



*Linkages between Trade, Development and Poverty Reduction
The Indian Perspective*

CUTS CITEE Campaign Kit 2008

on

Linkages between Trade, Development and Poverty Reduction
– *The Indian Perspective*

CUTS Centre for International
Trade, Economics & Environment
CUTS CITEE



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Linkages between Trade, Development and Poverty Reduction – The Indian Perspective

General Overview

i. Objectives of the Campaign Kit

The purpose of the Campaign Kit “Linkages Between Trade, Development and Poverty Reduction – The Indian Perspective” is:

- To advocate development-oriented trade policies, based on pro-poor growth and the mainstreaming of international trade into national development strategies.
- To examine the linkages between trade and development and trade and poverty reduction.
- To take into account the interests and priorities of the poor and marginalized sections of society

ii. How the Campaign Kit is organised

The Kit is divided into three sections:

Section 1 gives a background on trade liberalisation in India, highlighting recent economic changes.

Section 2 elaborates the linkages between poverty reduction and development, incorporating the gender aspect and examining India’s progress in achieving the MDGs.

Section 3 contains seven advocacy messages illustrated by case studies from the oilseed and carpet industry.

iii. Target Audience

This campaign kit is prepared for a wide section of readers from beginner’s level to advanced, and it focuses on reaching out particularly to the following audience:

- State and national level policy makers and politicians;
- Export councils, business representatives, employer’s associations, and trade unions;
- Civil Society Organisations (CSOs) and NGOs working at the grassroots level;
- Academia, experts and students; and
- Anyone interested in globalisation and trade justice.

Section 1: The Indian Perspective

1.1 Overview

This section provides a background on trade liberalisation in India, highlighting recent economic changes. Major themes covered in this section are:

- Impact of Economic Reforms
- Trade Liberalisation and the Unorganised Sector
- EU as India's Most Important Trade Partner
- Potential Benefits from International Trade

Important figures and charts in this section are:

- India: Real GDP Growth
- GDP by Industry
- India's Imports and Exports
- Total NDP
- Sector-wise distribution of organised and unorganised sectors
- Indian Exports to EU

Linkages between Trade, Development and Poverty Reduction – The Indian Perspective

1.2 Introduction

The linkages between trade and economic growth, and economic growth and poverty reduction have been well established in the economic literature. International trade affects economic growth positively and can increase national wealth, which can lead to increased spending in health, education and social welfare, paving the way for an increase in employment opportunities acquiring new skills and technologies. However, trade also has negative impacts due to the increased influence of transnational corporations on the domestic economy and political decision-making. Such influence can lead to the loss of employment opportunities in formerly protected industries, the exploitation of vulnerable and marginalised groups (in particular women), increased environmental degradation and threats to food security. Therefore, pro-poor and pro-development policies are needed in a just international trading system.

1.3 Impact of Economic Reforms in India

Since the mid-1980s, successive reforms have progressively transformed the Indian economy into a market-based system. Gaining substantial momentum in the early 1990s, state intervention and control over economic activity has been significantly reduced and the role of private sector entrepreneurship has increased. Annual growth in GDP per capita has accelerated from just 1.25 percent in the three decades since Independence to 8.9 percent in 2007. Potential output growth is currently estimated to be 8.5 percent per annum and India is now the third largest economy in the world after the US and China. Increased economic growth has helped reduce poverty, which has begun to fall in absolute terms.

Market liberalisation has had a major beneficial impact on the economy. By 2006, the average share of imports and exports in GDP had risen to 24 percent, up from 6 percent in 1985. Inflows of foreign direct investment (FDI) increased to 2 percent of GDP from less than 0.1 percent in 1990, with outflows of FDI picking up substantially at the end of 2006.

Figure 1.1 India – Real GDP Growth

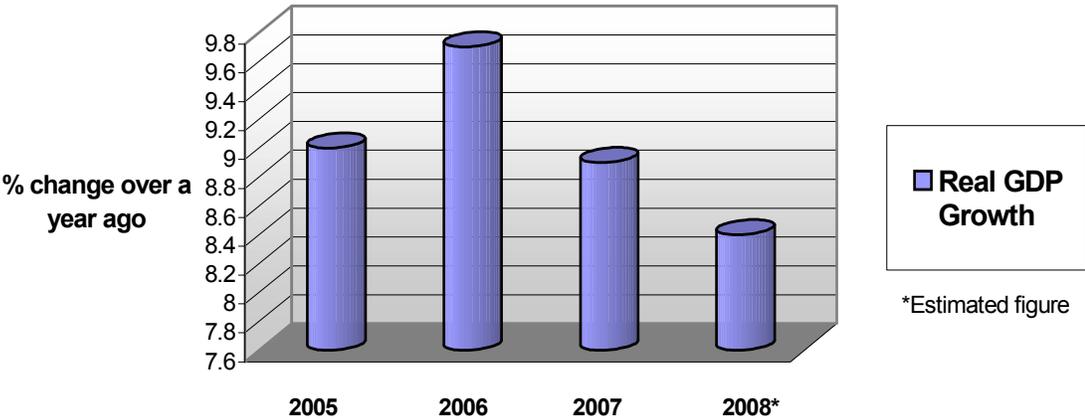


Chart 1.1: India's GDP By Industry (2006-07)

