

BRIEFING PAPER



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The National Foreign Trade Policy-An Impact Assessment

The National Foreign Trade Policy (NFTP), 2004-09 is a watershed in the history of trade policy making in India. Having replaced the earlier Export Import Policy, NFTP aims to double India's share in global merchandise trade. It recommends export promotion schemes in agriculture, handloom and other sectors.

However, it has been found that the highly centralised and bureaucratic nature of policymaking prevents the involvement of people at the grassroots. In order to address this, CUTS is implementing a project entitled, 'Grassroots Reachout and Networking in India on Trade and Economics' (GRANITE), to work for democratisation of trade policy and promotion of accountability and transparency in economic governance.

The project is being implemented in a partnership mode with a number of civil society organisations (CSOs): Consumer Guidance Society in Hyderabad; Consumer Rights, Education and Awareness Trust, Bangalore; Samarthan, Mumbai; Centre for Youth and Social Development, Bhubaneswar; CUTS Centre for International Trade, Economics and Environment (CUTS CITEE), Jaipur; Citizen Consumer and Civic Action Group, Chennai; Network for Entrepreneurship and Economic Development (NEED), Lucknow; and CUTS Calcutta Resource Centre, Kolkata.

This Briefing Paper is based on research done as a part of the mentioned project. Section one introduces the process of trade policy making in a federal polity. Section two gives an overview of various institutional and implementation issues, while Section three discusses how knowledge gaps can be overcome by dissemination of information. Section four traces the impact of the NFTP on the poor and Section five highlights the various problems faced by the people at the grassroots. Section six presents various grassroots demands and policy recommendations, and is followed by Section seven, which is conclusion.

I. Trade Policy Making in India

Who is involved?

- Primarily drafted by the Department of Commerce at the Ministry of Commerce and Industry.
- Industrial bodies, Chambers of Commerce, e.g. FICCI.
- Advisory bodies (e.g. Board of Trade, set up in 1989 to provide an effective mechanism to maintain continuous dialogue with trade and industry in the field of international trade).
- At the state level, export promotion cells act as catalysts. For example, in Rajasthan, an Advisory Committee on Foreign Trade assists the State Government in formulating the strategy for export promotion. It also gives wider representation to various associations and organisations connected with exports.
- Inter-State Council (ISC), which is established in 2005, is a recommendatory body with a mandate to investigate and discuss any subject of common interest to the Union and States and to make recommendations.
- Some state level agricultural promotion agencies have also been consulted during the framing of the NFTP.
- State-level World Trade Organisation (WTO) Cells, meant to foster interactive process of discussion between the central and state governments, were created.
- Trade related issues are discussed at the district level during strategic planning and bankers' meetings.

Who is not involved?

- It does not involve the people at any stage. Local demands do not find place in the policy domain.
- People do not see themselves as being associated with policymaking and feel alienated from the entire process.
- There is no institutionalised mechanism for soliciting people's demands, who have no clear idea about how their demands and needs will reach the highest levels of the government.
- Government officials and village-level functionaries are not accountable and transparency in the functioning of the public bodies is non-existent.
- People are unaware of Right to Information (RTI) Act meant to increase transparency and accountability. They are unwilling to make use of such provisions on their own and instead depend on a leader for support.
- The attendance at *Panchayat* meetings is reported to be low, indicating either disenchantment with its working or its usefulness to fulfill people's needs.
- Corruption in the functioning of the *Gram Sabha* acts as a fetter to development of programmes of the *Panchayat*.
- *Panchayats* do not have functional powers on trade issues.
- Political parties feign ignorance of trade related issues.

