OPINION ARTICLE

Empowerment of **MSME** with SOE for Greater Participation in GVC

*Dr. Yadnya Pitale

State Owned Enterprises have been a game changer in India's growth story for the last 72 years building Indian confidence as Manufacturing and services power post Independence.

In India , financial figures in context to PSUs represents total investment of 16,40, 628 cr with the total paid up capital standing at 2,75,697 as on 31 March, 2019 and total revenue earned being 25,43,370 during financial year 2018-19.

However, in January 2018, 11 countries in the CPTPP Comprehensive and Progressive Agreement for Trans-Pacific Partnership framed a set of SOE rules in the global competition which are not in favor of the Indian scenario.

This protocol is drafted mainly because of the cause underlying distortions in global trade majorly was due to subsides by China and other countries for their state-owned enterprises (SOEs). These subsidies stimulate excess production, depress market prices, and enable SOE-produced products to capture market share beyond accepted norms of competition.

The rules for the global SOEs/PSU/PSE as per the CPTPP are basically anti protectionism , more corporate and financial disclosures and require commercial sales and purchases be made on the basis of commercial considerations (price, quality, availability, transportation, and marketability)which means that government contracts go to the lowest bidder without discrimination in favor of domestic companies.

Similar provisions appear in the EU's recently negotiated free-trade agreements with Canada and Japan. This postulates that there is a growing dissent against protectionism which has also reflected in case of trade subsidy schemes other than the SOEs/PSUs.

In the Indian context, however the PSUs have played an important role in shaping India's manufacturing and other services sector. Thus with this kind of world trade regime ,Indian SOEs/PSU/PSE however are set to suffer due to these rules inspite of not being part of the syndicate. Indian manufactured goods are already fighting price competition due to various reasons and further decree to restrict protectionism especially in case of SOE is not a competitive advantage to the Make in India campaign.

The Indian PSUs are already facing competition from many of the upcoming privately owned enterprises. However point to be noted is that as compared to POEs, PSUs are still sustained and major job creators and production centers in India.

MSMEs amongst the POEs are presently receiving more attention and are being promoted both in India and Internationally so as to create more entrepreneurs and decrease the dependence on jobs. Also on the other hand increase domestic manufacturing.

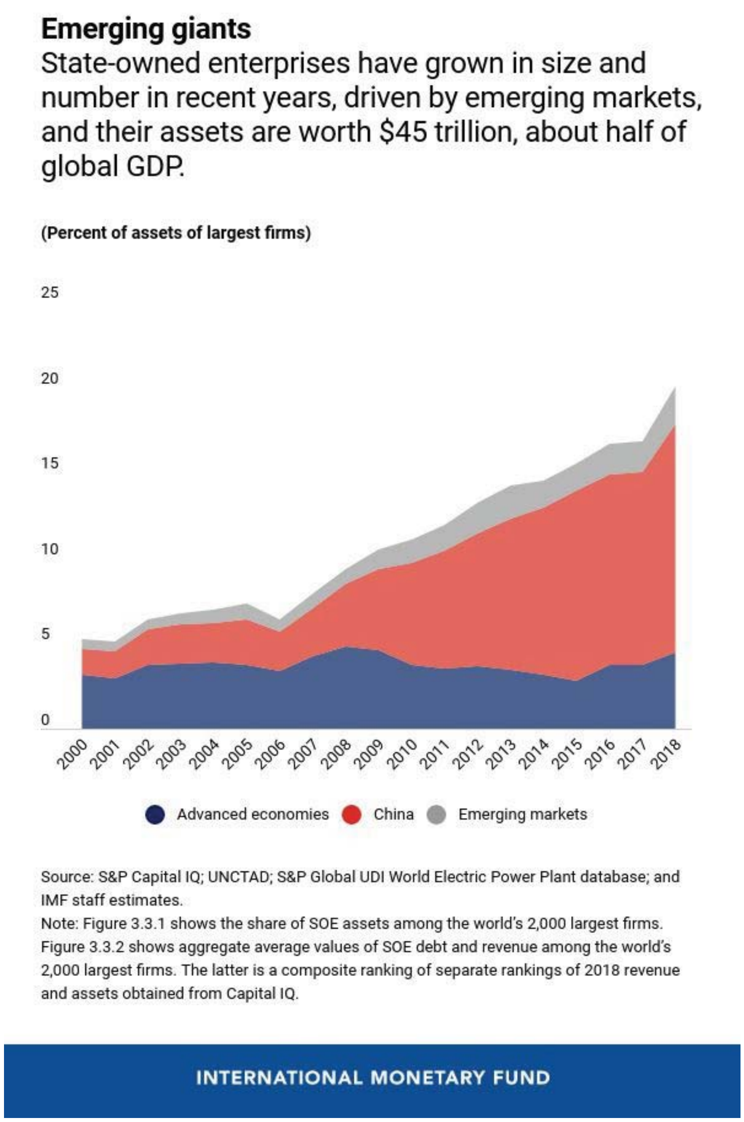
The PSU and MSME sector both share both these objectives in common that of job creation and promotion of domestic manufacturing. Thus, further synergy in their operations will no doubt result into a polyvalent likelihood of growth objectives such as job creation, better share to GDP, heightened consumerism, higher trade opportunities etc. And this can only be achieved by incorporating MSME in SOE/PSU/PSE architecture and thus integrating the two.