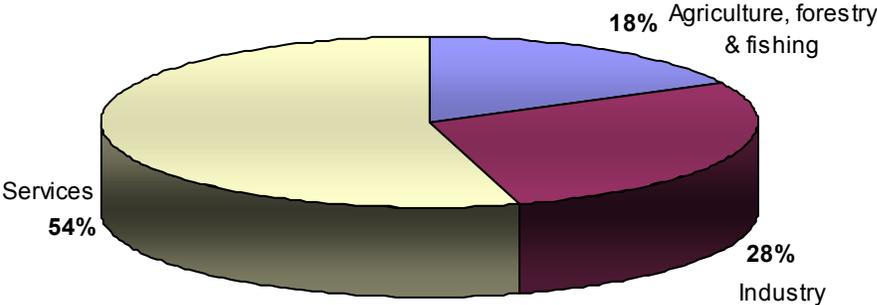
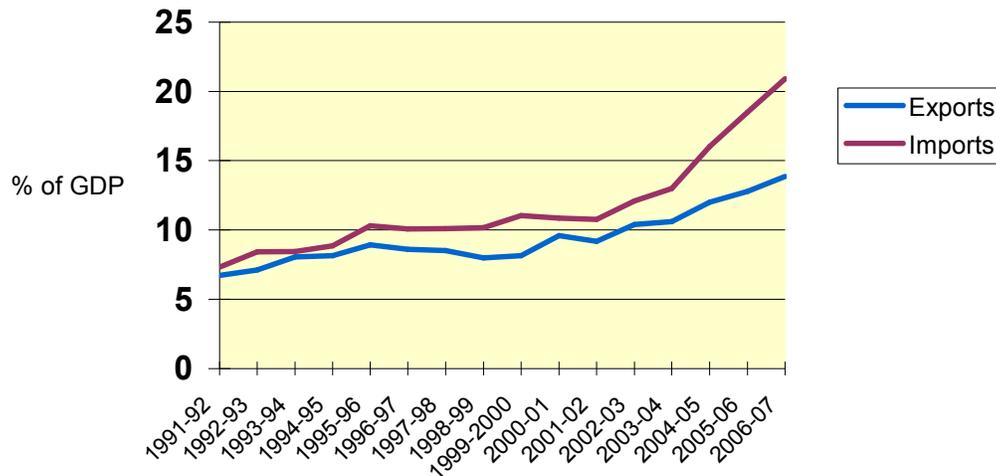


Figure 1.2: India's Imports & Exports (% of GDP)

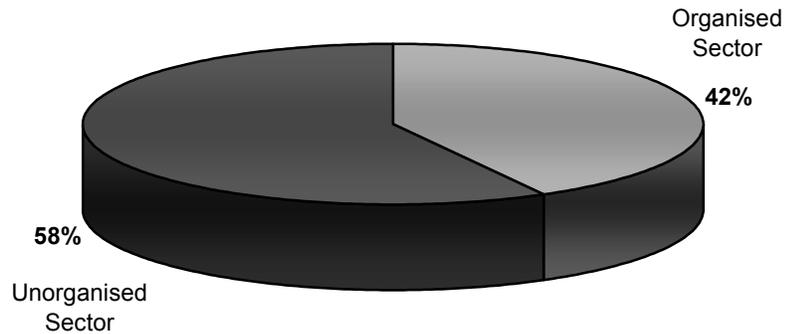


1.4 Trade liberalisation and the Unorganised Sector

The unorganised sector plays a significant role in the Indian economy, providing over half of total National Domestic Product (NDP). The major share of the unorganised sector in India is made up of agricultural work, followed by smaller proportions in services and industry.

Key characteristics of the unorganised sector generally include the employment of workers without formal contracts, legal benefits and social protection, resulting from the purchasing and production practices of large corporate buyers. In the context of globalisation and increased trade liberalisation, the nature of employment has undergone significant changes towards more insecure employment conditions. The dynamics of the global production system now call for a flexible and highly mobile labour force. Women face multiple challenges of discrimination based on gender as well as employment status.

