

PRESS CONFERENCE

by

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Wednesday, October 15, 2008
7.30 p.m.
Century Club, Bangalore

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We are holding this Press Conference at a time when there is a lot of pain in the global economy. All of you are familiar with the financial melt down which has taken many financial institutions down and consequent liquidity crisis. It is difficult to predict how long this situation will last. Analysts have predicted that no country is insulated from the ill effect of this turmoil. The world economy is bound to take a beating in terms of growth. The original projection of 3.6% growth will be a dream. The worst affected will be the developing countries whose economies are skewed towards exports.

The Indian economy is well integrated with the world economy and our markets are interlinked with world financial markets. Though our banks and financial institutions are strong the ripple effects are bound to be felt. We are already witnessing the liquidity crunch in our system. The stock markets are witnessing a major melt down in India. The liquidity crisis will affect all businesses and we should be ready for harder times in the near future. The silver lining is the excellent savings rate and strong fundamentals.

For a State that prided itself in solid growth and social indicators for the best part of 4 decades after independence, relative to its peers, performance in recent years has been very disappointing. Growth in Karnataka has tapered off and stalled over the last 4 to 5 years. Although above average record on most of the socio economic indicators, it is quite below Punjab, Tamil Nadu, Gujarat and Maharashtra. The economy has become dangerously unidimensional and over dependent on IT and off-shoring and is vulnerable, going forward, to global trends in this sector. This is despite the fact that Karnataka accounted for 37 per cent of India's software exports in 2007-08.

Karnataka's mission is to move forward to attract industrial investments leading to accelerated development of the State's economy. Our vision is to make Karnataka an ideal place not only to live but also for business by making it more investor friendly and make it a model by 2020 as per the vision constituted under the stewardship of Shri Yeddyurappa.

Where we are today?

- The per-capita income in 2005-06 in Karnataka was Rs 27,101. The All India average was Rs 25,956.
- The per capita income in 2007-08 is estimated at Rs 29,786 as against All India average of above 30,000.
- Percentage below the poverty line in Karnataka 25, Punjab 8.4, Gujarat 16.8 , Tamil Nadu 22.5, Maharashtra 30.7 and All India 27.5
- Percentage of Literacy 67.67 percent in Karnataka, 70 in Punjab and Gujarat, 73 in Tamil Nadu, 77 in Maharashtra and All India 65 .
- Percentage of Households having safe drinking water- Karnataka 84.6, Punjab 97.6, West Bengal 88.5 and Uttar Pradesh 87.8

- Karnataka tops among the 4 Southern States in the bribes that its citizens living below the poverty line have to pay to avail of 11 basic services.
- While 67 percent of the BPL households had to bribe their way in Karnataka to get basic services the proportion in Tamil Nadu was lower at 59 percent. But the actual payout at 97.6 crores was the highest among the four Southern States.

The Way Forward

The wealth generation in any economy is through Industry, Trade, Service and Agriculture. We are not dwelling into the growth aspects of agriculture here. Our scope is to look at growth in Industry, Trade and Services.

We should target a growth of 10 to 11% for the next 5 years to catch up with our previous performance and look at 14 to 15% growth thereof.

Growth in all sectors of economy need to be individually focused to achieve the desired growth. The main areas of concern are infrastructure, cost of doing business, bureaucracy and the general environment.

Infrastructure

a) Land

Land is the most important component required for setting up any business. The present land legislation in Karnataka is not investor friendly. This issue needs to be addressed immediately and top priority be assigned to improve the availability.

b) Power

The importance of power can never be over emphasized. We have already witnessed power shortages in our State during the last couple of months. The State must put in place a comprehensive plan to double the power generation in the next 5 years. Non conventional sources of power must be pursued vigorously with attractive incentives.

c) Roads

There is a direct co-relation between economic development and road infrastructure. We rank poorly when compared to the other States. The Government needs to implement the pending and proposed projects without any let up. The quality of roads needs to be upgraded to last long.

