Poised for growth?

Senior Minister Nitin Gadkari, who has been given the portfolio of Micro, Small and Medium Enterprises (MSME), said recently that the Ministry would identify goods being imported by India and evaluate those that could be manufactured locally by MSMEs. This could possibly give a boost to the sector. Meanwhile, here's a snapshot of the arena. By **Varun B. Krishnan**

MORE RURAL ENTERPRISES

There are over six crore MSMEs in the country, as per the MSME Ministry's 2017-18 report. Of these, micro enterprises comprise the highest percentage. Rural enterprises are higher in percentage than urban

Sector	Rural	Urban	Total (in lakh units)
Micro	324.09	306.43	630.52
Small	0.78	2.53	3.31
Medium	0.01	0.04	0.05
Total	324.88	309	633.88
Share (%)	51	49	100

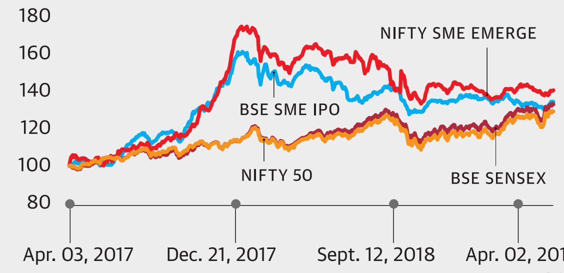
EMPLOYMENT SKEW

Though the number of rural enterprises is higher, urban MSMEs employ about 23% more people than rural ones. MSMEs employ about 11 crore people across the country

Sector	Rural	Urban	Total (in lakh nos.)
Micro	489.3	586.88	1076.19
Small	7.88	24.06	31.95
Medium	0.6	1.16	1.75
Total	497.78	612.1	1109.89
Share (%)	45	55	100

INDEX WATCH

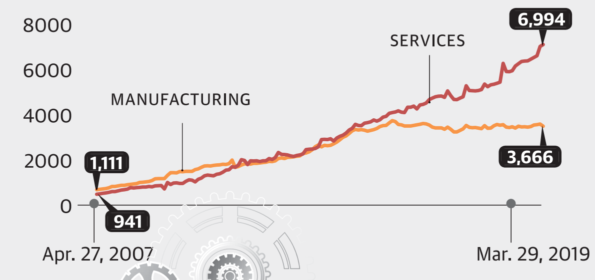
After reaching a high in January, the NIFTY SME Emerge and BSE SME IPO* slowed down in subsequent months, but have picked up between May 15 and May 30, possibly buoyed by the Lok Sabha exit poll results and the results of the election



*Indices comprising select SMEs

MORE CREDIT FROM BANKS

Bank credit to MSMEs has grown at a CAGR of 15% in the last decade, with the growth more accentuated in the services sector, which accounts for over 60% of the total bank credit disbursed to this sector



Source: Care Ratings report, MSME Annual Report 2017-18

INTERVIEW | SRIVATS RAM

'Slow economy drives caution in decisions'

Hoping that new policy decisions will spur growth: Wheels India MD

K.T. JAGANNATHAN
K. BHARAT KUMAR

Wheels India recently announced its annual results. In the media conference, its Managing Director **Srivats Ram** *was candid and said that the second half of the last financial year was in deep contrast to the previous six months. As he sees it, the economy has certainly slowed down. But he is also optimistic that the new government's policy announcements will spur investments by the September timeframe. Excerpts from an interview:*

How will the trade war between China and the U.S. play out on India?

■ It depends on how long the trade war goes on in an unresolved mode. That will determine whether it becomes strategic or opportunistic. The difference is … opportunistic is where companies look at it purely as a purchasing decision (to buy from an Indian manufacturer) … and they just change the mix to give more to another country in the short-term.

Strategic view would be that when one of the manufacturing bases is in China and if the trade war looks like it is going to be prolonged, whether the U.S. companies would look at another country to make it an alternative manufacturing base.

Once the investment happens in a new country, then chances that it is short-term are lesser. It becomes more strategic because they have made an investment in a new country, changing the base from one to another. So, if the trade war goes on for a longer period, the chances are that they could look at this decision strategically and not opportunistically. While India is not the only choice, the country could well benefit from it in the manufacturing sector given that we have some scale.

What is your view on making investments in the current scenario?