Chart 1.2: Total NDP At Current Prices (2004-05)



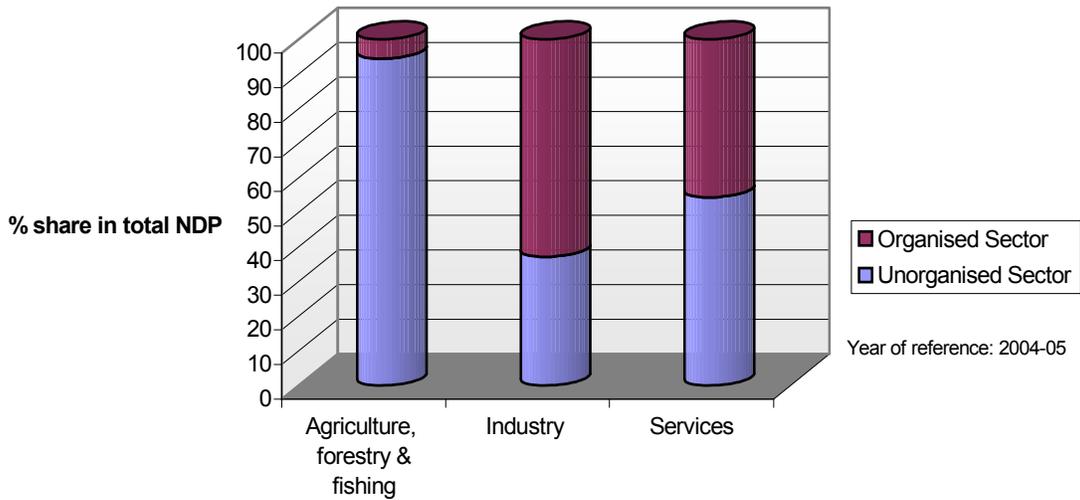
1.1: A woman working in the agricultural sector



1.2: A woman working in the handloom sector

The vast majority – 96 percent of all working women in India – is employed in the unorganised sector, and trade liberalisation has tended to negatively impact their livelihoods. For example, in the agricultural sector, women remain invisible on the development scale despite the fact that they constitute the principal food producers and providers. Women generally lack access to resources such as assets and land, credit facilities, machinery and modern information technologies to assist them to increase their market opportunities. Likewise, the increased practice of subcontracting in the manufacturing sector (namely garment and textiles) has led to more job insecurity and deteriorating working conditions. In general, the increased competition brought about by globalisation has translated into the higher prevalence of informalisation and casualisation.

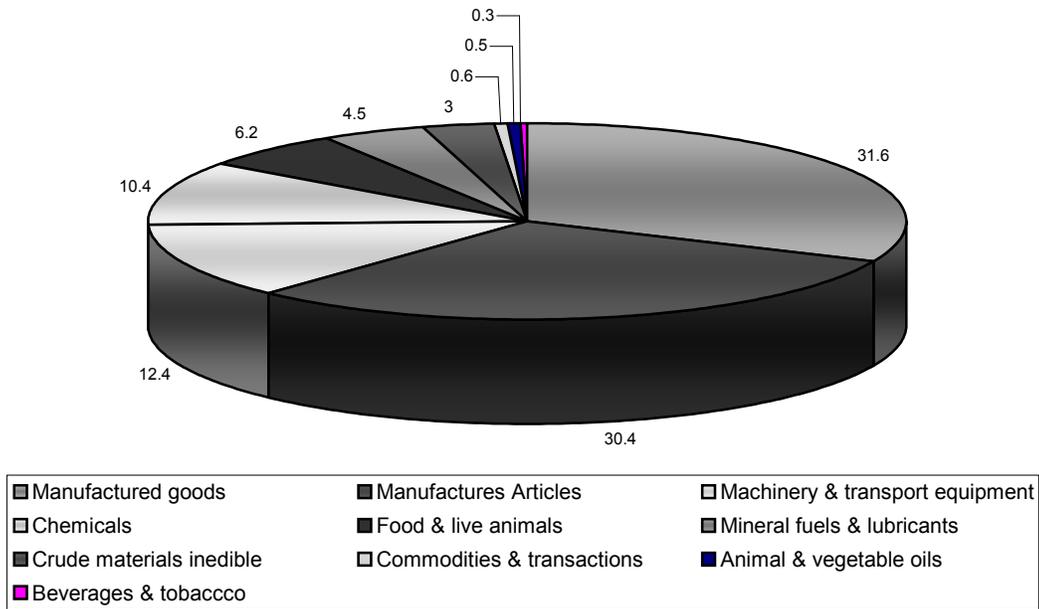
Figure 1.3: Sector-wise Distribution of Organised & Unorganised Sectors