According to the source of public sector enterprises of the Government of India Department (2018), there are 257 operating central public sector enterprises that are profit making. And more than 80% of PSEs operate in five sectors, consisting of agriculture, mining, manufacturing, electricity, and services.

In its attempt to revive the Indian PSU climate and make Indian PSUs competitive in the global environment, a strategic plan was put in place. The Indian government released a new industrial policy on 24 July 1991. The best part of this policy was listing SOEs on the stock exchange and a professional board culture.

In the Asian sub continent, according to a comprehensive OECD report(2010) on SOEs in Asia, PSUs have been strategic in country economy, in China they account for 30% of GDP, in Vietnam 38%, and they account for roughly a fourth of GDP in India and Thailand. PSUs are also big employers in many of these countries — 15% in China, 5% in Malaysia.

In BRIICS economies PSUs are playing an important role. Brazil, Russia, India, Indonesia, China, South Africa. According to a recent KPMG report, of the 2,000 largest SOEs globally, 260 are from BRIICS economies.



Over the past two decades, many countries have rolled out a range of initiatives to get their PSUs in shape. Three former planned economies have set up centralized holding entities — SASAC in China in 2003, SCIC in Vietnam in 2007 and Druk Holdings and Investments in Bhutan.

In 2006, the Philippines pioneered the development of an SOE governance scorecard which has become an important tool for pushing SOE reforms. Since 2004, Malaysia has rolled out a comprehensive 'transformation program" to overhaul its PSUs.

Though SOEs from these countries have made a mark on the global map. Most pertinent to note is China's SOEs stamp on global trade through GVC network. According to a paper by Calgary University, SOE contribution to GDP in China rose from 8% to 10% and per-firm assets more than doubled from below 500 million yuan to almost 1.3 billion yuan according to present data.

Though 123 or 47% of the largest BRIICS enterprises are SOEs. The market value of SOEs amounts to 32% of GNIs (gross national income) among all BRIICS countries. However India is the only economy that is trying to get a hold on its PSUs to at least sustain.

Maharatnas, like Indian Oil, Oil & Natural Gas Corporation, Bharat Heavy Electricals, NTPC Limited, Steel Authority of India, etc, are world-class CPSEs. Several PSEs like GAIL (India), RITES, Engineers India Ltd, MECON, HPCL, BPCL, NALCO, WAPCOS, etc, are globally competitive and at the forefront of forging joint ventures in setting up subsidiaries abroad and expanding overseas operations.

Though there has been an excellent attempt by the Indian PSUs making a mark in the GVC trade, however there is much to achieve as compared to other developing countries.

Thus a two tier approach needs to be introduced in the Indian SOE/PSE environment so that Indian SOEs sustain competition from POEs internally and compete in the GVCs. Thus the objective would be,

1. To introduce further reforms to bring Indian SOEs in par with the global counterparts.
2. To counter WTO propositions in context to protectionism in order to downsize SOE participation in GVC.

Both of the above objectives can be achieved by introducing MSME in the SOE architecture.

MSME represent inclusive development and are also vital in terms of SDG 1, 8 and 9.Thus integration of MSME with the SOE will promote inclusive development incorporating the SDGs. At the same time this model will help the PSE-MSME architecture to be unique of its kind.

