EMERGING CONTRADICTIONS IN A GLOBALISING WORLD

PITFALLS & OPPORTUNITIES

Welcome Address of Mr. G. P. Goenka

President, FICCI



73rd Annual Session

16 & 17 December, 2000

FICCI

President's speech at the 73rd Annual General Meeting December 16, 2000 - Vigyan Bhawan, New Delhi

Respected Pradhan Mantriji,
Your Excellencies,
Senior Political Leaders and Govt. Officials,
Business Leaders of India,
Our two Patrons, Dr K K Birla and Dr Charat Ram,
Distinguished Guests,
Ladies and Gentlemen!

Today is a rare occasion in my life. For me it is an exceptional honour to have this opportunity of welcoming not only the Prime Minister of India but also especially Atal Bihari Vajpayee. That also in the presence of so many distinguished leaders and the cream of Indian business that is present here to participate in this Inaugural Session of the 73rd Annual General Meeting of FICCI.

Sir, FICCI is not merely an apex chamber, it is one that was founded by Indians, for Indians and it has always been of Indians. To that extent, if, in the course of my submission to you this morning, I sound nationalistic, I request you to give me your indulgence. Most of us here have followed your political career with admiration.

We know for how long you sang the song of nationalism almost alone while all around us we heard the deafening din of socialism.

We are proud of you for having put India truly on the geo-political map of the world. For the first time under your stewardship, India has been recognised by great powers, big and small. True prosperity is a physical want, but pride is a moral necessity. It is this pride that you have given us since you assumed office. Seldom before have Indians been treated overseas with the respect and welcome that they receive today. Not to speak of the number of Heads of State and Government who have visited our country in such a short span of time. Be it President Clinton, or Prime Minister Mori of Japan or President Putin of Russia. We are all proud of having seen them on our soil. We cannot forget the special opportunity we in FICCI received , thanks to your goodwill, to interact directly with so many of these world leaders.

Simultaneous to giving us national pride, you have tried to modernise India. So that, before long, it can rank as one of the most advanced countries in the world. That is what the Indian genius has deserved for centuries. But between the mania of socialism and the curse of colonialism before that, our genius was stifled. Look at

the people of Indian origin in Europe and America. You have, Vajpayeeji, for the first time taken steps to see that, what is true of individual Indians, would become equally true of Indian companies, of Indian corporations, of Indian Institutions and, above all, of India as a nation.

You gave our people early encouragement so that they can take full advantage of the IT or the computer revolution. The radical reforms you have introduced in the sector of telecommunications has done us proud. Liberalization of trade between nations is essential. Or else, how do we grow, how do we export and how do we become more prosperous?

Already a lot of good things have happened for the Indian consumer. Prices are down, quality has improved and variety is up. Your policies and actions are clearly exercises in vision. You have not only studied history but also imbibed its more important obverse, which is vision. As they say in the world of sport, whether cricket, tennis or golf, what is the use of a backswing if it does not lead to an effective follow through or a scoring stroke.

Whilst a lot of good things have happened for the Indian consumer, I wish I could say the same thing about the Indian producer, the Indian manufacturer whether in the

large, medium or the small scale sector. Knowing so well that you are a nationalist and a visionary, may I take the liberty to tell you that the producers of goods in India are not half as happy as the consumers. And you will agree, Vajpayeeji, that production is as important as consumption. If one does not balance the other ultimately, the effects on the country would be reminiscent of colonial exploitation; of India's surpluses flowing out to the rest of the world without a commensurate inflow of profit to the Indian economy.

None of us here in this major gathering of Indian business is against liberalization. In fact, with one voice we are prepared to say that we are positively for liberalization, for reforms, for more interaction with the business and technology of all countries of the world. What we now plead before you is for a single standard, for what has often been talked about as a level playing field. Let it not happen that we ever feel like a walnut in the nut cracker or, in our Indian metaphor, like a *supari* under the blade of a *sarota,* wherein prices continually fall but costs constantly rise.

On behalf of everyone in Indian business, let me offer our gratitude for your government's intervention in stemming the rising tide of unfair, or even illegal imports, some called dumping, some described as undercutting

and some of it unadulterated smuggling. We are also glad that your government has persuaded Beijing to try and stop the outflow of goods to India in an illegitimate manner. In fact, India, China and Nepal must build a strong and inalienable Asian partnership as we step into the Asian century.

But Vajpayeeji, there are several other areas where threats menace Indian Industry. For example, the cost of electricity is getting prohibitive, which is 10 to 11 cents in India against 3 – 5 cents abroad. While we meet here today, in Gujarat, the pride of our industrial advance, thousands of businessmen and industrialists, small and big, are together agitating against a power tariff which will be unbearable.

The proverbial inspector raj is only one example whereby production as well as productivity is interfered with very often only for private gratification.

The situation is serious because prices of Indian goods have to be in line with the lowest level of international prices. But costs are dictated by domestic circumstances like the high cost of power, whether electrical or manpower. The cost of borrowing money, whether for capital investment or for working funds, is probably the highest in the world. Mr. Prime Minister, this is hardly

the occasion to catalogue all the problem areas. Nevertheless, on behalf of the Industry, I appeal to you, Sir, to help us in removing avoidable handicaps.

May I make a few unconventional suggestions after taking into serious consideration the political climate of our nation.

→ The nation is aware of the unviability of cross subsidy in the realm of electrical power. Industry is over charged to offer free power to the rural sector – power that is both intermittent and of poor quality. We suggest that you start a grand experiment by offering top quality and undisturbed power to clusters of farmers who agree to install meters and pay user charges. We are convinced that thousands of village clusters would come forward voluntarily to avail guaranteed uninterrupted supply at regular voltage in return for user charges. Similarly, power distribution to all industrial clusters and in select cities be left in private hands expeditiously. With this, the theft of power will radically come down and so would transmission losses over time. These two pilot reforms could finally break the political lock jam and transform the Indian power matrix.

