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INTERVIEWS

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# Tap the opportunity before another economy does, urges World Trade Center-Mumbai

By Jescilia Karayamparambil

**Rupa Naik, Senior Director of MVIRDC World Trade Center Mumbai, speaks to Free Press Journal's Jescilia Karayamparambil about the challenges the exporters are facing.**


Rupa Naik, Senior Director of MVIRDC World Trade Center

The trading activities are at standstill (except for essentials). But for many manufacturers/exporters that fall under Micro, Small & Medium Enterprises (MSME) this clamping down on trade and manufacturing is expected to hit them hard. Rupa Naik, Senior Director of MVIRDC World Trade Center Mumbai, speaks to Free Press Journal's Jescilia Karayamparambil about the challenges the exporters are facing.

**Edited excerpts:**

### How have exports been hit due to lockdown?

Many exporters are facing cancellation of orders amidst the pandemic. Therefore, exporters who booked forward contracts anticipating revenue from these orders are in a fix now.

Movement of cargoes has been affected due to lack of manpower in the port areas and also because of the scarcity of truck drivers. There is huge congestion in the port area as import cargoes are not being cleared due to lack of transport workers.

MSMEs who have already taken orders from foreign clients are unable to fulfil them because of production shutdown. The government should allow MSMEs with unfulfilled export orders to operate at least one shift with proper guidelines on social distancing. Exporters in districts that do not have any COVID-19 case should be allowed to operate their production facilities.

### How long will it take for the exporters to get back in shape?

It will at least take three months before the companies start to export. For that to happen, the central and state government will have to give them incentives to survive.

### What are the recommendations made by the WTC Mumbai to the government?

WTC Mumbai has made several suggestions to the government to ease the stress faced by exporters. Some of them are:

- Convert the losses incurred by exporters in booking forward contracts into loans, with flexible repayment terms.
- Ensure that there is no disruption in the flow of credit to farmers for buying inputs for the next crop season (Kharif). Any disruption in credit will affect India’s farm exports in the medium term.

- Provide credit guarantee for exporters who availed credit in anticipation of export orders, since many of these orders are cancelled by overseas clients.
- Expedite refund of all pending tax credits
- Extend the payment timeline for unrealised export bills discounted by banks and other financial institutions.

**How much per cent of WTC members are able to trade and how many are waiting for the lifting of restrictions?**

Many of our members are unable to fulfil export orders because of the scarcity of labour, delay in customs clearance, lack of transport facilities and other challenges.

Exporters from the green zone (where there are no reported cases of COVID-19) are waiting for the lifting of the lockdown

**Do you see a challenge in getting the workforce back?**

I think the labour will come back because all need jobs. But there have to be some regulations around their operations.

**How can healthcare exports become a game-changer for the Indian economy?**

Already India is a major exporter of generic drugs in the world.

Now, we need to focus on indigenous manufacturing of bulk drugs and Active Pharmaceutical Ingredients. India can save more than USD 3 billion in foreign exchange by becoming self-sufficient in certain critical medical devices used to combat COVID-19. According to our estimate, India can benefit from catering to the global healthcare market, which is expected to be USD 12 trillion by 2022.

**What are the other areas of exports the government has to look at?**

We have to look at other components that can be made in our country. So that our import bill can come down. At the same time, we can create more employment in the country.

India has a large domestic market. If India just focuses on its domestic market by encouraging import substitution, it will work well for us.

**What is the trade deficit India is looking at?**

We expect India's trade deficit to be benign in 2020-21, because of the sharp decline in crude oil prices and also because of the expected decline in imports of gold and capital goods. Crude oil, gold, electronics and engineering imports are the major drivers of trade deficit. Imports of these goods are expected to decline in the coming year because of the expected slowdown in the Indian economy. Therefore, the trade deficit may be within the manageable level of USD 80-90 billion.

**What are the challenges Indian exporters should be ready to face?**

World over, countries may reduce their imports and take steps to become self-sufficient as a lesson from the COVID-19 crisis. Therefore, Indian exporters need to be highly cost competitive to retain their existing markets.

Exporters should also arrange for alternative sources of importing raw materials, in case they are unable to procure raw materials from the source country as a fallout of the COVID-19 crisis.

**What are the opportunities for India exporters?**

The sharp fall in the Indian rupee against the dollar will enhance the competitiveness of local exporters in the global market. However, the advantage from this may be limited as the currencies of our export competing countries have also depreciated in recent weeks. Indian exporters can benefit from the potential shift in global supply chain away from China, Italy and other affected countries.