II. Institutional and Implementation Issues

- Problems in the design and functioning.
- Federal structure, e.g. Agricultural and Processed Food Products Export Development Authority comes under the Ministry of Commerce and Industry, while agriculture is a state subject.
- Poor co-ordination among various government agencies leads to implementation gaps.
- Understaffing and frequent transfer of efficient and honest officers and vacant posts.
- Underutilisation of funds, as Government agencies spend only 15-20 percent of the total funds allocated for the people.
- Common people are largely unaware of the procedures involved in securing export and other licenses.
- Location of (Directorate General Of Foreign Trade (DGFT), the implementing agency of the NFTP, offices in the state capitals and big cities only acts as an impediment to facilitation of exports, especially for the small and medium size exporters and producers based at the district and village levels. In some cases, the concerned office is located far away from ports, which hampers exports.
- The modern post-harvest facilities, such as vapour heat treatment or Bhabha Atomic Research Centre (BARC) radiation are inconveniently located amongst the shabbiest surroundings in Maharashtra.
- In people's perception, policies fail to deliver because of weak governance and administrative system, non-accountability and corruption among politicians and bureaucrats.
- Assistance from the Government is neither forthcoming nor timely leading to the perception that the Government is oblivious to people's requirements.
- Poor regulation and administrative malpractices owing to which Government schemes are misused.
- Subsidies offered by the Government are also reported to be meagre, especially for the poor farmers.
- Bank loans and insurance schemes for farmers and other producer groups are found wanting.

III. Information: Key to Empowerment

Lack of Awareness about the NFTP

Producers, including farmers, artisans and craftsmen have very low level of awareness about specific government initiatives aimed at increasing export. The other hurdles are illiteracy and lack of commitment of people in power to assist the masses. There is an absence of connectivity to urban areas along with fund constraints for information dissemination. Furthermore, exporters do not seem to have any idea about the formation and functioning of the WTO Cells and the NFTP. Awareness about the NFTP is quite low across various levels of government officials as well except for some officials like the District Magistrates and District Horticulture Officer, who showed good awareness of the NFTP. There was some familiarity shown about schemes under NFTP such as *Vishesh Krishi Upaj Yojna* (VKUY) as well.

Information and Knowledge Gaps

There is no institutionalised information dissemination mechanism at the grassroots. Consequently, there are information and knowledge gaps amongst producers about the exporting potential of specific crops/products and specific quality requirements of exporting markets. Farmers usually lack the knowledge about market price of their commodity, which is sold to middle-level traders, who, after a bit of value addition (processing, packaging and branding) receive huge profits in the international markets. Lack of awareness of value addition to the products, such as processing and packaging techniques is, therefore, a major hindrance to boost farmers' income. Information about quality requirements in export markets is also not readily available which is crucial for successful international marketing.

Farmers are often unaware about the proper use of various inputs in production and often use excessive fertiliser, thereby failing to meet quality requirements of the export markets. Even when farmers know about the techniques and earning potential of certain crops, they are not able to market them. Individual farmers who export their produce are not able to sustain it due to lack of government support and problems with agents in the destination country. Taking advantage of the economic condition of the farmers and also lack of access to outside markets, middlemen purchase the output from farmers at low prices and sell them in wholesale market at much higher prices. Thus, the farmers and producers are the worst victims in this entire value chain. Gradually however, awareness about trade and related issues is increasing though at varying pace within and across these states.

Sources of Information and its Dissemination

Information on trade and Government policies is largely availed by the stakeholders from Federation of Indian Export Organisations (FIEO) monthly bulletin, Government publications and notifications, Internet, and sometimes from television and newspapers. However, *Panchayats* can act as an important pillar to disseminate information at the village level and also in articulating people's demands but unfortunately, information dissemination mechanism on trade issues at the village level is almost non-existent. Such state of affairs applies not only to trade issues but also to the RTI Act, which aims at increasing transparency in public policy.

Not many NGOs and CSOs are working on economic issues. The media's role in raising awareness about economic issues is reported to be low as they are more interested in reporting commercial and sensational news. The best way to make people's demands heard in the policymaking circles is mobilisation of people by raising awareness levels, especially through the audio-visual media, given the widespread illiteracy among the vast majority.

