

Industrial shakeout in the offing: Dr Khullar



Mr. A. Sakthivel, President FIEO addressing the meet. On the dias from left Mr. Ajay Sahai, Director General, FIEO; Mr. Amitabh Jain, Addl. DGFT; Mr. R.K. Mutha, Regional Chairman, EEPIC; Mr. T.V. Maruthi, Past Chairman, ISEPC; Mr. R.S. Gujral, DGFT; Dr. Rahul Khullar, Union Commerce Secretary; Mr. Crasta, President, FKCCI; Mr. M. Sai Kumar, Addl. Export Commissioner & Zonal Jt. DGFT and Mr. B. Bhattacharya, Comissoiner of Bangalore Customs.

An Open House Meet with Commerce Secretary Dr Rahul Khullar was jointly organized by FIEO, FKCCI, VITC, EEPIC, ISEPC and ESC on June 1, 2010 in Bangalore. The meet was intended to discuss the issues affecting exports and the challenges ahead. Foreign Trade Policy and procedural issues and problems faced by exporters with Customs and Central Excise, banking and logistics were also dwelt upon during the meeting. The meeting was attended by about 150 leading industrialist and exporters.

Inaugurating the meet, Dr Khullar, in one of his most memorable speeches, spoke about the future global economic environment. He said, "We are all in for a bout of slow, hesitant global economic growth. This means you have to get used to slower growth in India." Detailing the risks ahead in the global economic environment he added, "How on earth are you

going to sustain a 9 per cent rate with these risks? For those who think that exports will grow at 20-25 percent per annum that will not happen."

Dr Rahul said both the goods market as well as the capital market are likely to be adversely affected in 2010-11, leading to a decline in demand and fluctuation in the exchange rate. Countries integrated in the global supply chain are likely to be affected more but this may also slow down our export growth rate.

Recognizing this fact, the exports target has been fixed at \$200 billion for the current fiscal which can be achieved with moderate growth of 14% as against 20-30% growth witnessed from 2002-03 till 2008-09.

On the effects of the "economic contagion" on the currency market, he said, "In 2007-08, there was a movement towards deleveraging. The same

problem persists today. When the stock market is down, the exchange rate is down; when the stock market is up, the exchange rate is up." Apart from market-related risks and exchange rate risks, the Commerce Secretary said, "Sovereign debt will impact decision making in many countries in Europe and they too will start fiscal consolidation." He added that the sovereign debt is indeed a problem and we have seen the same in the past in Latin American crisis.

Reduced tariffs and domestic competition will force a shapeup. Many holy cows will fall by the wayside over the next 10 years. Dr Khullar urged preparedness for the "next wave of reforms, whether they come in the form of lower tariffs or increased competition in the domestic market. There is no way by which you can build a world class competitive auto industry with 60 per cent tariffs." He further added that an industrial shakeout was



Mr. A. Sakthivel, President, FIEO is addressing the Open House Meet with Dr. Rahul Khullar, Union Commerce Secretary at Bangalore.

coming in autos, chemicals and engineering. "There are some things you cannot do; the quicker you recognize this, the better," he said.

One should have the ability to differentiate between sunset and sunrise industries. There is no point sticking with a sunset industry when the writing on the wall is obvious. Private participation in defense contracting, cold chain, logistics and retail are the future.

The Commerce Secretary advised the industry to be ready for the hike in interest rates in near future as money supply may be squeezed to contain inflation.

Regarding the future, he told exporters, "Given the risks, you can't keep throwing money at a problem and solve it. You will have to diversify your market base."

Mr R.S. Gujral, Special Secretary & Director General of Foreign Trade, in his address said that tea, tobacco, foods and vegetables, plastics, linoleum and iron ore showed positive growth in exports in 2009-10 whereas coffee, spices and cashew exhibited a decline. He identified cashew, oilmeal, leather and handicrafts as requiring more support from the government. Mr Gujral identified the "headwinds"

as the prospects of EU recovery; rupee volatility and protectionism in the US. He said we should not be worried about rupee appreciation. According to him, the rupee depreciated in 2008-09, currencies of China and Bangladesh remained stable while currencies of Brazil and Indonesia showed appreciation during the same period. The appreciation of the rupee in the past is much less than the depreciation observed in 2008-09.

During the interactive session, all points were discussed and clarified by Mr Gujral. He also assured the exporters that he will address the problems in electronic filing and EODC.

In his welcome address, Mr A. Sakthivel, President, FIEO, mentioned that the Reserve Bank of India has issued a notification dispensing with the concessional pre and post shipment exports credit from 1st July, 2010 consequent to the adoption of the base rate. Under the base rate regime, bankers will be free to charge the interest rate which is likely to increase the cost of credit. Cost of credit in India is much above the international benchmark which is likely to swell further under the base rate regime. He also requested the Government to enhance the threshold limit for MDA scheme from Rs 15 crore to at least Rs 25 crore.

Mr J. Crasta, President, FKCCI, said that timely export credit at internationally competitive rates, providing inputs at international prices, safeguard to exporters against foreign currency fluctuations, adequate infrastructure facilities and reigning in of inflation are the prime needs of the exporting community. He requested the government to focus on these areas so the exporting community is able to contribute even more to GDP.

The vote of thanks was proposed by Mr R.K. Mutha, Regional Chairman, Engineering Export Promotion Council of India. He thanked the Commerce Secretary for his cogent views and analytical approach. ■



A view of the audience.