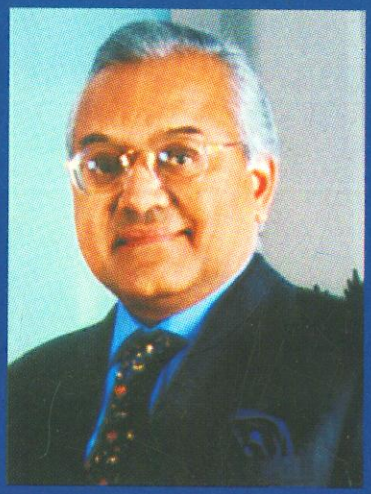
FICCI

Growth with Employment : The Challenge Ahead



Welcome Address by

Dr A C Muthiah

President, FICCI

at

the 76th Annual General Meeting

Vigyan Bhavan, New Delhi

7th January, 2004

Speech for
Dr. A. C. Muthiah
President, FICCI
for The Inaugural Session of The 76th Annual General Meeting, on 7th January 2004 At Vigyan Bhawan, New Delhi

H.E. Dr A P J Abdul Kalam, Hon'ble President of India,
Your Excellencies and Diplomats,
Senior Political Leaders and Government Officials,
Fellow Business Leaders
And leaders of the civil society of India

It is a great honour for me to welcome a statesman of global standing, a leader who launched our country into the space age and catapulted India into the club of nuclear powers; but, also some one, who humbly works at the grass roots level for igniting the spark of genius among our children. I cordially welcome the President of India Dr. A.P.J. Abdul Kalam. I warmly greet the distinguished guests present here, this afternoon.

India stands at an exciting juncture of history. Our economy is reaching a new growth trajectory, backed by human capital that is an envy of all nations. FICCI would not be surprised if our economy grows by over 8% this year and the Tenth Plan growth target is bettered. Our granaries are full, our foreign exchange reserves have pierced the $100 billion mark. And, indeed, India is now lending money to the International Monetary Fund to help finance balance of payments needs of other nations. And inflation, which is the worst form of taxation on the weakest, is well under control. The health of the economy is being reflected in the stock market that has gone up steadily since the Maruti IPO was made. This has put an enormous volume of additional wealth in the hands of shareholders. We are marching resolutely towards being the next trillion-dollar economy in the world – fourth largest today, and third largest tomorrow.

However, one significant challenge remains to be faced head-on through a strategic repositioning of our reforms agenda – the challenge of employing the 40 million job seekers of today, coupled with the challenge of finding employment for **another** 20 million youth who would be joining the labour force in the next 4 years. The Tenth Plan document warns us saying that under the current circumstances, we would not be able to provide jobs for even the fresh entrants, let alone clear the

back log. In other words, the very fabric of our polity could be threatened by unrest in the future unless we wake up now and ACT. If we fail we will forever lose the unique advantage of having the youngest population in the world today. And the massive force of productivity of our youth would get dissipated forever. This is why FICCI has chosen the vital topic of 'growth **with** employment' for it's 76th AGM.

A look at the employment statistics presents a disturbing picture. The results of the latest National Sample Survey shows that the rate of growth of employment fell from 2.7% per annum in 1983-1994 to 1.07% per annum in 1994-2000. This decline, we must note, was taking place in the midst of a rapid growth of GDP – in other words, the use of fresh labour in additional production was being avoided. This dangerous trend must be reversed through a re-thinking of our development policy and re-structuring of our reform measures.

Based on a lengthy FICCI study I propose the following for the consideration of our policy makers :

One - Legislative changes in the areas of labour and free entry and exit of firms must be carried out soon. Flexibility in labour laws with the availability of an exit option, we believe, would create more jobs and not less.

Two – It is imperative to create 'One India' for movement of goods and this is far overdue now. This can be achieved only if we amend the Agricultural Products Marketing Commodities (APMC) Act, change the Essential Commodities Act and have an integrated food law that facilitates the farmer. It is shocking that we can import wheat from Australia to Cochin, but cannot move wheat from Punjab to Kerala seamlessly. If nation States of Europe can become borderless, should Indian States remain fractured for movement of products.

Three - Appropriate market mechanisms for quality infrastructure at competitive prices and improved flow of credit and other inputs to complement labour use as a key factor of production.

Four - Human resource development. It is a tragedy that our ITI's polytechnics and 10+2 vocational curriculum in schools have little or no connectivity with the real and constantly changing demand for labour in the market place. Thus, millions of our common folk suffer from a mismatch of training or poor skill development, while we tom tom our great success on creating brilliance in our IITs. This dangerous dichotomy must be bridged through concerted policy action, now.

Five – Focus specifically on the industries which have high employment elasticity and concentrate on small and medium enterprises. The Cluster model of SMEs must become the mantra and special economic zones must become the flavour of the day to generate employment. FICCI has taken the lead by organising a Global Summit on SMEs which was inaugurated by the Prime Minister himself. We now need to see a national policy upsurge in this vital area.

