

Country Paper on

**'Relevance of Ancillarisation in the context of
Globalization and Emerging Trade Relations'**

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BIMSTEC COUNTRIES

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by

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Country Paper for International Seminar on 'Relevance of 'Ancillarisation in the context of Globalization and emerging Trade Relations' involving BIMSTEC Countries on 28th & 29th November 2005.

Theme:

Building partnership with BIMSETC Countries for Sustainable Development harnessing the capabilities of SSI/Ancillary Industries.

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World over the trend is to develop a block either for promoting and fostering regional interest of trade or commerce or co-operation or protecting sovereign interest. We are in the arena of Globalisation and the concept behind globalization is **one world**. **The concept** is not new and the concept of one world or the borderless world found expression in "Shrimadbhagbath Geeta" "Basudaibya kutumbakam" or in the Indian philosophy and whether it is free trade and world trade was already there and started from the ancient Indian merchants like 'Chand Soudagar' when the Indian merchants were proceeding overseas with condiments and in exchange thereto could bring something which was not available in Bharat. Even in those days. When **Port System** did not develop nor even there was a whisper of risk insurance to compensate the loss sustained by merchants due to mishap over sea route. The trading community, in their wisdom, through mutual understanding, developed a system of compensation for those merchants, who were victim of the mishap. Here, what I mean to say is that the system of cooperation, with compassion for the fellow traders without any border was already there and this was aimed at to protect from the exposure to the mutual risk. It means, the concept of risk insurance and compensation for the loss sustained was already there which has been refined today.

Here in this **context** it would be opportune to refer to the poem composed by Rabindra Nath Tagore, the first noble laureate in India, entitled '*Bharat Tirtha*'. He was a real visionary and gave **poetic expression** of the world trade in Bengali Sakabda 1317, and now it is 1412 i.e. 95 years ago. I will take opportunity to recite few lines from his immemorial writings, which is of eternal value. The sum and substance is that *here in this Bharat (India) all are invited for giving and taking and all will be coming to the main stream of humanity irrespective of any race or religion*. Here, what is significant is that free trade existed in smaller form, which has assumed new dimensions and complexion because of varied reasons in the changing global perspective.

Now, globalization underlines growing openness of the economy of the country. It postulates several dimensions arising out of connectivity amongst the people across national borders.

Indian Council of Small Industries (ICSI) has got the reason to choose the theme for the seminar on "**Relevance of Ancillarisation in the context of Globalization and emerging Trade Relations**" to promote interest of the of the ancillary industries in the SSIs/SME sector, spread over South East Asia encompassing **Bay of Bengal with Andaman Sea**. ICSI in its humble endeavor is trying to exploit the opportunity of the forum of BIMSTEC countries economic

cooperation by forging partnership to harness the **capability and potential** of SSIs/SMS sector as a tool for providing means of income, employment to the vast populace of the BIMSTEC country which may seem to be impossible, may difficult, and here we are.

To our study, in terms of the first BIMSTIC summit dated 31st July 2004 held at Bangkok, it transpires that such cooperation of BIMSTIC countries has been guided to:-

- i) Development of transportation infrastructure;
- ii) Interconnection grids;
- iii) Enhancement of tourism;
- iv) Business travel and
- v) People to people contact with a special emphasis on **empowerment**, which is the key word. inter alia, includes :
 - a) **Human Resource Development**
 - b) **Self employment;**
 - c) **Access of credit** and making poor people bankable; and after all there is emphasis on
 - d) **Capacity building.**

It was also observed therein that not only big **multinational companies** relocating their manufacturing set up in Asia, they have also been **outsourcing** their services off shore to Asia. **World is looking over the development in Asia seeking to engage here in business/trading activities more closely.** Accordingly, with that perspective in view, it would be our cooperative endeavour to fight unitedly against reduction in poverty and promoting sustainable development and thereby to enhance our competitive age in every parameter by implementing the scheme of cooperation, as chalked out, for peace and prosperity of the block/region.