To cite an example, there is an urgent need to maintain Charmudi Ghat road at all times to facilitate easier movement of heavy trucks to Mangalore.

d) Airports

The present Government has announced a fast track development of airports like Gulbarga and Shimoga. The proactive policy of the Government is welcome.

e) Seaports

Though we have a long coastline we do not have facilities to handle big ships carrying containers even in a port like Mangalore. The connectivity to Mangalore Port has to be improved so that the businesses can look at Mangalore and Karwar for future needs.

f) Railways

Many long pending projects need to be hastened by lobbying with Central Government. Priority to be assigned to allocate funds for routes leading to backward districts. There is a sense of happiness that the gauge conversion between Gadag and Bagalkot is finally completed.

g) Communications:

Karnataka is the IT hub of the country. However, the communication network in tier 2 cities are inadequate. To facilitate businesses set up, BPO operations in tier 2 cities and district headquarters excellent communication network must be provided.

Forward looking states like Karnataka, must plan well ahead on all the areas of infrastructure, as infrastructure projects are of long duration and need substantial investments.

Cost of doing business

1. Any prospective investor evaluates all the costs before taking the final decision for investment. On a cursory analysis all the major components of costs in Karnataka are not favourable compared to the neighbouring States. The land cost is prohibitive and acts as a disincentive for new investments.
2. Power costs are almost 20 to 30% higher in Karnataka. The availability is also an issue whereas other States have almost frozen their power tariff for the last 4 – 5 years and have a comfortable power situation.
3. The cost of administering labour in Karnataka is perceived to be higher due to the archaic rules and unhelpful attitude of the bureaucracy.
4. There is a great scope for rationalization of taxes. VAT rates on capital goods and entry tax need to be revisited to help our businesses compete on a level playing field.
5. Stamp duties need to be on par with competing States. Though the Government announced in the last budget some reduction in stamp duties it has to go whole hog.
6. Unnecessary legislations and clearances like trade licences must be done away with.

Bureaucracy and General Environment

There is a great sense of urgency in sensitizing the bureaucracy to the needs of Trade and Industry. This can be achieved with no cost to the Government.

The single window system of clearances must be strengthened and made more meaningful.

It may not be out of place to talk about Nano project which our State lost out to Gujarat. Why? An industrial group like Tatas with existing presence in Karnataka would have easily evaluated all aspects. The results are before us in terms of the decision taken by them. We should reflect and consider this as a feedback.

The Government must set up a mechanism wherein all the clearances and permissions are automatic and the need for the businesses to interact with the bureaucracy must be minimum. To this end we must study the processes in other States and adopt the best practices.

Bangalore

We are very happy that the present Government has taken many decisions to transform Bangalore's infrastructure. They have also said all right things about Bangalore's development. But the proof of pudding is in eating. We are yet to see the decisions transforming into action and every resident of Bangalore is eagerly looking forward; the Trade and Industry is no exception. It is well known that Bangalore contributes more than 65% revenues to the Government and has been the growth engine of the State. If attention is not given to Bangalore the consequences will be proverbial "killing the goose that lays golden eggs". We have lot of ground to cover and speed matters.

FKCCI plan for my year

FKCCI is the premier body to promote the welfare of the State. Founded by Sir M. Visvesvaraya in the year 1916 it serves to promote the interests of Trade and Industry. It has around 2500 membership base and a reach of over 1 lakh members, indirectly, affiliated to the institution. FKCCI advises the Government on important policy matters and its views carry weight.

As President of this great Institution, my main objective for this year is to enhance the image of FKCCI. The various steps I propose to achieve this are:

- To create a Business Research Cell with an objective to present unbiased position papers and act as a data bank.
- To increase the membership base.
- To re-position monthly magazine – Mysore Commerce and to include more research based articles
- Purchasing of land and construct State of the Art Training facility
- To construct two more floors on the existing WTC building

- To restructure the Chambers hierarchy by implementing the recommendations of Ferguson and Company.
- Appoint an Advisor in Delhi for better co-ordination.
- Initiate steps to establish an Arbitration Cell
- Streamlining all the processes at FKCCI for better efficiency and higher revenue

I take pride to mention that FKCCI President has been co-opted as a Member of both State Planning Board and State Vision Group under the leadership of Chief Minister of Karnataka. This casts more responsibility on FKCCI.

I have tried my best to give FKCCI's view about the present status of the State economy and the way forward. The objectives of FKCCI and the Government being similar, and our endeavour will be to assist the Government to achieve these goals. I request you to highlight the major issues and opinion presented by us in this Press Conference.

I would like to thank all my friends from the print and electronic media who have turned out in large numbers for covering the press conference. The press has always been supportive to the activities of the Chamber. I request the press to continue to render the same support to the Chamber in all its activities in the future.

Thank you.