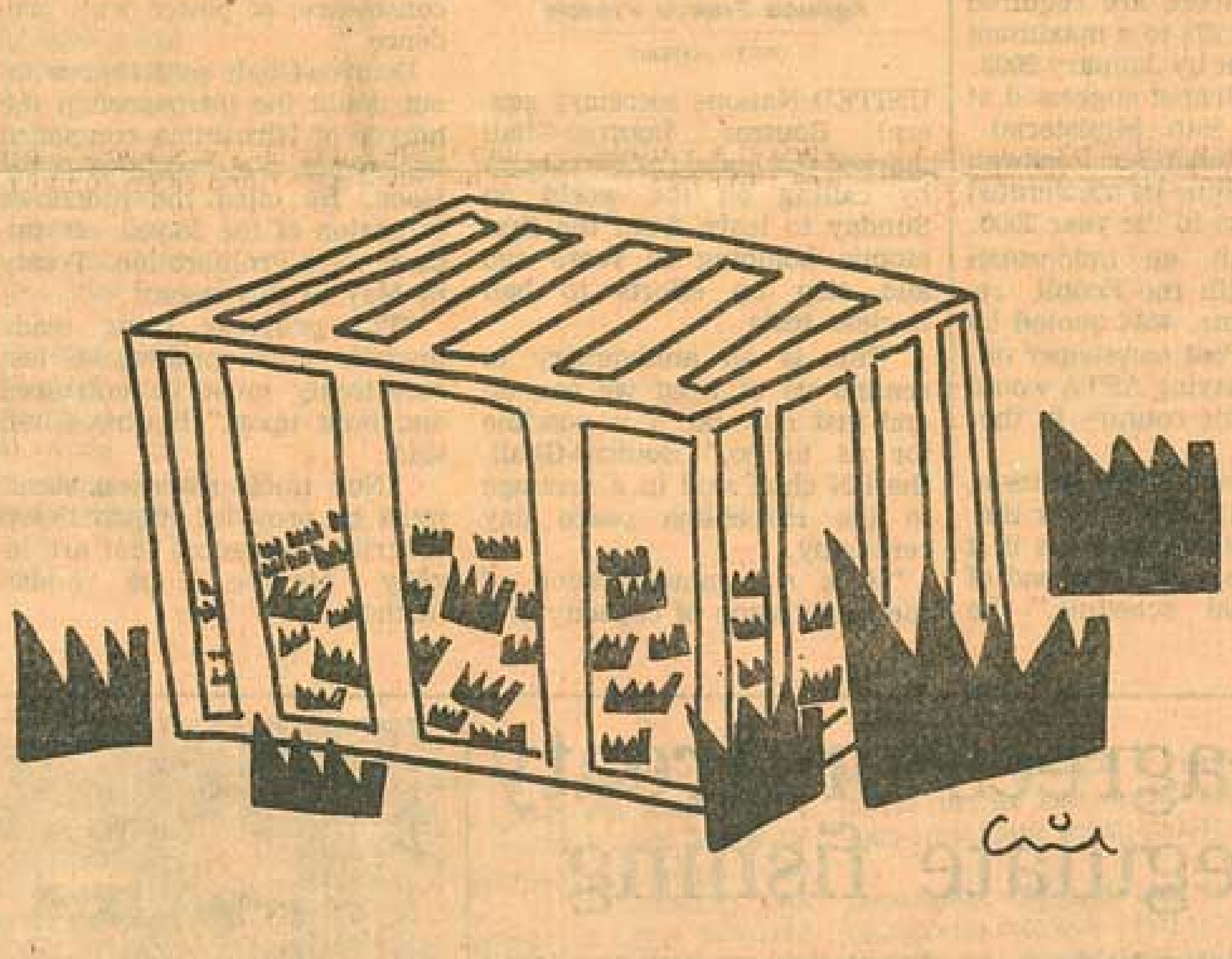
The government has been seized of the matter for long; the confusion on account of technical interpretation could have been cleared much earlier. Even now, the government's position can be challenged in the courts and, since the government is invariably not adequately and effectively represented, the case may go by default and the MNCs writ may still rule.

In the ice-cream sector, where, there is no room for any ambiguity on technical grounds, some companies are reported to be continuing manufacturing operations under the cover of waiver allowed to industrial houses in case they undertake to export 75 per cent of their production. On the face of it, the condition is absurd. Who will export when a lucrative market is available domestically?

