

DR UTTAM GUPTA

The SSI sector needs to be free from MNC encroachment

UNDER the liberalised QR (quantitative restrictions) free regime, there is no place for continued reservation for small scale industries (SSI). Following this the Finance Minister announced de-reservation of 14 items in the last budget and there are indications of complete dismantling of these reservations.

However, contrary to the popular belief, continued reservation for SSI is not incompatible with WTO. Our obligations under the agreement only require removal of QR on import of all commodities including items reserved for the SSI sector. With QR removal on the last batch of over 700 items, announced in the latest EXIM policy, our regime becomes fully WTO compatible.

Why then, is there so much pressure to do away with reservation? Both FICCI and ASSOCHAM argue that under QR free regime, SSI units will not be able to compete with cheap foreign made products both at home as well as in the international market.

However, we need to be clear about the likely scenario after de-reservation. If, it entails freedom to SSI units with regard to investment, scale of production, choice of technology and so on, this is welcome. The question is whether, bureaucrats and politicians will readily unshackle the regime of controls which go automatically with reservation. When, despite much a do about liberalisation, big industries in key sectors viz., power, fertilisers, telecomm and so on, continue to remain shackled, it is most unlikely that the same does not continue for the SSI sector.

An immediate fallout of de-reservation will also be the entry of MNCs into areas hitherto, reserved for SSI units. They are already allowed to set up production facilities in reserved areas subject to their undertaking export obligation. But once reservation is lifted, MNCs will have a field day.

With constraints on investment in modernisation and technological upgradation, SSI units are just not in a position to compete with MNCs who have unlimited resources and access to latest technology. More so, they will have to depend on the latter for marketing and distribution of their output.

As it is, the SSI units are at the mercy of large enterprises. When, MNCs start production facilities on a large scale, they will concentrate primarily on selling their own output. Consequential withdrawal of marketing support to SSI units will sound their death knell.

Until the early 90s, when, the MNCs were not allowed to set up 100 per cent subsidiaries, they were committed to JV with Indian companies. But, when, the Government allowed their entry through the 100 per cent route, they not only deserted their JV partners, but also, made systematic efforts to kill them. They can do the same to the SSI units.

There is a possibility of MNCs making a clean sweep over all sectors of the economy, big or small especially into the SSI territory. The Government should provide the domestic sector necessary support including by way of reasonable import duty safeguard or an anti-dumping duties wherever needed.

Close to 100 million workers are employed in SSI units. The employment given by this sector is next only to agriculture. In view of virtual stagnation in employment in the organised sector in the 1990s and dwindling capacity of agriculture to provide livelihood to increasing population, SSI sector is one major area which can provide succour.

The Government should proceed with tremendous caution, while dealing with the SSI sector. A suitable policy should be devised aiming at improving competitiveness of the SSI units so that they can successfully face the onslaught of cheap imports. Amongst others, this would require ensuring adequate and timely availability of essential inputs and services viz., fuel, power, telecomm, transport, credit etc., at reasonable prices and tariffs.

Above all, there is an urgent need for removing all bureaucratic controls to provide SSI units the much needed freedom for taking decisions with regard to investment, revamp/modernisation, technological upgradation and so on. In this context, it should be clearly recognised that controls are the real enemy of these units and not reservation per se. But, for controls, the SSI sector would have grown from strength to strength.

The Government should also ensure that large enterprises whether owned or controlled by MNCs or domestic industrial houses are not allowed to enter the territory earmarked for the SSI units. This has to be understood in the broader sense of avoiding a scenario of these units being nipped against giants, the net result of