IV. Impact of NFTP on the Poor

Due to NFTP initiatives, trade has undoubtedly increased which has the potential to increase livelihood options. However, it has not produced the desired outcome, and to know whether the NFTP has affected employment significantly, there is a need to see the situation in each of

the states. In Orissa, improvement in employment has been found to be due to National Rural Employment Guarantee Scheme (NREGS) and not due to enhanced exports. Also because of NREGS, connectivity to rural areas has improved leading to economic development of the region as a whole. In some districts of West Bengal, the market economy and the setting up of Agri-Export Zone (AEZ) has opened up new employment opportunities. Similar improvements in employment rates are also noted in Karnataka as in other states during the last few years, which are also accompanied by improvement in quality of infrastructure, growth and revival of industries.

In Maharashtra, the linkage between trade and employment is obvious in the horticulture sector, which requires high value and labour intensive cultivation and use of skilled workforce and provides better wages. Demand-led migration of labour towards better-paid export sectors is also noticeable. Broadly speaking, employment is seen to have been generated by people through their entrepreneurial skills and without any assistance from the Government. Besides, any proclaimed rise in Government employment figures must be treated with caution, as they do not necessarily imply productive and well-paid employment. To add to this, the labour conditions in many export-related sectors are bad with no concept of fair wages and environment, health or safety standards, or maternity benefits in the case of women.

Hence, one of the cherished goals of NFTP – as a means of creating employment and securing development – is showing some results, although with differential impacts across these states. Moreover, the improvement is seen as marginal, because such jobs are getting created in exporting sectors at the cost of Government jobs and decline in rate of employment in agriculture. Arguably, expansion of trade due to globalisation and liberalisation has led to better and diverse opportunities but people do not feel satisfied with the level of improvement in employment and living standards and want more result-oriented policies with tangible outcomes.

V. Problems at the Grassroots

Following are the major problems at the grassroots.

- Diminishing returns;
- Infrastructural bottlenecks;
- Middlemen as exploiters;
- Lack of entrepreneurship among people;

- Low level of education; and
- Reluctance to adopt new cultivation practices.

VI. Grassroots Demands and Policy Recommendations

Changes in Policymaking

People's involvement in the policymaking process should be made mandatory to improve pro-poor policy orientation. Planning should follow a bottom up approach. There is also a need to develop an ethos of result-oriented policies with a defined timeframe for the execution of a scheme. Along with an adequate regulatory and institutional mechanism to check corruption, there should be an annual review and amendment of policies.

Regulatory Changes

There should be a removal of reservation for small scale industry (SSI) in most products to allow for economies of scale. There should be changes in labour laws and favourable credit schemes including soft loans and procedural simplification. Foreign Direct Investment (FDI) needs to be encouraged for achieving a higher gross domestic product (GDP) growth and increasing exports of industrial and agro products by inducting new technologies and management practices.

Tax Structure

Tax reforms are needed to make Indian industry more competitive including suggestions for exemption of value-added tax (VAT) for farmers in case of export and reduction in income tax for the exporters. There should be an implementation of a full scale countrywide VAT on all goods and services and scrapping of all other indirect tax levied by the Central and State Governments to reduce procedural delays.

Infrastructure

There is a need for better and adequate transport (road, rail, ports and air) and a better investment in infrastructure development through public private partnership.

Marketing Facilities

There should be better marketing and infrastructure facilities to eliminate middlemen and agents and a special focus on marketing cooperatives at village levels especially for women.

Box 1: Benefits of NFTP Schemes Successful Cases

- Tax reduction by the Government has benefited the Malda mango producers and exporters as also *Lichi* farmers in Farakka in the last five years.
- Weavers in West Bengal, rather than selling their products to merchant exporters, now sell to agencies like Speed of India, PMA handweavers, etc., at a profit of about 15 percent. These agencies further market and sell these products at a total profit of about 65 percent on the original price.
- In Orissa, procurement of local agricultural products was done solely by middlemen and the farmers were exploited but as result of the Government initiatives for the procurement of ginger from the districts through District Supply and Marketing Society (DSMS), positive results for farmers' earnings have been reported.
- In Rajasthan, the Government declared the price of mustard at Rs 1,800 per ton for the year 2008 as a result of which traders were compelled to offer better prices to the farmers, in some cases as much as Rs 2,300 per ton.
- Under Project Package Scheme (involving loom modification, training and sample-based production), designer Ritu Beri was appointed to promote marketing of the handloom products, resulting in initiation of exports to Germany.

