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Liberalise imports cautiously

Removal of the factors that make Indian industry uncompetitive must be addressed first, says **Uttam Gupta**

HAVING mindlessly pursued industrialisation based on import substitution for almost four decades, our policy makers have suddenly become wiser. From 1991-92, the first year of the economic reforms, exports has been the buzzword. Without promoting exports at an accelerated pace, it is now maintained that it would be impossible to sustain economic growth and normal industrial activity.

Excepting strategic and essential items such as food, quantitative restriction on imports have been lifted and the negative lists for exports and imports pruned drastically. A host of items have been decanalised and customs duty cut a wide range of industries.

Even as exports, which were intended to be the greatest beneficiary of the new policy, failed to come up to the anticipated levels last year, the whole-hog liberalisation spree on the import front has produced a devastating effect on industries such as fertilisers, engineering, petrochemicals, automobiles, etc. Decanalisation of imported diammonium phosphate (DAP) and reduction of its import duty to zero in September, 1992 led to the closure of practically the entire indigenous phosphatic industry, which has an investment of about Rs 2,250 crore and employs about 35,000 personnel directly.

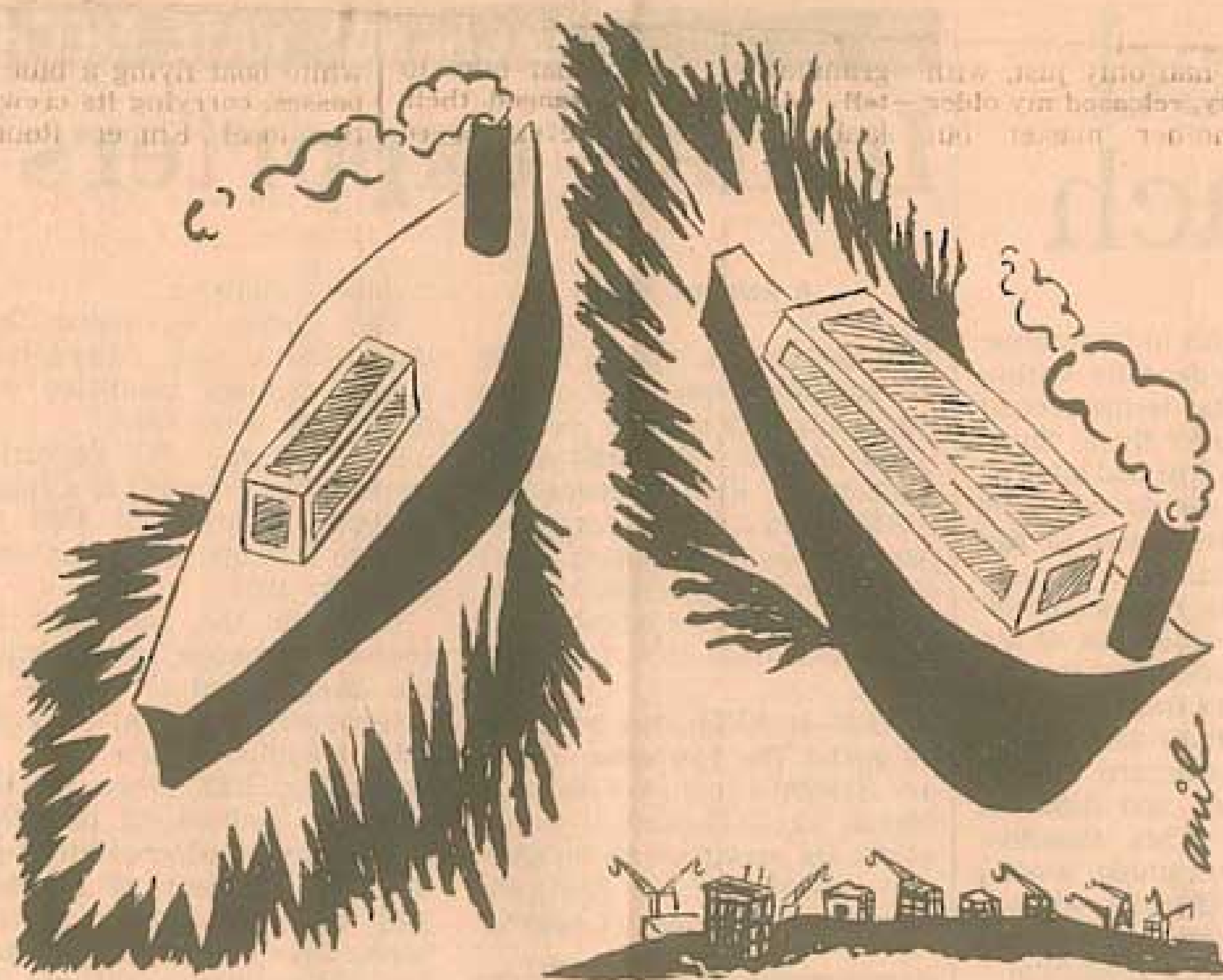
BHEL, which has been supplying plant and machinery to fertilisers, power, transport and defence industries, now finds its order book position deteriorating progressively. This followed the steep reduction in the maximum customs duty on capital goods imports to 35 per cent from 80 per cent, a still lower rate on import of power plants and total elimination of customs duty on fertiliser project imports. Without corrective measures, BHEL faces the threat of either extinction or takeover by MNCs.