1.5 EU: Most Important Trade Partner

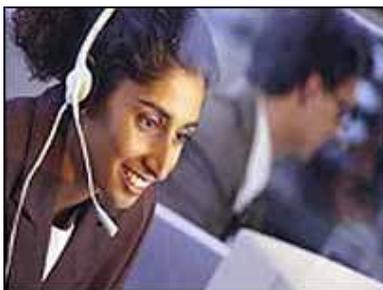
With a total share of Indian exports of 19.2 percent in 2006, the EU has emerged as India's biggest trade partner, followed by the US with 10.4 percent and China with 8.3 percent. The main export goods to EU countries are manufactured goods (e.g. textiles), machinery and transport equipment, chemicals and agricultural products. With regards to the planned FTA between the EU and India, which is currently under negotiation, the significance of a fair and rules-based trade system becomes even more evident to secure just trade.

Chart 1.3: Indian Exports to the EU By Product (Share in %)



1.6 Securing Benefits from International Trade

The Directorate General of Foreign Trade, as part of the Ministry of Commerce & Industry, is responsible for preparing and implementing the National Foreign Trade Policy of India. To ensure sustainable economic growth, particularly in relation to employment generation and poverty reduction, it is vital to enhance the positive linkages between good economic governance and human development to ensure that all sections of the society will benefit equally from economic growth. Further market-oriented reforms, complemented with measures to improve infrastructure, education and basic services, would increase the potential for growth and thus boost better-paid employment, which is a key to sharing the fruits of growth and lowering the occurrence of poverty.



1.3: Professionals working in the IT sector



1.4: Workers in the fishery sector

Section 2: Linkages between Trade, Development & Poverty Reduction

2.1 Overview

This section elaborates the linkages between poverty reduction and development, incorporating the gender aspect and further analyses India's progress in achieving the MDGs.

The major themes covered under this section are:

- The growth debate--Does growth reduce poverty?
- How are development & poverty reduction linked?
- The linkages between development and poverty reduction and the gender aspect of development
- India's progress towards achieving the MDGs

Important figures, charts and tables given in this section are:

- The UN Declaration on the Right to Development
- India's progress on the MDGs

Linkages between Trade, Development & Poverty Reduction

2.2 Introduction

While greater trade liberalisation may present new opportunities to both women and men, it may also cause a loss of livelihoods, employment and businesses. This section highlights the conditions for equitable and sustainable development, the international human rights-based framework of development and the gender aspect of development. Trade policies affect men and women differently as they are not “gender neutral” in its effects as commonly believed among trade officials and negotiators. Institutional factors affecting women include their lack of bargaining power, control over household resources and limited access to education and skills training, gender biases in the labour market as well as men’s and women’s different access to, use and control of technology. Gender equality is to be at the core of successful development strategies, as women remain the main caretakers and welfare providers of the family. At the same time, the overall export performance vitally depends on the labour contribution of women. A look at the UN Declaration on the Right to Development reconfirms the international obligation to an inclusive poverty reduction strategy. Finally, the latest analysis of India’s achievements of the Millennium Development Goals reflects the need for mainstreaming international trade into national development strategies to secure a broad-based distribution of the benefits of globalisation.

2.3 The Growth Debate – Does Growth Reduce Poverty?

How does economic growth influence the poor?

The majority of the poor are working in the unorganised sector, where income is not significantly improving, nor are other indicators of development such as health and education. As most of the work in the unorganised sector is in agriculture, it is the rural areas that continue to be underdeveloped and impoverished. This has caused large numbers of people to migrate to ...

What are the links between trade and growth?

It is commonly argued that trade liberalisation, i.e. the lowering of barriers such as taxes and tariffs, brings economic growth. This is mainly through increased investment and consumption.

What are the links between trade and development?

It is generally argued that increased trade, through the lowering of national barriers, will lead to economic growth. Growth in itself, however, will not bring development. Economic growth refers to a nation's increased capacity for production and consumption. Development, though, implies that the well-being of citizens is improving in socio-economic terms. Thus indicators for development tend to be those of health, education, and level of gender equality, to name a few. Development goes hand in hand with poverty reduction because poverty does not simply mean a lack of income, but the deprivation of other social and economic resources.

What does growth rate mean for poverty reduction?

Unfortunately, not much. Economic growth in itself will not reduce poverty or promote development. Instead, social policies and programmes which are complementary to trade policies are necessary to spread the benefits of growth equally among all citizens.