Six – The vast area of informal industries employing a massive number of workers at the lowest end of the labour spectrum, need to be formalised and their assets must be made legal tender, so that the assets could be offered as collateral for credit and rendered leverageable. Hernando Desoto, in his latest book, The Mystery of Capital, estimates that 9.3 trillion dollars of assets are locked in the world in the informal sectors, which have no legal standing and thus cannot generate credit for the dynamic small entrepreneurs. A significant proportion of the trillions of dollars lie dormant in India's sprawling unauthorised colonies and shantytowns. Can we take the lead in mainstreaming these assets and thereby, opening up a vast area of fresh growth, new employment and better distribution of income via enterprise?

Seven - One of the highest employment elasticities is offered by the tourism industry and the employment provided by tourism industry cuts across levels of skill and class. Here, I suggest that we focus on 10 sites in India and sell them globally, such as Bodhgaya. This heritage site could easily compete with Angkor Vat of Cambodia, which today attracts 600,000 tourists a year. But it will require a six-lane highway from Calcutta, supported by a commensurate airport and requisite hotel rooms at the place where Budha attained enlightenment. Can we as a nation live up to this challenge?

Now, I would like to turn to a few other areas of reforms that need a big push :

First - We must put in place the ingredients for a second green revolution. This plan must integrate an agro and food processing revolution, which will employ people where the raw material is – the rural sector. FICCI, made a special presentation to the Honourable Prime Minister and he interacted with us for over an hour and a half. All we need now is the **deepening** of coordinated action which the P.M. has already initiated after our presentation.

Second - The nation cannot afford to see the slowing down of disinvestment measures. Today, most of the disinvested

companies, Maruti, Balco, Modern Foods, IPCL, have not only been turned around, but are employing more people and making profits and creating fresh wealth for the nation. We must deepen this process systematically. And by way of the mode of disinvestments, the Government could look at market sales through public offers to empower the common investor as did the Maruti IPO, which was over subscribed by 10 times.

Third - Reforms in the infrastructure sector, has begun to move forward. But the pace is not commensurate with other emerging markets like China. We must bench mark ourselves with the best and leap forward in this area. FICCI is pushing every lever through policy Seminars and concrete proposals, but we need more.

Fourth - We must now look at Mega City Plans for the 21st Century as against the mushrooming of urban sprawls. Let us take a leaf from East Asia and China and start a national debate on this perspective.

Fifth - We must think deep and hard over the future growth of 'knowledge driven industries'. It is disappointing to find that some elements in the developed nations are today clamoring over business process outsourcing from India in a protectionist manner, while others have rightly proselytized for years the

virtues of free trade and free movement. It is FICCI's contention that developed country business firms are outsourcing from India to deepen their efficiency and in effect for their competitive survival. Therefore, either they want to outsource from us or their nations would have to allow movement of natural persons for temporary service provision. In Cancun, our Government strongly took this up and I urge all of us to unite on this matter across nations to fight the new rise of protectionism. I also suggest that we fine-tune our policies to make India the R&D hub of the world, which companies like GE, Intel and others have already begun to take advantage of.

Sixth – Another dangerous development that could derail the great potential is our fiscal deficit. For example, revenue deficit in the States has reached three times the pre-reform level between 1991 and 2002, signaling a danger mark. Even the central government's revenue deficit continues to remain above the pre-reform level despite the falling interest rate burden. We must focus seriously on pruning subsidies and downsizing the Government.

Finally, no nation of India's size could neglect manufacturing as one of its core competencies. FICCI is glad to see that this sector has begun to gather steam and not only competing with

the best in the world, but beginning to acquire global companies in the truest spirit of India incorporated. However, the inspector raj continues unabated; power costs are among the highest in the world; poor infrastructure increases movement costs; indirect tax burden has reached a painful level of between 32-42 per cent; cost of borrowing, though lower today, is still among the highest in the world; and, labour laws make us labour saving rather than labour using by compulsion. These six factors have been identified by FICCI as the speed breakers towards acceleration of Indian manufacturing, which FICCI calls the LITPIT factors. Reforms of LITPIT alone can make us global players in the manufacturing domain.

It is our conviction that comprehensive implementation of the suggestions should hasten the process of growth and that is the best offensive against poverty. The faster growth rate achieved after the reforms were launched give us hope that a renewed push now should further bring down the poverty rate to a single digit level. If in the course of a little over half a decade poverty ratio can come down from 36% in 1993-94 to 26% in 1999-2000, a bigger push now would drive this to less than 10% five years from now.

Sir, in all this we are merely following your vision for India encompassing FREEDOM, DEVELOPMENT and STRENGTH.

These three objectives could be achieved only if we empower the millions of India.

Sir, the spirit with which we have to achieve all this, is best encapsulated in the following lines of a poem written by you:

"Dreams float on an impatient wind,
A wind that wants to create a new order.
An order of strength and thundering of fire."

Hon'ble Rashtrapatiji, distinguished gathering, thinkers and doers of India, I would soon be handing over the baton of leadership of FICCI with the hope that the issues that I have raised today would be addressed, so that our new generation can hold their heads high and the 21st century will not just be only of Asia, but of the largest democracy in the world, India.

Jai Hind.