■ Typically, when the economy grows fast like it did at the beginning of last year, it gives you confidence to make capacity additions. When the economy slows down like it has now, it makes you more guarded in making investments. That said, certain investments may take a longer period of time and companies may be open to making such long-term investments and may start the investment process now. There are investments that you make as an immediate reaction to the market scenario but there are also those that you make strategically.

One also has to bear in mind the technological and regulatory changes that are likely to take place – for example the emission norms changes and safety-related regulations. So, there is a technological and regulatory angle that can lead companies to make investments which are out of the pure volume growth-based investments. We generally tend to think of investments from a growth angle alone but there are these kinds of investments as well that companies make, regardless of the volume.

What, according to you, have been the reasons for the slowdown?

■ While you may not believe this as a reason for slowdown in CV and cars, the challenges in the financial services space last year did lead to a conservative approach and impact the lending cycle that had a cascading effect on the availability of funds in the manufacturing sector. When financial institutions took a hit, they reduced their exposure to other financial institutions who lend to the manufacturing sector. So, the amount of cash going to other financial institutions reduced.

As a result, when the money became tighter, these financial institutions began imposing newer and stricter norms for lending. It was a typical Indian reaction to risk – that of increasing regulation. By amending regulation, a step was added in the lending process. Regulation and conservatism led to a certain amount of contraction and slowness in the system. Now, this is the new normal.

When I did the budgeting a few months back, I thought I was being very pessimistic. But when I look at it now, it seems like I was quite optimistic. No one is sticking their neck out. It is a fact that economy has slowed down. Everyone has recognised that. Sentiment has undergone a change. At the same time, one cannot say that this will continue forever. With the new government coming to power and policy announcements, new impetus will help the economy grow and can change the sentiment very quickly.

By August-September, investments should start kicking in again.

U.S. is shooting itself in the foot on GSP

'Terminating India's beneficiary status will cost U.S. businesses over $300 million in additional tariffs'

SRIVIDHYA RAGAVAN

After targeting China and Mexico, President Trump has declared a trade war on India. Unsurprisingly, the U.S. decided to terminate India's designation as a 'beneficiary developing country' under the Generalised System of Preferences (GSP) effective June 5, 2019.

Under the programme, India, as a developing country, enjoyed special trade benefits which allowed duty-free entry of Indian goods worth $5.6 billion into the U.S.

The seeds for this discord were sown way back when the Trump administration introduced steel and aluminum tariffs under Section 232 of the Trade Expansion Act of 1962, citing national security reasons. This subjected imported steel to a tariff, the burden of which would be borne by steel producers outside of the U.S., who stood to either lose a share of the market or a percentage of profits.

India was one of the countries affected by the U.S. steel and aluminum tariffs. India retaliated immediately and announced tariffs on U.S. importations into India worth about $240 million although these are yet to take effect.

With a move to teach India a lesson, the U.S. had been threatening to withdraw India's benefits from the GSP system. The GSP preferential trade term forms a part of the trade obligation of the U.S., which is designed to positively impact the "development, financial and trade needs of developing countries." Internationally, the legal basis for the GSP programme is found in the Enabling Clause (EC), which is a platform established under the international trade regime of the World Trade Organization (WTO) for developed countries to offer preferential trade treatment on a non-reciprocal basis to products originating in developing countries.

Unfair practice: The withdrawal of India's Generalised System of Preferences benefits is a violation of trade terms. ▪GETTYIMAGES/ISTOCK

Enabling clause

The reason for the non-reciprocal arrangement was that the Enabling Clause means to provide differential and more favourable treatment with a view to incentivising developing countries and promote their fuller participation in global trade. Nationally, the U.S. trade obligations have been codified as part of the Trade Act of 1974 under which the GSP system has been established.

Under this system, the U.S. allows preferential duty-free entry for thousands of products from about 120-plus designated beneficiary countries, of which India is one. Thus, products from these countries enter the U.S. duty-free, provided the beneficiary developing countries meet the eligibility criteria.

The U.S. Trade Representative's (USTR) office-established eligibility criteria includes affording worker rights, prohibiting child labour, ensuring occupational safety, etc.

In reality, the Coalition of GSP, which is a think-tank, estimates that the GSP programme ultimately benefits U.S. small businesses which import lower cost raw materials, which, in turn, lowers the cost of consumer products in the U.S.

The Trump administration's withdrawal of India's GSP benefits is a violation of the trade terms. That is, in a dispute that involved EC Tariffs, the WTO's Appellate Body (AB) considered special tariff preferences that EC extended to 12 of its trading partners to the exclusion of some others.

