

Dun & Bradstreet's "Emerging SMEs: Kolkata 2008"
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It is, indeed, a privilege for me to be here on the occasion of the release of the Dun & Bradstreet's publication titled "Emerging SMEs: Kolkata 2008". I understand that this is the sixth publication in the series to be released by D&B dedicated to Kolkata. The publication covers a large number of SMEs who are emerging as important players in sectors like textiles, engineering, food processing, IT and IT enabled services like BPO. This is, indeed, a laudable initiative and I congratulate D&B for the same. I am sure that this publication will serve as a valuable source of information and reference guide containing much value added information.

About three and a half decades ago, Dr. Eric Schumacher wrote an influential book titled: "*Small is beautiful: A Study of Economics as if People mattered*".

In this book, Dr Schumacher talked about "appropriate technologies" and later observed and I quote:

"Many years of work on these matters have completely convinced me not only that small is beautiful but also that small is possible and has the future on its side."

Worldwide, the micro and small enterprises have been accepted as the engine of economic growth and for promoting equitable development. The SMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports.

In India too, the SMEs play a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country. Further, in recent years, the SME sector has consistently registered higher growth rate compared to the overall industrial sector growth.

Interestingly, contrary to the perceptions that one gathers from the debates in the U.S. Presidential nomination campaign, Indian firms, instead of taking away US jobs are actually creating more jobs for the American people. According to a study by Ernst & Young, Indian firms, of which three-quarters belong to the SME sector, have actually created around 65,000 jobs in the US either through greenfield investments or by the acquisition route. The study notes that the Indian SMEs alone have created over 35,000 jobs in the US in the past year.

This dynamism of the Indian SMEs needs to be harnessed by means of an enabling policy environment or otherwise we might soon find that SMEs in India are closing shop and migrating to the US and other parts of the world to create job opportunities only for foreign nationals! I say this with all earnestness given the fact that India has invested in the US thrice as much as the U.S.A. has in India in the past year and this trend is expected to continue. Moreover, the present economic conditions witnessed in the country over the last year clearly favor the large sector that has deep pockets to withstand import surges on account of a sharp appreciating Rupee. If this policy continues for long, deindustrialization, particularly among SMEs, will gather momentum.

I do also believe that it is important to create conditions in the domestic market that enhances competition and discourages monopolistic or oligopolistic tendencies. For this purpose, is it not only enough to create institutions, it is equally important to give such institutions sufficient powers to enable them to act to promote competition in the domestic market. So while the Competition Commission of India has come into existence a couple of years back, it does not yet have the necessary powers to investigate market failures. It is about time that the Government notifies the substantive provisions of the Competition Act, 2002. The CCI today is a toothless body and one wonders why so much public money has been spent if the powers that be are so keen to circumscribe its role as a watchdog.

The consequence of such a laid back approach is there for all to see - steel prices have shot over 35% over a period of 11 months, pig iron prices have increased by 40% in the last 10 months and some foundry units in Howrah are closing their factories from April 1, 2008 since they cannot compete in export markets. Critical engineering segments that have generated large scale employment in the country such as hand tools, auto components, steel fabricate items are in dire straits, but our authorities are clearly unmoved. There is absolutely no effort made to curb monopoly or oligopolistic tendencies in the Indian economic system, unlike what is seen to be one of the critical ingredients of a market economy in most advanced countries of the world.

The D&B publication deals with units belonging to industrial clusters. The EEPC has been lending its voice to many engineering clusters. Recently, EEPC along with the MSME Development Institute under the Government of India has embarked on a soft intervention programme under the Cluster Development Initiative of the Central Government to promote development in the Bell Metal Cluster of Kenjekura in the Bankura District of West Bengal.