**There are talks about more foreign companies moving offices to India. How do you see this?**

I do not know if foreign companies want to come to India. But one thing is for sure that they are not going to come right now into the country due to regulations on foreign companies. I strongly believe that Indian companies can stand the test of time if given a fantastic stimulus package. Bring India to the level of the United States or Canada.

| Countries | Size of economic stimulus in USD billion |
|---|---|
| USA | 2,400 |
| Germany | 808 |
| Italy | 569 |
| UK | 481 |
| China | 394 |
| Spain | 219 |
| Australia | 213 |
| Canada | 145 |
| Malaysia | 58 |
| India | 23 |
| Bangladesh | 8.5 |
| Source: IMF, media reports, WTC Mumbai | |

Note: The size of the economic stimulus is calculated by converting from their respective local currency to USD based on the market exchange rate. This stimulus measure doesnot incclude the measures taken by the central banks of the respective countries or the economic union

The package given by the government is not enough for MSMEs. Around 90 per cent of India is controlled by MSMEs and 90 per cent of jobs are created by MSMEs. The government will have to find a way to turn this opportunity into a real opportunity before another country does. Otherwise, India will continue to be a dumping ground again and we will not be able to survive such competitions.

MSMEs need immediate liquidity support to operate and to prevent from becoming insolvent. We cannot afford to let our MSMEs fail as they account for more than 20 per cent or 11 crore jobs in the country and more than 40 per cent of our exports.

**If tomorrow the government decides to help MSMEs with incentives, what kind of export growth will we see?**

If the government gives us a very good package, we can double the exports. The central government will have to look at various kinds of regulations that are holding companies back. The manufacturing sector was already suffering due to the regulatory controls, now added with the Coronavirus, the sector has gone to ground zero.

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# Government should adopt 9-point agenda to provide relief to small businesses

**TOPICS:** #MVIRDC #WTC


Ms. Rupa Naik, Senior Director, MVIRDC World Trade Center Mumbai

POSTED BY: SACHIN MURDESHWAR APRIL 19, 2020

Nine-point agenda prepared based on analysis of stimulus measures in 10 prominent countries.

**MUMBAI, 19th APRIL, 2020 (GPN):** MVIRDC World Trade Center Mumbai proposes nine-point agenda to revitalize Indian economy by providing immediate liquidity support to micro, small and medium enterprises (MSMEs) who are the mainstay of employment and exports.

This nine-point agenda includes freezing all statutory payments, offering wage subsidy, waiving property tax and stamp duty, providing direct grants, extending bridge financing, credit guarantee, interest subsidy, reducing corporate income tax and allowing one-time restructuring of loans. The detailed list of the nine-point agenda is provided in appendix I.

This nine-point agenda is prepared based on an analysis of the relief/stimulus measures provided by 10 prominent countries from the developing and developed world. These countries include Bangladesh, China, UK, USA, Malaysia, Spain, Italy, among others. The comparative chart of the relief measures provided by these countries is provided in appendix II.

Government of India has so far offered Rs. 1.7 lakh crore worth relief measure representing**0.8%** of our GDP. India needs a much larger relief measure to address the economic fallout of this pandemic. Even a least developed country such as **Bangladesh** has provided relief measures worth more than **2.5%** of its GDP, while **Malaysia** has offered relief measures worth **6.4% of its GDP**.

Even though Reserve Bank of India (RBI) has been infusing massive amount of liquidity into the banking system since March 27, 2020, banks are not transmitting this to the distressed sections of the industry. We hope that the second monetary easing measure undertaken by RBI on April 17, 2020 will improve flow of liquidity to MSMEs, real estate, micro finance and small & medium NBFCs.

In the coming days, Government should play an important role in providing credit guarantee to MSME loans so that banks will shed their risk aversion while lending to MSMEs.

Speaking on the imperative of an immediate stimulus package, **Ms. Rupa Naik, Senior Director, MVIRDC World Trade Center Mumbai** said, "MSMEs need immediate liquidity support to operate as a going concern and prevent becoming insolvent. We cannot afford to let our MSMEs fail as they account for more **than 20% or 11 crore jobs** in the country and**more than 40%** of our exports."

MSMEs contribute 29% to the country's GDP and produce more than 5,000 varieties of products that are labour intensive. Therefore, reviving MSMEs is the most important way to revitalize the economy. Global institutions and experts have warned that this crisis is far worse than the 2008 Global Financial Crisis and can also be worse than the 1930s Great Depression, if policymakers do not act in time to support industry and consumers. International Monetary Fund (IMF) expects the global economy to contract 3% in 2020 and it has **slashed India's GDP** growth forecast by a **whopping 3.9%** to **1.9%** for the ongoing financial year.

The nation-wide lockdown caused many MSMEs to lose their local and overseas clients, and most of them are sitting on unsold inventories. In the absence of adequate relief measures from the government, the plight of our **MSMEs** may precipitate into huge job losses.