Box 2: Sector/Product Specific Grassroots Recommendations

Agriculture and Allied Activities

High priority must be accorded to the promotion of agriculture trade, with an emphasis on diversifying exports in different areas. In addition, there should be easy availability of fertilisers and high yielding variety (HYV) seeds at reasonable prices. It is also important to improve food quality regulation to help domestic consumers as well as assist in export readiness.

Orissa

There should be a provision for procuring farm products at Government determined minimum support price and setting up of procurement centres in Koraput. This area should also be promoted for spices, cereals, herbal medicinal plants, pineapple and coffee. Indigenous seeds should be promoted and organic farming should be encouraged.

Rajasthan

There is a need to set up a processing plant for oranges in the region.

Uttar Pradesh

There is a need to set up a marketing centre in the Harchandpur block of Rae Bareilly to enable farmers to sell their produce (peppermint) at remunerative prices.

West Bengal

Potatoes: It is important to secure availability of good

quality seeds and private investment along with Government support to ensure availability of good quality potato seeds and development of infrastructure.

Pineapples: There is a need for information dissemination about right technology and methods of production. There is also a need for more research to enhance quality production of pineapple.

Mangoes: It is important to set up an export centre in Malda and a fruit processing unit at Malda to boost export of Mango pulp, pickles, jam jelly etc. There is also a need to encourage export of mangoes from Malda to Bangladesh specifically.

Handloom, Textile and Handicraft: High priority must be accorded to the unorganised sector as for about 1,500 weavers in the organised sector, there are 3,500 weavers in the unorganised sector. It is also important to fix the market price of silk sarees to avoid role of middlemen. There should be an extensive promotion of handicrafts through media campaigns amongst consumers to popularise such products. In addition, fair wages should be fixed for the workers engaged in textile sector.

Uttar Pradesh

Lock and Clay Work: There should be packaging and grading techniques for clay products and locks. There is also a need to reduce the high price of sandstone used in clay work

Development of Human Resources

There should be training programmes for producers as well as bureaucracy so that government officials are informed about various policies. There is also a need for technical skill development of farmers for processing and value addition to the agricultural products as well as entrepreneurial and technical training for the youth. Towards these ends, there is a need to develop good educational institutions and training centres at the village level.

VII. Conclusion

As evident, the policy making process of the NFTP is highly centralised and not a participatory exercise involving various sections of the population, especially those at the grassroots. The assumption here is that the policy of handing down sops, tax incentives, subsidies would lead to doubling of India's share in global merchandise trade and capturing 1.5 percent of global trade by 2009 from the current 0.75 percent and in the process also generates employment leading to overall development of vast majority of people. Not only is

there a lack of consultation with the grassroots but also its poor implementation. Coordination amongst various levels of Government machinery dealing with trade issues is poor and results in implementation gaps.

An overarching policy of export without taking into account the regional and local needs compounds the problems in its implementation. Schemes under the NFTP are said to be aimed at large farmers and producers and big export houses. There are no special schemes to involve small farmers and weavers or small entrepreneurs and even though they are increasingly being affected by exporting chains and can hope to gain from exporting their products. Lack of infrastructure, especially transport, power supply, storage, and lab testing facilities is considered a major hurdle for the realisation of export potential. Traders, middlemen and agents are entrenched in the system and act as major impediments for producer groups to create wealth. Individual farmers who export their produce are not able to sustain it due to lack of Government support and problems with agents in the destination country.

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