→ As for the complicated case of reforming India's industrial relations, we propose a pilot which could ultimately set the pace of change.

Cheap labour was supposed to be a great competitive strength of Indian Industry. It is no longer so. True, the poorest worker is extremely poor. But the same cannot be said of organised labour which, in many areas, has become expensive without a commensurate rise in productivity. A young friend of mine recently visited a factory, three hours drive from Shanghai. There he saw one worker supervising as many as three automatic machines. His working shift was 12 hours and the only day off was the last day of the month. He did not even have the benefit of a weekly holiday despite his 12 hours shift. I am not suggesting that in India we run sweat shops. Certainly not. But ways and means have to be found so that we can stand up and compete rupee for rupee, paise for paise in the markets of the world. Can contract labour with much higher wages be given a trial only in Special Economic Zones set up by the Government ?

→ One of the causes of the current industrial slow down is the poor and wildly fluctuating growth rate

of the agricultural sector. Your focus on radical agricultural reforms and all-out encouragement of agri-business is not only good economics, but good politics as well. I have a few suggestions for your kind consideration.

- Remove the stocking limits of agricultural commodities by amending the Essential Commodities Act. When FCI itself is burdened with unmanageable stocks of foodgrains, there is no justification for continuing with the draconian measures against traders.
- Remove the ban on futures trading
- Allow free flow of goods from Kanyakumari to Kashmir.
- Allow free use of wasteland without any restrictions on land holding in order to promote economy of scale.

Sir, we have a massive distribution network of commercial banks, regional rural banks and even cooperatives. Yet 40-50% of the credit required by the farmers is met by informal sector at interest rates which are known to be double and triple of the formal institutional system. What prevents us from making the grain dealers, tractor dealers, fertilizer dealers, moneylenders and non-banking financial intermediaries

as the credit extension service to the farmers. FICCI recommends that let NABARD re-finance these agencies and release the forces of massive competition among multiple agents to the advantage of the farmer.

It is disturbing to learn that over Rs. 50,000 crores, that is, over one billion US dollars of agricultural produce is wasted today – six times that of the annual food subsidy of our nation. Obviously, agri-processing is the answer to the future. You would be interested to know that this sector has an employment elasticity of two to four times that of other manufacturing. I have a few suggestions for your consideration.

- Encourage and facilitate industry to enter into direct contract with farmers for procurement of their raw material.
- Create four-way alliances - farmers, suppliers, food processors and credit or insurance suppliers.
- Create an alliance of infrastructure to improve efficiency between grain handling equipment, transporters and storage silos.
- Integrate food and consumer laws to avoid multiple legislation and multiple regulatory authorities, and harmonise these with international requirements.

- Lower excise and other taxes on processed food products to expand markets, stimulate employment and as past experience shows, even increase total revenue collection.

In a world that is globalizing at rapid rate, Indian agricultural produce is bound to have a significant price advantage, considering the varied climatic and soil conditions, and the vast gene pools of India.

The vitality of the nation at the grassroot level is defined by the state of the small scale industries. It is paradoxical that barring 700 odd items which are still under import licensing and will exit by the 31st of March, all other items can be imported into our country today, inclusive of those which are under small scale reservation. In other words, a finished product or an input from an MNC abroad can be patronized by the Indian consumer, but not the same item from medium and large Indian industries. We urge you to make empowering of the small scale industry your mission through every possible means. FICCI is ready to lock shoulders with Government, in the manner in which Japan did this through its system of Keiretsu and Thailand, Indonesia and Malaysia did by encouraging the integration of small with large rather than dividing them forever.

One fundamental reform on which your government has earnestly embarked is disinvestment, albeit, privatisation of the public sector enterprises. Massive assets of the nation are either loss making or yield negligible returns. Recycling these will be critical to the sustained growth of the economy and to the needs of healthcare, education and social infrastructure. It will also enable you to retire debts of the government to ultimately reduce the interest burden. The nation is anxiously awaiting the results from your determination.

No doubt, there are grand opportunities in the process of globalisation. The flow of foreign direct investment creates jobs for millions of our people. Cutting edge management skills and technologies facilitate higher order production and exports. Access to Global knowledge pool, enrich us in numerous ways. Movement of finance capital, as long as it is not hot money, offers great opportunities for capital formation. Legitimate market access for our goods and services in a globalising world and imports of valuable inputs can provide new stimulus and new frontiers of growth and employment.

Before I conclude, may I remind you Vajpayeeji, that in my view your greatest achievement as Prime Minister has been in the area of foreign policy, in the field of

external affairs. You know much better than me that to succeed overseas, the nation must be strong at home. There were times when national strength was measured in terms of military might. That is no longer so. Both Germany and Japan realised this during World War II. Since then they have concentrated their national energies on their economies and their exports.

After the revolution in 1949, China became known for its largest army in the world. But over the last 20 years, the same China has gone all out to produce, manufacture and export. In contrast, the mighty super power that was the Soviet Union had to suffer because its economy collapsed. In other words, Sir, foreign policy has to be supported by foreign trade and foreign trade by exports. This only Indian producers can help to deliver.

In the ultimate analysis, only Indian Capital and Indian export that can deliver without any conflict of interest. Therefore, Vajpayeeji, let us secure our own economy so that India can go places overseas. For us, Indians, the globe cannot be glorious unless our own home, our own village is strong, efficient and competitive.

Thank you,