2.4 How are Development and Poverty Reduction Linked?

Whilst economic growth is necessary for sustainable development and poverty reduction, it alone cannot achieve the desired results. Even if the economy is growing, this does not automatically mean that everyone is benefiting equally. In fact, often the benefits of growth only reach the wealthiest members of the society. Thus, it is essential to have effective government policies, which ensure that the positive impact of trade and growth is distributed equitably. A human rights approach to poverty reduction links it to the issues of obligation, taking a moral and political perspective rather than simply an economic approach. Sustainable and rights-based development requires poverty reduction and gender equality. The UN recognises that:

“Development is a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom”.

A rights-based definition of development is set out in the UN’s Declaration on the Right to Development:¹

Box 2. 1: UN Declaration on the Right to Development

Article 1:

- The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realised.

Article 2:

- The human person is the central subject of development and should be the active participant and beneficiary of the right to development.
- All human beings have a responsibility for development, individually and collectively, taking into account the need for full respect for their human rights and fundamental freedoms as well as their duties to the community, which alone can ensure the free and complete fulfillment of the human being, and they should therefore promote and protect an appropriate political, social and economic order for development.

¹ <http://www.unhchr.ch/html/menu3/b/74.htm>

Therefore, development should be participatory and democratic in nature, with all citizens having the right and responsibility to partake in it.



2.1: Women working at a construction site

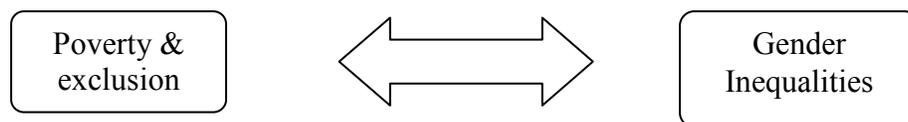
2.4 Gender Aspect of Development

Rights-based approaches to development emphasise women’s empowerment and gender equality. The World Bank recognises that gender equality is smart economics, and key to inclusive economic growth and development. Kofi Annan said:

*“Gender equality is more than a goal in itself. It is a precondition for meeting the challenge of reducing poverty, promoting sustainable development and building good governance”.*²

Poverty traps women in multiple layers of discrimination and inhibits their ability to claim their rights, such that the majority of those stuck in the cycle of poverty are women. Globalisation has in many cases exacerbated inequalities, with women losing more than their share of jobs, benefits and labour rights.

Figure 2.1: Poverty and Gender Inequalities



Gender equality is a key component of the UN’s Millennium Development Goals (MDGs). All eight MDGs focus on essential aspects of women’s well-being; therefore, women’s advancement is critical to achieve the goals.

² http://thinkexist.com/quotation/gender_equality_is_more_than_a_goal_in_itself-it/151760.html