This cluster is more than 150 years old. At present, 300 families are engaged in this profession and around 2500 people are working in this cluster. Bell metal is a hard alloy used for making bells. It is a form of bronze, called *Kansa* in the Indian states of West Bengal, and Orissa, used for the manufacture of utensils and gift items. Typically, the major problems faced by units in this cluster are the uneconomic scales of production, low level technology, inadequate technical skills that prevents creation of new designs, non-availability of testing and quality

control facilities, poor access to formal credit structures and lack of marketing skills. Through our soft intervention programme we hope to raise awareness with regard to benefits of cluster programmes and how working together can bring greater benefits.

The reason why I have referred to the Bell metal Cluster is that notwithstanding the impressive performance of the SMEs in the history of Indian industrialization, the time has now come where governments and institutions like EEPC will have to carry out more outreach programmes for the really needy segments of the micro sector. And for this purpose, economic policies have to be more realistic, both at the Central and State levels, to enable the so-called fringe segments of Indian industry to organize themselves and join the mainstream of the economic growth process. The true test of the success of economic reforms will lie when units like those existing in the Bell metal cluster of Kenjukurra join the organized mainstream, can truly access credit from banks and financial institutions, participate in international trade and can take on the edifies of the various governmental arms on their own terms.

As a representative of the EEPC, it would be a remiss on my part if I do not share with you some issues that link SMEs to exports. Undertaking exporting activity remains a difficult proposition for most SME firms.

This is largely because while one can insure against risks, it is extremely difficult to hedge in the face of uncertainty. For exporters in India, apart from the vagaries of domestic policies, the uncertainty in the international trading arrangements make exporting in many ways a tightrope walk. In such circumstances, trade promotion organizations like the EEPC play a pivotal role in providing value added information to exporters; act as a facilitator with the authorities; provide for policy related guidance, and above all help in promoting goods and services through diverse means, which includes, through participation in international trade fairs and exhibitions.

As an exporter for over two decades, I have come to realize that in the post-WTO and RTA(Regional Trading Arrangements) world, for a nation's success in export promotion, it is critical that there is close coordination, clear and transparent communication between those who formulate policies i.e. the State & Central government, those who implement them i.e. various government departments and the trade promotional organizations like EEPC. Unless this happens, it will be virtually impossible to meet the challenges thrown in the present uncertain international trading arena. This is, in fact, where China scores over not only us but many other countries in the world.

To give you a flavour, it may be worthwhile to look at the contrasting policies that China and India are pursuing. China is a master of giving subsidies to its steel industry and gets away with it even though it is a member of the WTO. To illustrate, let me quote to you the conclusion of a Report titled "Chinese Government Subsidies to the Stainless Steel Industry" published in April 2007 and prepared by the Speciality Steel Industry of North America. I quote:

“The Chinese stainless steel industry continues to benefit from massive direct and indirect subsidies. These subsidies are likely to continue unabated, as the Chinese government recently adopted an official policy that requires it to continue subsidizing its metallurgical industry, which includes stainless steel producers. The consequences of these actions have been profound.” Unquote

That is not all. From January 1, 2008, China increased the Export Duty on certain steel items, which is now 25% in some categories. The objective is to control the domestic price of steel for the benefit of its engineering industry, so that it can maintain its cost competitiveness in global markets. In contrast, in India, the Steel majors have raised the prices of their products by Rs 1500 per ton on January 2, 2008, another Rs 3000 per tonne on February 1, 2008 and further by Rs 2500 per ton in March 2008. I am told that April 2008 will be the mother of all steel prices increases!

I strongly feel that under the Doha Talks or through a separate discussion paper, India should not only seek the support of other member states to discuss the impact of the nature of Chinese subsidies or reopen the Agreement on Subsidies and Countervailing Measures to ensure that countries like India too can give subsidies in face of such measures being used by non-market economies.

Before I end, let me, once again, congratulate D&B for the pioneering work done to promote the growth of the SME sector in the country. I do hope that notwithstanding the challenges faced, industrial units in the SME sector will overcome these difficulties and continue to deliver in terms of output, employment and exports for the country.

With these words, may I thank D&B for giving me the opportunity to share some thought with you all on this occasion.

Thank you.