**Appendix I**

**Nine-point Agenda**

1. **Freeze all statutory payments**: At a time when industries are facing loss of revenue from disruption to their business, the government should freeze all tax and non-tax dues such as electricity and telephone bills. Companies in the travel & hospitality, retail, real estate, entertainment and hotels may face low demand in the next one year because of the expected change in the lifestyle of the people post-COVID. Therefore, the government should freeze statutory dues for these sectors for a period of one year. Many countries, from the developing and developed world have resorted to this measure to provide relief to the industry.

2. **Provide wage subsidy:** Small businesses are struggling to pay salaries of their workers amidst the dwindling revenue stream and cancellation of orders from clients. In order to prevent mass layoff of workers, the government should partially share the wage burden of the industry by providing subsidy or grants towards this expenditure. Australia has supported its employers by providing wage subsidy.

3. **Waive stamp duty and property tax:** The government should waive stamp duty and property tax for the current financial year for small businesses. Egypt has waived stamp duty on transactions, while Georgia has suspended property tax for tourism sector till November 2020. Countries such as UK and Uzbekistan have also provided relaxation in payment of property tax for affected sectors.

4. **Government guarantee for loans to MSMEs:** In order to encourage banks to lend to the MSME sector, which is perceived as risky, government should provide either complete or partial guarantee on bank credit to the sector. The government already gives guarantee under the CGTMSE scheme for MSMEs to avail collateral-free loans upto Rs. 2 crore. The corpus of this scheme can be enhanced so that it benefits a wide spectrum of MSMEs.Separately, the government can guarantee initial loss of say 20% of fresh loans extended by banks to the MSME sector. Government guarantee will encourage banks who shy away from lending to the industry in this circumstance. Banks are sitting on excess liquidity of Rs. 6.92 lakh crore, which is equal to more than 3.4% of India's GDP. This liquidity should flow to the industry to kickstart economic activity post lockdown.

5. **Provide direct grant for MSMEs:** Government should provide direct grants to MSMEs in the manufacturing and services sector. The lockdown has increased the financial hardships of companies because of increase in freight rates amidst sub-normal functioning of transport operators and scarcity of truck drivers. Companies are also suffering from their inability to convert their inventories into cash because of closure of market. In this situation, companies are struggling for liquidity to meet their immediate expenses. The government should provide liquidity in the hands of the MSMEs to meet their immediate expenses such as rent, commissions, daily wages etc.

6. **Provide bridge financing for MSMEs:** Countries such as Thailand have provided bridge financing for companies whose bonds or loans are maturing in the current financial year. Such a bridge financing will help companies repay their loans that fall due in the immediate future. Even Iceland has offered bridge financing to distressed enterprises in this circumstance. Government of India may provide such bridge financing to MSMEs whose loan amount is due for repaying in the current financial year.

7. **Reduce corporate income tax:** In September last year, the government reduced corporate income tax for manufacturing companies set up after October 2019 to 15%. Considering the hardships faced by the industry today, this reduced corporate tax should be made applicable for all companies. This will significantly relieve the tax burden on industry and to that extent reduce the impact on their liquidity.

8. **Subsidize interest payment for MSMEs:** Government of India should partially bear the interest cost on the working capital and term loans availed by MSMEs. Even though Reserve Bank of India reduced repo rate to 4.4% on March 27, 2020, even a AAA-rate corporate entity (company with sound credit rating) is not able to raise bank loans at interest rate below 8%. The interest rate paid by MSMEs is even higher than the 8% as they are perceived as high risk borrowers. In order to reduce the interest cost burden on MSMEs, the government should subsidize the interest payment of MSMEs. Government of Bangladesh has provided subsidy on working capital loans availed by MSMEs.

9. **One –time restructuring of loans**: These are extraordinary times that require extraordinary government measures to support the distressed industry. We cannot expect quick recovery in economic activity immediately after the lockdown as it may take a few months for migrant labourers to return from their hometown and consumer demand to pick up gradually. Therefore, the operation of MSMEs may not attain the full scale that was witnessed before the lockdown. This will cripple the ability of these enterprises to repay their loan even after the moratorium period of three months, given by Reserve Bank of India (RBI). Therefore, the government and RBI should provide a one-time restructuring of loans extended to MSMEs and other distressed companies.

