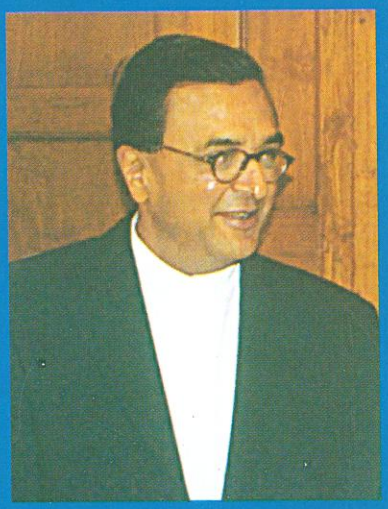
FICCI

"Higher Growth with Equal Opportunity and Inclusiveness"



Presidential Address

by

Yogendra Kr. Modi
President, FICCI

at

the 77th Annual General Meeting
FICCI Golden Jubilee Auditorium, New Delhi
27th December, 2004

"The achievement we celebrate today is but a step, an opening of opportunity, to the greater triumphs and achievements that await us..... the ending of poverty and ignorance and disease and inequality of opportunity"

From Pandit Jawaharlal Nehru's speech to the Constituent Assembly at midnight on August 14, 1947

Welcome Address by
Mr. Yogendra Kr. Modi, President, FICCI
At the 77th Annual General Meeting
27th December 2004 – New Delhi

Shri P Chidambaramji, Hon'ble Union Minister for Finance,

Shri Onkar Kanwar, President-Elect,

Shri S K Poddar, Vice President,

Dr Amit Mitra,

Your Excellencies, Delegates,

Ladies and Gentlemen,

I am particularly grateful to you, Sir, for making special efforts to be with us today.

The nation stands at a challenging juncture of history when factories are running at full capacity, profits are showing positive signs, stock markets are creating records, foreign exchange reserves are scaling new peaks while inflation is under reasonable control despite spiraling oil prices.

The latest business confidence survey of FICCI reflects this buoyancy. It is time now to push for green field investments across the economy, creating new jobs and new opportunities. It is also the time for us to take the reforms to the grassroots where implementation becomes the mantra of our times. With a crack team led by Dr. Manmohan Singh and supported by you, our expectations are running high.

We in the world of business appreciate the numerous bold steps taken by your Government like the introduction of Value Added Tax regime, change in the textile policy to meet the emerging challenges and opportunities from withdrawal of global quotas, new impetus to agro-processing and renewed thrust towards universal primary education.

We are also encouraged by the Government's single minded focus on infrastructure. However, timely implementation is the key. Delays like in the case of Bangalore Airport and the conflictual process within the different departments of the Central government in the implementation of the Delhi-Gurgaon Expressway must be avoided at all cost.

We were most delighted by your tabling of a report laying down a a comprehensive plan on targeting and restructuring subsidies to the BPL families based on direct income transfer

instruments like the food stamp. As you are aware, FICCI has been strongly supporting this approach and is now glad to see that under your leadership the first major step has been taken.

In line with the theme of this AGM, FICCI believes that a growth target of 10% with inclusiveness and equal opportunities alone can eliminate poverty within a decade. To achieve this goal higher investment is the key. For the year 2005-06 US$ 230 billion worth of investments would be needed. Of this, even if US$ 15 billion come from FDI, US$ 215 billion will have to be garnered from within the country. Hence the criticality of promoting domestic investment.

We propose a 9-point programme towards meeting the larger goal of High Growth with Equal Opportunity and Inclusiveness.

One: Generate more resources for the socio-economic development of the nation. I propose a four-point action plan for this purpose.

a) We must have fifteen crore tax payers and not just three. To achieve this, we propose a remodeling of the tax slabs in line with other ASEAN countries.

- A 10% tax for income in the Rs. 1 to 5 lakh range,
- 20% tax on income in the Rs. 5 to 10 lakh range, and
- 30% on income above Rs. 10 lakh

Today, the highest rate of tax is hit at **Rs. 1.5 lacs,** virtually making 30% as the flat income tax rate.

b) Agricultural income above Rs. 5 lacs must be taxed at a flat rate of, say, 15%. This will boost the overall revenue and prevent tax evasion under the garb of farm income.

c) Have in place an unambiguous policy on privatization-

i) close-down or privatize all loss making PSUs;

ii) divest 74% of equity in all non-strategic profit making PSUs;

ii) divest 49% of equity in all strategic PSUs.

d) Downsize the government as recommended in the Fifth Pay Commission and Geeta Krishnan Committee recommendations.