At that time, India challenged the EC's preferential trade programme. The AB opined that GSP programmes can award different benefits to different developing countries on the condition that any such differential treatment should positively lead to the developmental and trade needs of developing countries, and it should be available to all similarly-situated countries.

Unfortunately, the withdrawal is not based on any criterion that is to be applied to other nations. Nor does this move by the U.S. benefit India. Indeed, it is intended as a sanction towards India and Turkey, thus making the U.S. move a positive violation of the WTO norms.

In reality, withdrawing India from the list of GSP beneficiaries will also hurt the U.S. First, a trade war with India will reportedly cost American businesses over $300 million in additional tariffs, as per the Coalition for GSP's executive director Dan Anthony. Second, America's belligerent stance has not gone well with most trading partners. Operationally, in order to determine whether trade terms of other countries are fair, America uses the opinions of its industries and corporations.

That is, when the U.S. Trade Representative (USTR) asserts that India or China's trade terms in, say seed imports, is not to America's benefit, it is not an impartial determination. USTR's judgments are based on its seed companies' submissions.

The problem is that these companies typically consider only what is good for their shareholders and not the local realities or issues of the importing country.

Thus, arguably, America puts itself in a position wherein its trade posture is an echo of the industry's position rather than as taking a reasoned articulated stance. Third, India may well decide to take this as a dispute to the WTO. The central question for the WTO will be whether the U.S. can suspend GSP benefits to two countries – India and Turkey – as a sanction for not allowing "equitable and reasonable access to its markets."

Trade imbalances

Under such circumstances, India is likely to find support from other similarly situated developing countries. There may be support to challenge this and other unilateral U.S. actions that have come to personify the imbalances of global trade.

The world trading system is not based on the leadership of any one country. It is a mechanism to work with trade partners.

The U.S. action, unfortunately, seeks leadership among its trading partners and that hurts America first and its allies next.

(The author, an expert in international trade and intellectual property laws, serves as a Professor of Law at Texas A&M School of Law)

Premji thought, meant and did well

His commitment and passion to philanthropy are unparalleled

MINI TEJASWI

The czar of the Indian IT industry, Azim Premji, has decided to hang up his boots 53 years after he started his entrepreneurial journey. He will step down from his position as executive chairman and managing director of Wipro on July 31, leaving behind a rich corporate legacy. The succession plan he quietly put in place stands out in India Inc., which is known for succession stories riddled with controversies, infighting and bruised egos.

But that's not the only characteristic that makes him different from stiff-collared promoters and owners with whom one is familiar.

He is known for top-class business integrity, corporate governance, transparency and ethical values. He promoted openness and a non-hierarchical culture in his organisation, where speaking one's mind was the way of life and the organisation listened to people seriously.

T.K. Kurien, managing partner and chief investment officer at Premji Invest, a venture capital company set up by Azim Premji, says: "You join a job for opportunity. But one stays with a company for its high standard of ethics and values. That company is Wipro."

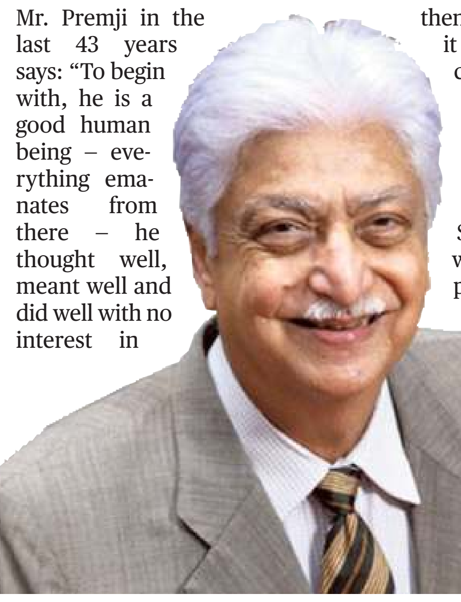
Mr. Premji gave philanthropy a different hue altogether. His passion and commitment towards philanthropy are unparalleled in India's history of giving.

"Premji is not a cheque-writing philanthropist. He is deeply committed to difficult issues like primary education and enhancing quality of teaching. Whatever he does is completely black and white and he leaves no grey areas in anything," says Krishnakumar Natarajan, one of the co-founders of Mindtree. Mr. Natarajan began his career in Wipro and held various key positions before founding Mindtree. Mr. Premji is the second-richest Indian with a wealth pool of $22.6 billion. The Premji family owns 74.3% of shares in Wipro.