SAIL faces a serious threat from low-cost imports of a wide range of steel products. In the petrochemical segment, too, the results have been equally devastating even as the Rakesh Mohan committee has now recommended a countervailing duty on imports in the sector.

Having neglected competition and cost consciousness for several decades, even internally, any attempt to transplant them in a span of just two-to-three years is like forcing players who have not even played national tournaments into world class competition.

It is not an unknown fact that even the best of our import substitution industries will not be in a position to compete with the MNCs. There are essentially two basic dimensions to our handicap.

Our companies cannot match the financial resources, management skill and technology of the MNCs. Of the three areas, the much superior financial strength of latter has invariably turned out to be the clinching factor in tilting the scale in their favour. Thus, while it is not uncommon for international suppliers to offer 180 days' credit, the resource constraints faced by most of our companies simply do not permit such a facility. The case of SAIL seeking a special credit dispensation from the SBI some time ago, to match the liberal credit terms for imported HR coils, in a desperate bid to retain its market share, is still fresh in mind.



Perhaps, the most severe handicap is imposed by the high cost of infrastructure — power, water, transport, communications — cost of credit, impact of multiple taxes and duties, and the substantially higher capital cost of the project due to delays in getting required clearances, both at the central and state levels. A similar burden does not weigh down our external competitors.

While our policy makers showed great urgency in opening up our economy, there is practically no move to reduce, much less eliminate, the hurdles that make even the best of our producers uncompetitive. A beginning was made by lowering excise duty levels in the 1993-94 budget. But, these concessions pale into insignificance in the face of administered price hikes and the taxes levied at the state level. Delays in the setting up of projects too is unlikely to disappear merely with delicensing, as the writ of the stifling bureaucracy still runs on most of the vital aspects of project execution.

On the labour front too, in the absence of an exit policy and given the prevailing socio-political environment, it is virtually impossible for a company, whether in the public or the private sector, to optimise costs.

Driven by recessionary conditions, primarily in the developed countries, and taking advantage of our fast-track liberalisation, industries from the exporting countries have started dumping their products on the Indian market. Phoschem, the US cartel of DAP producers is, for instance, selling the product at $160 per tonne, which does not even cover their cash cost. To us in India, this is even lower than the cost of importing the raw materials that go in to its manufacture: Even with zero conversion cost, domestically-produced DAP cannot compete with the imported material. That would explain why even the best of our plants like HLL, Haldia, Spic Tuticorin, etc, are closing down.

Likewise, consequent on the lowering of customs duty on imported caprolactum in the 1992-93 budget, the international suppliers lowered its price from $2,100 per tonne in early 1991 to $1,300-1,450 per tonne. This has rendered the indigenous manufacturers unable to sell, despite their reducing the price even below the cost of production.

Remedial action under the anti-dumping legislation not only puts the onus of proving the injury on the injured, but is a long-drawn exercise, as well. In other words, even if ultimately, the commerce ministry were to recommend an anti-dumping duty, the affected industry would have already met its "inevitable" fate.

We have not only moved much too fast towards liberalising the external sector, but also miserably failed to take stock of where we stand vis-a-vis our global competitors. We even propose to accelerate the pace by further lowering the weighted average customs duty to 25 per cent in three years from now. That would be suicidal, as there is no indication whatsoever of changing our institutions, infrastructure and internal tax regime in tune with the requirements.

We need to get down from the talk of global competition to the brass tacks of how we can make our industries do better. Industries which have already been hit hard need to be helped by swift and speedy action under the anti-dumping regulations and adjustment of taxes viz import and excise duties. In the meanwhile, and as recommended by the Chelliah Committee, some duty can be enforced purely as a "temporary" measure.

Before undertaking further import duty reductions, the industries likely to be affected need to be put on advance notice and helped by minimising the effect of cost-push factors. Unless, we show some success on this front, any attempt to put our industries face to face with the MNCs will only result in virtual elimination of the former.