Bay of Bengal initiative - under the summit declaration, which place special emphasis on cooperation in the sector of trade and investment, transport and communication, tourism, energy, human resource development, agriculture, Fisheries, science and technology and last but not the least, the people to people contact. BIMST-EC free trade treated areas as have been framed and this is guided by the principles to strengthen economic cooperation and thereby to increase inter-regional trade and investment to increase economic efficiency and large economic market with greater opportunities. While agreeing in principle in trading of goods, the participating countries agreed to enter into negotiations for eliminating **tariff and non-tariff barriers** substantially in all trades and goods, except where necessary, those permitted under Article XXIV (8)(b) of the General Agreement on Tariff and Trade (GATT) 1994 and tracks were developed, that is, **first track** and **normal track** for developing parties and least developing parties, which have been identified. The main hassle is to sort out the list to be included in the sensitive list i.e. negative list, which includes item that would not qualify for custom duty reduction under the BIMST EC free trade agreement. Now it is a question of resolving sensitive list and acceptability of Rules of origin (ROO) and ROO refers to criteria for **determining which predict should qualify as original product of member countries** participating in the

agreement and get preferential tariff treatment and this will enable in devising mechanism for protection against third country import and whether **value added criteria** would insulate such apprehension, remains a question to be seen. The **value added** criteria also sets down the minimum percentage requirement for **value addition to foreign inputs** by member countries for preferential tariff treatment.

That being the dimension of the BIMSTEC cooperation, this seminar will explore the ways and means to enhance cooperation in reduction of poverty in the member countries comprising of Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka, Thailand and India and SSI Ancillary/SME would be instrumental in so happening. **Indian Council of Small Industries** strongly believes that cooperation will remain as mere empty promises in the instruments until and unless the vast **human resources** over the region remain unutilized non- performing human assets and without any income, they will continue to stagnant and thrive under poverty. Primarily speaking, this is an upheaval task for the Govt. of the Developing and least developing countries as explained earlier. It is all the more important to note that the **population in the region** are not stagnating but equally increasing and therefore, first there is need to frame sound population policy and without sound population policy the fruits of development will not bring **distributive justice**. It is equally important to note that unemployment amongst the educated youth along side the able bodied citizen is also in increased. There is a growing frustration amongst the youth of the first generation whose energy and attention are misdirected. We should preempt this trend to defuse social tension. From the country paper submitted by member countries, in this seminar and talks delivered, it appears, if the village, cottage, **small and medium sector enterprises are reorganized** and capacity building is enhanced, it could provide employment to those who are seeking employment and income to those able bodied citizens with dignity.

Introspection on the theme of the Seminar:

We have precisely chosen Ancillary Industries as the principle theme of the Seminar. Ancillary industries are serving like a feeder line of the core industries. Popularly speaking, in India, industries could be categorized under the six broad groups, as under:

- i) Trans National Corporation;
- ii) Large Scale Industries;
- iii) Medium Scale Industries;
- iv) Small Scale/Ancillary Industries;
- v) Tiny, Micro Industries;
- vi) Village and Cottage Industries

The small and medium enterprises have been recognized as the "engine of growth" in the present millennium. SSI/SME sector has emerged as the most vibrant sector and playing dominant role in the development of economy both in developing and least developing countries. It has helped generation of large-scale employment at **lower capital cost, balanced regional growth, generation of exportable surplus** and establishment of more flexible, innovative and competitive structure.

These enterprises are ranging from most traditional to modern enterprises one from independent enterprises to **ancillaries** and **subcontractors** and the sector is catering to the needs of both domestic and global market. The character of the enterprises is mostly proprietorship, partnership barring companies, which are medium size industries and mostly they are in the private sector.

While we make a survey of SSI literature in international arena, we do not find any accepted definition of the SME and study reveals; there are more than fifty definitions in seventy-five countries. So far India is concerned, this is the first time that there is an endeavour to define SME i.e. Small & Medium Enterprises and in this regard, 'SMED Bill 2005' is of marked distinction, is waiting for passage, having wide coverage of Tiny, Small and Medium Industries. Regarding other members of the BIMSTEC countries, we find from the country papers that in some of the countries have made attempt to define Medium industries. Now coming to the definitive portion of ancillary industries, we do not find any precise definition. The word 'ancillary' is of Latin origin "*ancilla*" means female servant and its dictionary meaning is

(i) providing support to main activities of an organization (ii) additional, extra, laboratories with ancillary rooms. As also means, female servant and they usually perform the delicate work as an aide to housewife or master. Now, it is up to us, how we could utilize services of the female made servants i.e. ancillary industries and here by appropriate touch and frame, we may get Pygmalion effect.