Small enterprises need immediate relief to stay afloat in this challenging time and prevent their liquidity crisis from becoming an insolvency crisis. We are confident that these measures will cushion the fallout of the COVID-19 crisis on small businesses, prevent massive layoff of workers and facilitate quick recovery of the economy. **ENDS**

## Appendix II

**Size of economic stimulus offered by governments of select developed and developing countries**

| Sr. No | Countries | Size of economic stimulus in USD | Economic stimulus to GDP (%) | Measures for SMEs |
|---|---|---|---|---|
| 1 | USA | USD 2400 billion | 11.5 | The government offered USD 250 billion worth one-time tax rebate to individuals, USD 250 billion worth unemployment benefits, USD 510 billion worth corporate loan, guarantees and other relief measures for companies, USD 359 billion forgivable loans to small business, USD 150 billion worth transfer to state and local governments. |
| 2 | China | USD 340 billion | 2.5 | Government announced fiscal measures worth 2.5% of GDP, of which 1.2% is already implemented. Key measures include: additional spending on epidemic prevention and control, production of medical equipment, speedy disbursal of unemployment insurance, tax relief and waived social security contribution. The government increased the ceiling for special local government bonds by 1.3% of GDP. |
| 3 | Germany | USD 173.61 billion | 4.9 | The government measures include additional spending on healthcare, expanding access to short-term work subsidy to preserve jobs and incomes of workers, expanding childcare benefits for low income parents, easier access to basic income support for self-employed people. The measures also include grants to small businesses severely affected by the crisis and post-ponement of tax payments by industry.<br><br>Seperately, the government is expanding the volume and access to public loan guarantees for firms under the newly created economic stabilization fund (WSF) and the public development bank KfW. Some firms are eligible for up to 100% guarantees. In addition to the federal government's fiscal package, many state governments have announced own measures to support their economies. |
| 4 | Australia | USD 122.94 billion | 9.7 (10.6% including healthcare spending and relief measures of state governments) | The central government of Australia announced 9.7% of GDP worth of stimulus measures, of which 6.7% of GDP will be spent on wage subsidy. Other measures include income support to households, cash flow support to businesses, investment incentives and targetted measures for affected industries and regions. The central government also offered guarantee for loans to small businesses. The central government also infused liquidity into banks and non-banks by buying their loan assets.<br><br>Apart from the 9.7% of GDP worth stimulus measures, the central government announced to spend an extra 0.3% of GDP on health system. Further, the state and territory governments announced relief measures worth 0.6% of GDP. |
| 5 | UK | USD 49.8 billion | 1.8 | The government provided property tax holidays, direct grant for small firms in the affected sectors and compensation for sick pay leave. The government increased spending towards healthcare, public services and charities. The government also launched Coronavirus Business Interuption loan scheme for small and large firms. The government decided to pay 80% of the earnings of self-employed and furloughed employees for an initial period of three months. |
| 6 | Italy | USD 27 billion | 1.4 | The measure includes strengthening the healthcare system, preserve jobs and support income of laid-off workers and self-employed people. The government deferred tax and utility payments of industry. The government also took measures to enhance supply of credit to industry. Further, the government, under the Liquidity Decree, provided additional guarantee upto Euro 400 billion (25% of GDP) for loans to industry. |

Source: IMF and other media sources; The size of the economic stimulus is calculated by converting from the respective local currency to USD based on the market exchange rate. This stimulus measure does not include the measures taken by the central banks of the respective countries or economic union.

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| Sr. No | Countries | Size of economic stimulus in USD | Economic stimulus to GDP (%) | Measures for SMEs |
|---|---|---|---|---|
| 7 | Malaysia | USD 21.1 billion | 6.4 | Relief measures include loans to MSMEs at concessional rate, credit guarantee to MSME loans. Specifcally, the government set up RM 50 billion (3.5% of GDP) worth credit guarantee fund to promote lending to MSMEs; The government also post-poned deadline for payment of income tax and loan repayments for SMEs. |
| 8 | India | USD 22.5 billion | 0.8 (1.0% including relief measures by states) | The relief measures include cash transfers and transfer of food grains, cooking gas to marginalised sections of people, insurance coverage for healthcare workers, credit facility for women self-help groups etc. Apart from this, various state governments have announced cash and food transfers, amounting to around 0.2% of GDP. |
| 9 | Spain | USD 15.18 billion | 1.0 | The measures include additional allocation to healthcare system, including healthcare R&D. The government offered unemployment benefits to temporarily laid-off workers, increased sick pay for COVID-19 infected workers, monthly allowance for contract workers who are not entitled for unemployment benefits, assistance to dependents, exemption of social contribution by affected companies, rental assistance programme to vulnerable renters whose landlord is not a huge property holder etc. |
| 10 | Bangladesh | USD 8.5 billion | 2.5 | The government allocated USD 2.5 billion for bridge financing for working capital loans of small and medium enterprises. The government also announced stimulus package for exporting industries to be channeled through a refinance scheme operated by Bangladesh Bank. Salaries of around 4 million workers will be paid by employers through loans for a three-month period. Government will subsidize interest payments on up to Tk. 500 billion in working capital loans by scheduled banks to businesses. |

Source: IMF and other media sources; The size of the economic stimulus is calculated by converting from the respective local currency to USD based on the market exchange rate. This stimulus measure does not include the measures taken by the central banks of the respective countries or economic union.