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Industrialists, economists split over convertibility

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OPINION among a cross-section of industrialists and economists is sharply divided on the question of introduction of full convertibility of the rupee at present.

While the industrialists are generally of the view that full convertibility should be introduced at the earliest and that it will benefit the industry and the economy, economists responding to a PTI pre-budget questionnaire have cautioned that the time is not yet ripe for such a move.

The FICCI president, Mr Kantikumar Poddar said partial convertibility norm of 60:40 resulted in subsidisation of government transactions by those who earned foreign exchange, and therefore, amounted to a tax on exports.

Supporting this contention, the ASSOCHAM president, Dr N M Dhuldhoya said exports would receive a boost on introduction of full convertibility as 100 per cent of the foreign exchange earnings will be entitled to market-related exchange rates. This will further stabilise the BoP situation with net exports earnings contributing to the foreign exchange reserves.

Dr Malcolm S Adishesiah,

chairman of the Madras Institute of Development studies is, however of the view that the question of full convertibility of the rupee or raising its convertibility to 75 per cent should not be contemplated for the coming budget.

Dr Adishesiah feels it is essential to study the effects of existing reduction in customs duty to give the industry time to adjust itself to further international competition.

The director general of the National Council of Applied Economic Research, Dr S L Rao has suggested that full convertibility must wait for the decline in inflation to much more moderate levels than they are today and for low inflation rates to continue for a full season.

The export situation would also have to improve considerably as also foreign investment inflows, he said, adding that domestic prices of so-called essential imports were still being administered and controlled by government and some of them were also subsidised.

These, Dr Rao said, would go up sharply with convertibility. So we must wait for convertibility until these issues have been resolved. He added "we could, however, like China, raise the present 600 per cent, convertible portion to 70 per cent, subject to at least a portion of existing

'essential' imports being paid for from the free market portion rather than 'official' portion."

Opposing full convertibility, Dr G Thimmiah, economic adviser to the government of Karnataka, said "the first condition required for promoting exports under full convertibility is reduction in the rate of inflation. This has not yet been achieved though the rate of increase in whole sale price index is showing downward movement."

Dr Thimmaiah said "Indian industry has not yet achieved cost-efficiency. Further, the interest rate structure is not yet attractive to induce the inflow of short term funds from abroad. More importantly our exports are not showing up so as to meet the pressure on foreign exchange reserves as a result of increased imports."

Prof J D Agarwal of the Indian Institute of Finance, however, disagrees with the opinion of his fellow economists and feels that looking at the foreign exchange reserves position, it is feasible for the government to introduce full convertibility.

Economist turned industrialist, Mr D N Patodia also supports full convertibility, saying partial convertibility has helped export promotion only partially. □