Ancillary industries, so far **India** is concerned is the foster child of Industrial Policy - 1948, which found articulation under the Industries (Development Regulation Act 1951). It means what has been stated in the policy resolution, codified under 1951 Act. From the very beginning, the small/ancillary industries were working under protective environment and being used to work under protective environment, they are gradually thrown open to competition, found themselves uneasy, being not accustomed to act under competitive environment. It is a question of attitude and change of mind set.

At present, in terms of Third all India Census of Small Scale Industries, - 2001- 02, **number of ancillary units** (per centage of number of SSIs), out of registered SSI units is 45,797, which is 5.08 per cent of the total registered SSI units and 86,516 are unregistered units which is 2.44 per cent of the unregistered units and in total 1,32,313 i.e. 2.98 per cent of the total units of the SSI sector.

Process of Ancillarisation:

Ancillarisation and/or sub-contracting in India, started simultaneously after independence under five-year plans, as a major policy decision and accordingly, Government made endeavour in setting enterprises almost in all the core sector i.e. manufacturing equipment for Defence, Railways, Automobiles, Electrical & Electronics, Instrumentation, Telecom, Heavy- Electricals, Chemical, Fertilizer, Petroleum and Petro-chemicals, Plastic, Pharmaceutical Ship-building, Aircraft manufacturing and various other engineering and processing industries. It may be worthwhile to mention that in India, HMT and other PSUs including Defence Public Sector Enterprises started sub-contracting the low-cost technology items to Small Scale Industries and thereby helped to develop a sound base of ancillarisation. It is interesting to mention that BHEL Ancillary Industries Association, in particular. Cluster was formed, which is one of the affiliates of the Indian Council of Small Industries (ICSI) to promote ancillary industries units and it is also remarkable that BHEL authorities gave impetus to such organization so that the components so manufactured by the ancillary units are up to the mark.

Here again. Ordnance Factories and Defence PSUs, establishments are out sourcing their requirements from private sector to the extent 20 - 25 per cent and out of such out sourcing, **one-fourth** is met through **small ancillary sector**. A case in point for manufacturing Light Combat Aircraft, a success story of 120 SSI units, which were behind the curtain. Here is a point that not only Large but also Small industries are also out sourcing. It is, therefore, equally incumbent upon them to develop their Sub-system i.e. ancillary system.

It is also laudable that the controlling agencies of the PSUs, i.e. Bureau of Public Enterprises, which is now Department of Public Enterprises, framed guidelines for partnership linkages between small and large industries through ancillarisation and in terms of guidelines, PUSs were required to concentrate on core activities of design, development, research and manufacturing critical items and sub-contracting the standard item and/or the items, which could be developed in small sector. It is also remarkable that Defence Public Sector Undertakings provide design/drawings and technical know-how to manufacture components to the ancillary units and it is also encouraging, if any particular unit is **not coming up to the expectation, they provide multiple opportunities, at least three times. In short, there is a symbiotic relationship between the public sector undertakings and the ancillaries with forward and backward linkages.**

The concept of ancillarisation is not limited to the core sector. In other words, ancillary industries are not limited to cater the needs of the Public Sector Enterprises or enterprises under **Defence sector** or Railways or Government departments but large industries in private sector and they are also relying on their ancillaries very much. To name a few,

1. TELCO:
2. TISCO:
3. ESCORTS:
4. EICHER:
5. Ashoka Leyland,
6. Mahinder & Mahinder;
7. Bajaj Auto'
8. Hero Honda:
9. Hindustan Motors;
10. Cotton Textile Industries;
11. Jute;
12. Rubber;
13. Telecom - both under government and private sector;
14. Pharmaceutical;

The list, as above, is only illustrative but not exhaustive.

They are also depending upon the ancillary units and developed supply chain with their ancillaries for major components, sub-assembly items and thus sub- contracting. They are

constantly encouraging ancillary units, say for example auto industries to improve their technology and competence and still it remains as a low cost sub-assembly items for the private majors.