Two : Curtail Inspector Raj - A FICCI Survey of firms across industries showed that there could be a maximum of 91 inspectors spread across five regulatory areas for a business. And 20 of these have the powers to send the owner to jail for a period of upto seven years. We are encouraged by the Prime Minister's statement on controlling Inspector Raj. Sir, we have been waiting for 14 years for action on the ground.

Three : Exit and restructuring issues - *A recent study by the World Bank shows that the insolvency procedures in India take 10 years compared to an OECD average of 1.7 years.* Government must therefore create a mechanism for speedy exit for sick and unviable units, in order to re-deploy these unproductive assets to productive uses.

Four: Development Financial Institutions – FICCI's experience after visiting Brazil and China strengthens our view that developing economies like India, need institutions which give long-term, low cost project finance to bankable industrial projects. We hope that the Government would see that either IDBI takes this responsibility or a new institution is created.

Five: Remove Restrictions on SSIs - When quantitative restrictions have been removed and almost all items can be imported from even large multinationals of the world, to continue to reserve the very same is irrational. The optimal

model must allow SSIs to grow without losing their existing incentives on a sunset clause basis. Empowering and freeing the SSIs from the shackles of over regulation is the need of the hour. For example, the labour laws for SSIs should only have three regulatory dimensions: minimum wages, hours and days of work and social security payments like the PF.

Six: Employment generation in Manufacturing- FICCI proposes that we focus on promoting 18 high employment elastic sectors identified by it. The Planning Commission in its 10th Five Year Plan said that and I quote *'the unjustifiably high capital intensity in many sectors ... .is often caused by the excessively rigid labour laws applied to the organized sector'* unquote.

Sir, industry is still surviving and making reasonable profits despite these labour laws. The issue is how to generate more employment through new investment in the manufacturing sector. Particularly when 40 million workers are waiting to be hired and another 20 million are expected to join the labour force in the next five years. Flexibility in labour laws is the key to employment generation.

Seven: Agriculture and Rural Development – I table a four point action plan for transforming our agricultural sector.

a) Scrap the Essential Commodities Act, revisit the APMC Act and have an integrated food law.

b) Shift from input subsidies to per hectare cash subsidy directly to the farmer.

c) Recover recurring costs on agriculture infrastructure to ensure proper upkeep and maintenance.

d) Benchmark interest rate on agricultural credit to PLR.

Eight: Empowering the Disadvantaged – We suggest that government in partnership with the private sector evolve a medium to long-term strategy for raising the educational level specially among the disadvantaged sections of our society.

We are aware of different successful models like in Madhya Pradesh and Kerala which could be replicated for public-private partnership in primary education. For skill formation and technical education, we need the **German Model,** 40:60, in our ITIs and polytechnics – 40% on the plant floor and 60% in the class room. Private sector is ready to adopt ITIs to give them the commercial connectivity with the real world.

We were surprised to learn that out of the reserved seats for SC/STs in the basic skill forming institutions like ITIs, 81% of

the reserved seats remain vacant, in higher level technical educational institutions this figure goes upto 97%. All this arising out of the massive drop out rate at the primary level of education for SC/STs. Private sector is willing to partner with the Government at all of the three levels and FICCI is ready to promote an equal opportunity employer code on voluntary volition.

We further suggest, Sir, that you consider the following measures, as in the US, rather than looking at reservation in the private sector:

a) The businesses employing, say, more than 10% of their work force from disadvantaged groups be given tax credit and price preference on government procurement;

b) Offer soft loans to the disadvantaged groups for the start up of businesses;

c) Offer price preference for government contracts to such businesses rather than to the PSUs.

Nine: Governance – The obvious issues of governance are transparency, accountability and corruption. FICCI suggests that an official caught in corrupt practices must face immediate

termination rather than be shifted to what is now called 'non-sensitive posts'. Sir, it is the disadvantaged class who bears the brunt of this corruption and rent seeking, more than others. Needless to say that it takes two to tango and therefore all of us must partner in the anti-corruption crusade.

E-governance is the most effective way to ensure transparency and to make sure that the common man does not have to interact directly with the Government functionaries. There are many success stories like the Passport regime and to a large extent the Andhra Pradesh land record system etc. We need, not only, the right to information but also a structure that obligates the Government to provide the same.

Before I conclude I would like to thank the President-Elect, the Committees and the Secretariat ably headed by Dr Mitra.

Sir, the problems are known to you and all of us, what is needed is action, and I cite a recent article by the Prime Minister, Dr Manmohan Singh, in which he writes, and I quote, "of a doable agenda provided we can set aside our 'make-do' attitude and adopt a 'can-do' spirit. I want 2005 to be a 'can-do year' for every Indian" unquote.

Jai Hind