Inability to act promptly and efficaciously gets compounded by the existence of multiplicity of authorities/nodal points with overlapping jurisdictions. Consider the case of ice-cream. As the name would seem to suggest, it falls within the purview of the food processing ministry. This ministry has taken the position that production of ice-cream by large industries tantamounts to violation under the Industrial Development and Regulation Act (IDRA) and therefore, must be dealt with by the department of industrial development in the industries ministry. The latter, in turn, believes that this is a problem concerning the department of small scale industries (SSI), also in the industries ministry. The SSI department unfortunately, finds itself too weak to be able to initiate proceedings against the erring companies on its own.

Our legislation also provides other opportunities to the MNCs. A large industrial house/MNC is currently allowed 24 per cent equity holding in a small scale enterprise. Taking advantage of this provision, an MNC can float a joint venture with the small scale counterpart for manufacture of items reserved for the SSI. Such tie-ups have been forged with several SSIs to facilitate large scale production. Needless to mention, this arrangement also helps in circumventing the investment ceiling of Rs 60 lakhs mandated for any given SSI.

These products are then sold through MNC affiliates or 100 per cent subsidiaries. In a nutshell, the strong hold of MNCs on production and distribution of items reserved for SSIs is thus complete without having to break the law.



As if that was not enough, until sometime back, the government was seriously contemplating to allow increase in equity holding of MNCs/large industries in small enterprises to 49 per cent and even to dereserve the small scale sector. The plans have, however, been shelved for the time being. But, that is primarily keeping in view the impending general elections.

The possibility of reviving these policy changes immediately after the elections remains. This is all the more so in view of the mounting pressure from international financial institutions to open up the small scale sector in the name of improving quality, achieving economies of scale and adopting better technology.

Encroachment by MNCs/large industries into reserved areas is widespread. The trend has, in fact, accelerated in recent years. Alongside, the demand for dereservation both from within the country and outside, has gained momentum. In a recent statement, the CII demanded dereservation of some 233 items currently reserved, but not being manufactured in the SSI sector.

Majority of the areas reserved for the SSI sector offer lucrative opportunities. While demand is large, investment requirements for setting-up factories for manufacture of ice-cream, biscuits, bread, shoes, etc are almost negligible (measured by the standards of MNCs and big industrial houses). The government prescribed ceiling is Rs 60 lakh. This was fixed long ago. Raise it by a couple of times to reflect the current cost, the resultant numbers would still be peanuts. With hardly any competition in the market place, profit margins are indeed enormous and multiply from year to year. MNCs have an added attraction like the facility of free repatriability of profits and dividends.

In making out a case for opening up, MNCs would obviously not talk of these attractions; instead, they would talk of issues like better quality, economies of scale, state of the art technology, etc. In Indian conditions of large scale unemployment and widespread poverty, such emphasis is totally lopsided and misplaced. While we do not need modern, sophisticated technologies and mega size plants for manufacturing items like bread, ice-cream and biscuits, their establishment will be the surest way of exterminating hundreds of thousands of SSIs. The loss of employment, both direct and indirect, including labour force engaged in distribution and marketing outfits, will be mindboggling.

Can we afford this, particularly at a time when employment in the public sector is declining and its increase in the private corporate sector is far from encouraging? The Planning Commission, in its draft mid-term appraisal of the Eighth Plan, has clearly brought out that the growth in employment during the first four years of reform has been much less than in the second half of the 1980s. To reverse the trend, it has strongly recommended adoption of labour-intensive technologies. Against this backdrop, there can be absolutely no compromise on growth of SSI units.

We have also to guard against the danger of slipping into a foreign exchange crisis that a full bloated entry of MNCs may mean. On the one hand, displacement/closure of SSIs would lead to steep decline in exports (at present these account for the highest share of total exports), on the other, there will be substantial draw down of the limited exchange reserves due to repatriation of profits/dividends.

The government must act cautiously. Let the slogan of liberalisation not obliterate our vision. Liberalisation may be a sound philosophy if it helps economic growth, raise income levels and employment and enhances the quality of life. If, however, the result is just the opposite, we must refrain.

Reservation for SSIs should continue. As regards equity holding of large industries/MNCs in SSIs, there is a strong case for reducing or perhaps even dispensing with this provision completely. The SSIs also need to be encouraged by providing various support measures like infrastructure, training, marketing and credit for production, and for sale within India and abroad.