The Study Group, appointed by the Planning Commission. Government of India. On Development of Small Scale Enterprises, under Para -5.75 has observed 'that SSI units and Large Scale Units are **complementary to each other**'. It is also recommended, under para 5.79 that in case of **ancillaries**, the '**mother units**' should frequently review the pricing formula and the prices should be **fixed taking into consideration cost of production** of raw materials of the finished goods and the final selling price in the market. This should be done at least once in six months. Large Scale/mother units should also give proper technological support to their ancillaries. That being the Indian perspectives, and by now, having known the openings and opportunities of other BIMSTEC member countries, it would be very much convenient to develop a common data bank for exchange, supply and outsourcing of the sub-assemblies/components, which will enlarge the base of ancillaries with particular attention to export oriented Industries. **China, Malaysia, Thailand** among others had built export oriented manufacturing industries and had created millions of jobs, while generating out put and foreign exchange and keep them working against competition and this is a move towards developing camaraderie with the member countries. We should take pledge to work on twin aspects i.e. reduction of poverty and **generation of employment through SSI and SME Sector**.

Elasticity of Ancillary Industries:

What we feel is that there is elasticity in treating ancillary industries and newer ancillary industries should be identified amongst the existing works; say for example, construction industry or road construction. If linkage is to be developed amongst the member countries, along side, keeping in view of the road link, ancillary industries will develop and this may be stone quarrying, brick manufacturing, lime and cement, bitumen. If we take a pragmatic look, again on the tourism development and keeping an eye to tourism, ancillary industries, just like hotel and motel, restaurants, arts and crafts, tourist guide, travel and passage booking. In case of fishing, it needs support with boat or trawler and fishing nets and to develop expertise there is need for training and training institutes.

It would thus be evident that through co-operation and exchange of knowledge, technical know-how and access to research and development institutions of the region will go to enlarge the base and spread of SSIs/SME Sector, by which the people in the region could be empowered economically and once the people of the region is empowered economically by getting access to the means of income, they will be delighted, motivated and devote more and more for their self development, which will reduce regional imbalance and tension.

To make the co-operation meaningful and to develop a common bond between SSIs/SME communities of BIMSTEC countries there is an emergent need for **support system** of BIMSTEC countries to facilitate co-operation, expertise, technical know how and promote human resources development, by imparting training for skill development both at the entry point and existing workers as well as for developing entrepreneurs base so that the entrepreneurs are at pipe line, when every attempt is there to make their respective country for investment destination.

We have got every reason to believe that much of the reasons of poverty and unemployment are due to under utilized capacity of the existing SSI/SME units of the member countries and keeping idle the latent and potent human capacity and inability to prevent wastage and under utilization of the vast natural resources. There must be a blend and blend is possible when both the resources -human as well as natural resources are well performing and performing to the optimal, the **people of the region will really be empowered**. This will go in a long way to fulfill the articulated obligation of empowering the people of the member countries.

It is observed that there is no permanent secretariat of BIMSTEC countries. It is also observed that there is no support system. It is no gainsaying of the fact that SSI/SME sector in the region are having lots of stake in the development of the economy of the member countries and they have got crucial role to play.

In that view of the matter, we urge upon:

1. To recognize us for providing a permanent institutional memory of Government of India for BIMSTEC activities; and further
2. Ministry of Commerce and Industry may be pleased to provide inputs for BIMSTEC activities, to Indian Council of Small Industries, a federal body of SSI sector having its headquarters at Kolkata since Kolkata is strategically located so far the BIMSTEC countries are concerned.

In conformity with our submission, we further urge upon to devise a modicum for institutional support services for the developing and least developing member countries to enhance the competence of SSI and SME sector for enlarging its base and thereby to make the human and local resources performing. We humbly suggest a road map to familiarize SSI/SME associations the inherent ideas of BIMSTEC activities for furtherance of co-operation, there should be a business meeting: -

1. Promoting business under SSI/SME sector;
2. Sharing experience; and
3. Developing linkages; and

We wish let 2006 be the year for cementation of co-operation. And let there be deliberation for such road map.