Mr. Premji has pledged 67% of Wipro shares to charity and he is the first Indian to sign the Bill Gates' and Warren Buffett's 'Giving Pledge' initiative, donating 50% of his wealth.

Dileep Ranjekar, CEO, Azim Premji Foundation, who has worked with Mr. Premji in the last 43 years says: "To begin with, he is a good human being – everything emanates from there – he thought well, meant well and did well with no interest in promoting self. He engaged high quality professionals to man critical roles.

Mr. Premji was barely 21 years old when he joined his father's company, Western Indian Vegetable Products.



1976 cooking oil crisis

The country witnessed a severe cooking oil shortage in 1976. Most players inflated the cost of their oils by multiple times and made a quick buck then, but Mr. Premji decided to continue to sell his Sunflower Vanaspati at the regular price.

"End of the day, his managers will go to sleep with peace and clean conscience. Because nobody can match Premji and his company when it comes ethical standards," added Mr. Kurien.

Following his father's sudden demise he had to discontinue his studies at Stanford University. Since then he has been at it with great focus, transforming the cooking oil company to a global tech giant with revenues of over $ 8 billion. It was in 1977 Wipro got its name and it forayed into IT services business in 1982. Ashok Soota, who served as president of Wipro Infotech from 1984 to 1999, calls Mr. Premji a long-distance runner.

"He is someone who well understood the key parameters of success at a very early age. He was not hesitant to try new things. He is a man with no ego issues and he never overruled the decisions of any of his CEOs," says Mr. Soota, who later co-founded Mindtree and Happiest Minds.

Pradeep Kar, CMD of Microland, who started his career at Wipro in 1983 said: "My learnings from Azim's [he is fondly known as AHP] and Wipro's journey are many – hardwork, fairness and an egalitarian approach and a vision for a better world, and a faith that anything can be achieved through education and equal opportunity."

Co-founder of Infosys N.R. Narayana Murthy, in his media tribute to Mr. Premji on his completing 50 successful years in business three years ago wrote: "Azim is one of the finest exponents of good governance in India. He is the best example for separating management from control."

"Premji will go down in the annals of history as one of the iconic pioneers of India's IT sector. He has been a visionary entrepreneur, who has pursued his business with the highest values of good governance. His value system is reflected in his philanthropy," said Kiran Mazumdar-Shaw, CMD, Biocon.

Demand dynamics: High demand and low availability had contributed to the price rise. ▪SPECIAL ARRANGEMENT

Ginger turns spicier

Rhizome sold at ₹5,800 per 60-kg bag

E.M. MANOJ
KALPETTA

COMMODITY WATCH

Ginger prices have been soaring, owing to arrival of lesser quantum of the commodity and high demand for the produce.

After six years, the spot price for ginger rhizome touched ₹5,800 a bag (60 kg) in Wayanad on Friday, as against ₹ 1,800-₹2,000 a bag in the corresponding period last year.

The price of ginger had shot up to ₹8,500 a bag in 2013. Farmers are anticipating that the prices would go up further during June-July this year.

Though the demand has increased, availability is restricted to some regions of Mysuru, Shivamogga, Chamarajanagar and Dharwad districts of Karnataka, and some parts of Wayanad in Kerala, trading sources said. The availability of ginger in the market from the northern States and Nepal is also very low, which has contributed to the price rise, sources added.

Moreover, farmers are holding the produce, anticipating a better price in the coming months, the sources pointed out. The average price that ruled the market in the last five years was ₹600 to ₹700 a bag (60 kg), which resulted in the cultivating area reducing considerably this year.

Many a farmer would not get the benefits of the higher price as 85% of the commodity had already been harvested, N. Mohanan, general secretary, Kerala Ginger Growers' Association, (KGGA) told *The Hindu*.

According to trade circles in Wayanad, the momentum is likely to persist, considering the low availability of ginger.

The demand-supply gap of the commodity is expected to grow till August-end, when fresh stocks would begin to arrive in the market, a leading trader said.

Ginger cultivation by Kerala farmers on leased land in various parts of Karnataka, Maharashtra and Goa shrank considerably this year, after farmers incurred huge losses owing to the low price.