2.2: A woman working in a clothing factory

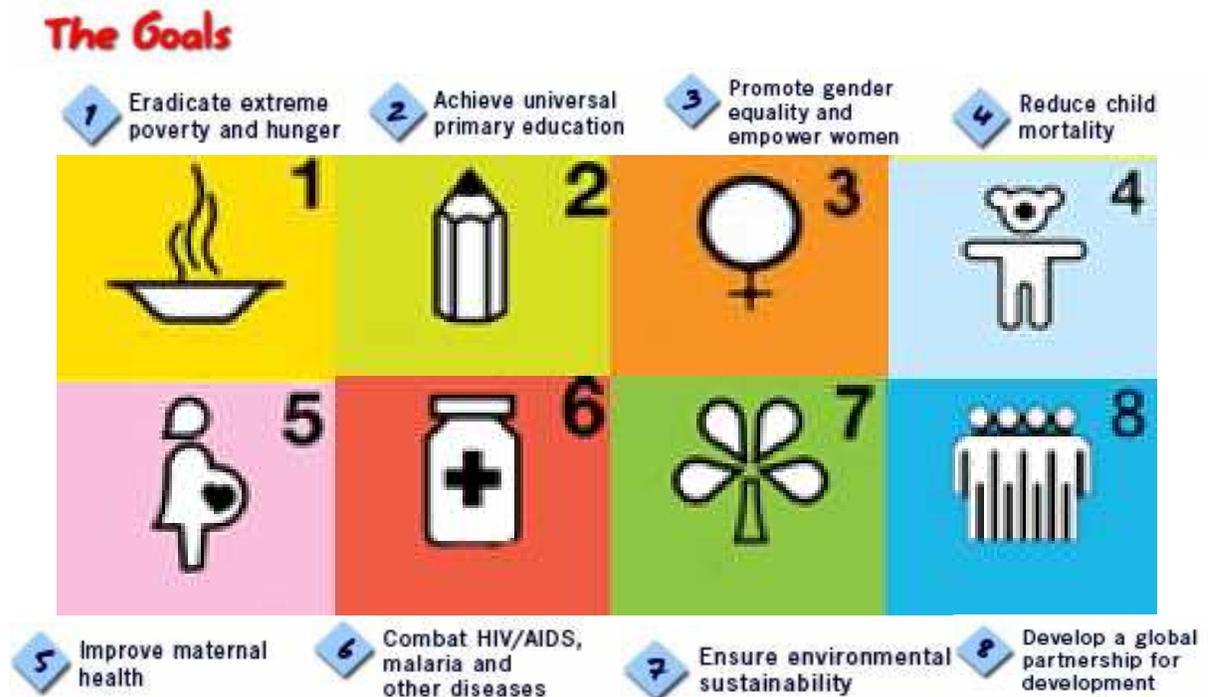


2.3: Female vendors at a local market

2.5 What has been India's Progress towards Achieving the MDGs?

India's progress in fulfilling the MDGs since the year 2000 when the UN Millennium Summit was held is reflected in the improvement in the country's Human Development Index (HDI) and various programmes that the Government of India has launched, including the enhancement of allocations in recent budgets.³ Table 2.1 shows India's progress towards fulfilling the MDGs.

Figure 2.2: The Eight Millennium Development Goals



³ Chasing the MDGs – the Indian Scenario, viewed at: http://www.unescap.org/stat/apex/2/APEX2_S.2_India_MDGs.pdf

Table 2.1: India's Progress in Fulfilling the MDGs	
Goal 1: Eradicate Extreme Poverty & Hunger	Indicator: Population below US\$1 (PPP) per day consumption, percentage
	<ul style="list-style-type: none"> • 34.7 percent of India's population lived below the global poverty standard of less than US\$1 (PPP)⁴ per day during 1990-2001. In 2004-05, this figure was approximately at 27.8 percent.
	<ul style="list-style-type: none"> • The National Development Goals (NDGs) target the reduction of poverty ratio by 5 percentage points by 2007 and 15 by 2012.
	Indicator: Children under 5 moderately or severely underweight, percentage
	<ul style="list-style-type: none"> • A staggering 45.9 percent of children under the age of 3 are under-weight, 38.4 percent are stunted, and 19.1 percent wasted.⁵
Goal 2: Achieve Universal Primary Education	Indicator: Net enrolment ratio in primary education, both sexes
	<ul style="list-style-type: none"> • Net enrollment ratio in primary education for both sexes was 89.7 percent in 2004. • Net enrollment ratio for girls stands at 87 percent for girls, and 92.2 percent for boys • The NDGs aim to increase the primary school enrolment rate to 100 percent and wipe out the drop-outs by 2015, as against 41.96 percent in 1991-92.
Goal 3: Promote Gender Equality & Empower Women	Indicator: Percentage of Seats held by women in Parliament
	<ul style="list-style-type: none"> • Only 8.3 percent of the seats in the Indian Parliament were held by women in 2006.
	Indicator: Share of women in Wage Employment in the non-agricultural sector
	<ul style="list-style-type: none"> • Only 17.3 percent of women enjoy wage employment in the non-agricultural sector. • The MDGs aim at the reduction of gender gaps in literacy and wage rates by at least 50 percent by 2007.
Goal 4: Reduce Child Mortality	Indicator: Infant Mortality Rate (birth to 1 year) per 1,000 live births

⁴ Purchasing Power Parity

	<ul style="list-style-type: none"> • IMR for India was 67.6 in the years 1998-99 and has come down to 57 in 2005-06. • Kerala heads the progress made so far, with an IMR of 15/1000 live births. • Uttar Pradesh has the worst IMR in the country of 73/1000 live births. • The MDGs aim for the reduction of infant mortality rate to 45 per 1000 live births by 2007 and to one by 2012.
	<p>Indicator: Children Under Five Mortality Rate per 1,000 live births</p> <ul style="list-style-type: none"> • The Under Five Mortality Rate (U5MR) stands at 87/1000 live births, as in 2004. It was 94/1000 live births in 2000. • The MDGs aim to reduce Under Five Mortality Rate to 41 in 2015.
Goal 5: Reduce Maternal Mortality	<p>Indicator: Maternal mortality ratio per 100,000 live births</p>
	<ul style="list-style-type: none"> • Maternal Mortality Ratio (MMR) was 301 in the period 2001-03. • Kerala has the lowest MMR of 110, while Uttar Pradesh has the highest ratio 517. • The MDGs aim to reduce MMR to 109 by 2015.
	<p>Indicator: Percentage of births attended by skilled health personnel</p> <ul style="list-style-type: none"> • 48.3 percent births were assisted by doctor/nurse/LHC/ANM/other health personnel in 2005-06. This proportion increased from 42.4 percent in the year 1998-99.
Goal 6: Combat HIV/AIDS, malaria & other diseases	
	<ul style="list-style-type: none"> • India accounts for 68 percent of those afflicted with leprosy and 30 percent of people suffering from tuberculosis in the world. India also accounts for 26 percent of vaccine-preventable deaths among under-5-year-olds. • Deaths caused by Malaria have increased from 648 in the year 1998, to 890 for the year 2006. It had peaked at 963 during this period in 2005. • 0.9 percent of the population (between 15-49 years) lives with HIV-AIDS, as reported in 2003, while the Prevalence rate of HIV among pregnant women increased from 0.74 per thousand in 2002 to 0.86 in 2003.
Goal 7: Ensure environmental sustainability	