Already SOE in the Indian scenario serve the purpose of SDGs 1, 5, 8 and partially 9. As many plants in the public sector operate in backward parts of the county, which lack basic industrial and civic facilities, such as electricity, water supply, townships, and workforce. Therefore, by providing these facilities and founding public sector enterprises, both central and state governments have achieved balanced regional development. Also, the total employment in SOEs/PSUs is above 15 lakh in India. Thus SOEs are major sustainable employment creators aligned with standard labor laws.

Indian SOEs with a new architecture will be better viable in the global trade movement. Thus, in this new avatar there is no doubt that this new model will bring to fore dual development to fore for the world to watch.

Also it is a fact that SOE either supply intermediates for manufacturing the final product or consume intermediates to produce final products. The intermediates are either sourced from large manufacturers or MSMEs. Or the intermediates manufactured by MSME or large manufacturers act as inputs to SOE. Vice versa the share of MSME and large players in the Board needs to be equalized so that MSMEs achieve recognition in the SOE architecture. Sustainable representation on boards will help better communication between MSMEs and PSUs.

This will help in two ways, SOEs being partially run by MSME will help integration of the two on one hand, SOEs will be resilient to MSME needs and thirdly SOE integration with MSME will help India present a role model concept of SOE unlike the protectionism objective of some countries.

MSMEs are gaining importance in the world economy to boost employment, trade and small entrepreneurship. They already support SDGs 1, 8, 9. Thus integration with MSME will help bring expertise, professionalism and Government support to both SOE and MSME. Years of experience and standardization in case of SOE and business experience in MSME will bring out a better business model. Also, MSME contribution in GVC is being promoted by the UN agencies this will help both Indian SOEs and MSME to be part of the GVC regime.

One important aspect which hinders MSME participation in GVC is the lower acknowledgement of MSME by large firms. One large firm which exists in different countries is supplemented by local MSMEs. There is no recognized inclusion as such when one such large firm derives from local MSMEs who are at lower bargaining power. With the MSMEs playing an indirect role in GVC, their interests are not being directly represented.

In the SOE-MSME architecture this drawback will be taken care of as MSMEs will be more recognized as contributing co party.

In the SOE –MSME partnership MSME will be guided to a better extent which will work in favor nation's development and growth

Apart from this partnership MSME need a level playing field to grow linearly and sustainably .Hence ,it becomes inevitable that,

1. Integration of the MSME of country of origin in the manufactured product by promoting the names of the same in the product book becomes essential.
2. Multilateral agreements at the country level and firm level agreements need to converge for the cause of MSME and the products that are supplied by these need to find inclusion for promotion purpose in the export domain.
3. FDI flow should be directed to the MSMEs and countries like India need to ensure such provisions in corporate law structures are accommodative. Large firms are capable of attracting FDI for their own brand investment in India however such investments need to be directed towards MSMEs directly and not with an indirect type of an investment. This will enable business confidence in the MSME and higher dependability on order forecast. This will reduce the financial stress as orders get regularized, standardized and fixed. When MSME and SOE are working hand in hand this proposition will counter the financial problems existing in both the entities.
4. Labor laws need to be liberalized globally to ensure MSMEs and SOEs function cost effectively. Labor supply gaps exist for MSMEs in labor rich countries. Firms are not able to infuse labor in their production teams, inspite of surplus labor.
5. Dedicated international desk or in house teams need to be more proactive in trade policy structuring as they are more acquainted with ground level issues which act as barrier to trade and hamper price competitiveness.
6. Indian Embassies, nodal Ministries, PSEs and their associations should have a facilitative approach for Indian SOE and MSME business.

Although the liberalized economic reg - ime and globalization have transformed the role and functioning of SOEs, these enterprises still play a significant role in the socioeconomic development of this country.

174 out of 184 Indian SOEs are running profitable business however with the ongoing WTO mandate against protectionism the SOE architecture in India needs to embezzle out into a new avatar of MSME integration in the GVC landscape.

Dr. Yadnya Pitale's, **M.IOD**. She holds a professional career spans over 20 years, enriched with knowledge from various sectors of the industry with impactful footprints in financial services and MSME representation. This led to development of major BSE publications with the latter adding six major research studies based on primary and secondary research in the MSME sector. ■