	<ul style="list-style-type: none">• As per 2003 assessment, 20.64 percent land area is covered under different forests. The MDGs aim to increase in forest and tree cover to 25 percent by 2007 and 33 percent by 2012. The MDGs aim that all villages have sustained access to potable drinking water within the period of the 10th Five-Year Plan.⁶• 86 percent of the population is reported to have sustainable access to an improved water source in 2004, as against 70 percent who has access in 1990.• Only 33 percent of the population has the desired access to improved sanitation. This figure was as low as 14 percent in 1990.• 55.5 percent of the urban population of India lived in slums at the turn of the century.
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2.4: A woman planting an oilseed tree



2.5: A man selling India-made carpets

⁶ Wada Na Todo Abhiyan (2007), “Measuring India’s Progress on the Millennium Development Goals: A Mid-Term Checklist”

Section 3: Main Advocacy Messages

3.1 Overview

This section contains seven advocacy messages illustrated by case studies from the oilseed and carpet industry.

The seven advocacy messages are:

- Strengthen Labour Intensive Sectors
- Ensure that Benefits of Growth Work against Inequalities
- Strengthen Domestic Policies
- Demand for Government Policies Promoting Human Development through Trade
- Consider the Importance of Economic Integration and Spillovers for the Poor
- Work with a Realistic Market Analysis
- Establish Strong Partnership between Relevant Stakeholders

Important visuals in this section are:

- India carpet industry provides employment
- Women's invisible work
- Child labour
- Indian policies to promote oilseed production
- Education and literacy
- Power supply
- Fragmented market
- Carpet market
- Oilseed market
- Exporters and CEPC working together

Main Advocacy Messages

3.2 Introduction

While implementing the project linkages between trade, development and poverty reduction different key themes have been garnered from the case studies and the research work. The advocacy document, titled “Strengthening the Linkages between Trade, Development and Poverty Reduction”, is directed towards policy-makers, civil society organisations (CSOs) and other stakeholders. It is uploaded on to CUTS CITEE website with the URL: <http://www.cuts-citee.org/pdf/ADV07-02.pdf>

It contains seven key messages, which are as follows:

- Strengthen labour-intensive sectors;
- Ensure that the benefits of growth work against inequalities;
- Strengthen domestic policies;
- Demand for government policies promoting human development through trade;
- Consider the importance of economic integration and spillovers for the poor;
- Work with a realistic market analysis; and
- Establish strong partnerships between relevant stakeholders.

It is strongly hoped that these key messages will be utilised for further research and enhanced dialogue. Ultimately, this document aims to influence a policy shift amongst trade ministries to incorporate a more development-oriented foreign trade policy.

3.3 Strengthen Labour Intensive Sectors

Box 3.3: India Carpet Industry Provides Employment

The labour-intensive hand-made carpet industry in India is one of the few examples of a sector successful at both addressing rural unemployment problems and earning foreign exchange for a value of about US\$600mn per year. From a poverty reduction perspective, this 100 percent export- oriented industry optimises India’s advantage of a vast labour force, providing employment to two million artisans and their families. On an average, one tufted carpet goes through approximately 30-35 pairs of hands from the time and is placed until it gets exported.

3.4 Ensure that the Benefits of Growth Work Against Inequalities

Box 3.4: Women's Invisible Work

Typically women in carpet weaver families roll dyed wool yarn into balls for weaving in the home. Additionally, the women join in to weave as well. It thus is difficult to estimate in such cases the employment generation capability of this industry, but women constitute a significant part of the labour force without being accounted for because of the unorganised nature of this sector. Their labour goes unrecognised and they may not be paid for it.



3.1 Various types of Indian oilseeds

3.5 Strengthen Domestic Policies

Box 3.5 Child Labour

In the mid-1980s, there was a movement against carpet exporters that were using child labour. Now manufacturers have labels of "No Child Labour" outside the manufacturing unit. Carpet weaving is primarily a family art, where the weaving is taught since childhood just as any other art form. Contrary to some prevalent myths, children are not employed as weavers either because they have nimble fingers or because they are paid less than adults. Children are employed because their parents are teaching them skills which are perfected only after a considerable period of time and which are not as easily performed by children.

3.6 Demand for Government Policies Promoting Human Development through Trade

Box 3.6a: Indian Policies to Promote Oilseed Production

The India oilseeds case study recommends various policy measures to promote the country production of oilseeds, including; reduction of various taxes new funds to support the creation of testing laboratories; agro-export zones; provision of warehouse facilities; proper marketing channels; and food safety standards, etc.

Box 3.6b: Education and Literacy

A study on the oilseed sector in Rajasthan shows that literacy plays a vital role in terms of enhancing productivity through adaptation of new and scientific cultivation techniques. Education plays a significant role in enhancing adaptability to new machines, which becomes easy and economical. However, most farmers are illiterate.

3.7 Consider the Importance of Economic Integration and Spillovers for the Poor

Box 3.7a: Power Supply

Carpet Production needs uninterrupted power supply, and the generators provide this power. One of the exporters engaged in this business for the last 40 years, lamented the misuse of human and financial resources because of the government's inefficiency in providing uninterrupted power supply to Bhadohi exporters.

Box 3.7b: Fragmented Market

Hobbled by a regime that arbitrarily restricts the domestic (inter-state) movement of oilseed products and reserves the processing of the oilseeds to small scale industry reservation and usually inefficient enterprises, processors cannot invest in modern equipment and integrated processing plants that would enable them to reduce high losses of oil, improve the quality of oil meals, buy raw material from the cheapest sources on the domestic market, and raise their low capacity utilization rates. Banned from participating in forward and futures markets, traders and processors are at the mercy of the price volatility and imperfect information flows in a fragmented market that is a far cry from a needed, common, domestic market.

3.8 Work with a Realistic Market Analysis

Box 3.8a: Carpet Industry

The industry has huge potential for growth. India has around 25 percent share of the world market for handmade carpets and floor coverings. Handmade carpets constitute approximately four percent of the total floor covering market worldwide and therefore the share of Indian handmade floor coverings is only one percent of the total world market. In this situation India's carpet exports can be doubled if it increases its share in the world floor coverings market by only one percent.

Box 3.8b: Oilseed Industry

The edible oil and oilseeds sector faces many challenges in the new environment of liberalised trade. Government intervention is faced with the task of balancing the interests of different stakeholders in the oilseed complex. Providing benefits to some at the cost of others may cause some social tension at least in the short run. Imports of low priced oils, for example, benefit the consumers but tend to reduce the margins on domestic oils for the processors. Similarly, protection to oilseed growers can make oil and oil meal products internationally uncompetitive. The question, therefore, is: what the state can do to facilitate the restructuring of the affected sectors and take care of the interests of the different stakeholders.



3.2: Bottled India edible oils

3.9 Establish Strong Partnerships between Relevant Stakeholders

Box 3.9: Carpet Industry

The exporters were of the opinion, if the government gets the correct figures, which will show a declining trend, it will open its eyes and come forward to support the carpet industry. Exporters should provide correct figures so that the government will consider their case, was the opinion by Carpet Export Promotion Council (CEPC) officials. Moreover, these figures should be shown state-wise and product-wise for analysing the demand trend i.e. demand for which product is higher. Generally most of the members of the CEPC delegation are only interested in promoting their own business interests in the visiting countries. In this respect the field perception was that the representatives from CEPC should have genuine interest for the welfare and promotion of the carpet industry as a whole. They should be able to take the open world market opportunities for facilitating maximum gain for the carpet industry.

3.10 CUTS CITEE's Intervention and Conclusion

CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE) is implementing this project on issues of linkages between trade, development and poverty reduction over a period of four years (January 2005 to December 2008). The project manifests the policy relevance of international trade on poverty reduction and thus, helps in articulating policy coherence between the international trading system and national development strategies.

Project activities have included various research on economic reforms and case studies; networking with partner organisations and other stakeholders; advocacy with policymakers and CSOs; information dissemination amongst policymakers, CSOs and other stakeholders; outreach aimed at trade diplomats, parliamentarians, and developmental agencies. The project will also look into the aspects of coherence that different stakeholders and departments need to accomplish in order to make sure trade facilitates human development, especially by reducing poverty. As the project spans across 15 countries in South and East Africa, South and Southeast Asia, and Europe, an overarching aim of the project is to bridge the link between Southern and Northern civil society and policymakers.

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