

National Foreign Trade Policy of India

*Focus on
Development
Dimensions*



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Abbreviations

ACT	ACMA Centre for Technology
APEDA	Agricultural & Processed Food Products Export Development Authority
APMC	Agricultural Produce Market Committee
ASEAN	Association of Southeast Asian Nations
ASIDE	Assistance to States for Developing Export Infrastructure and Allied Activities
BITs	Bilateral Investment Treaties
BOT	Board of Trade
BSM	Benefit Sharing Mechanisms
CFC	Common Facility Centre
CISS	Capital Investment Subsidy Scheme
DEPB	Duty Entitlement Pass Book
DIC	Direct Industries Centre
DONER	Development of North Eastern Region
EOs	Extension Officers
EPCG	Export Promotion Capital Goods
EPCs	Export Promotion Councils

FDI	Foreign Direct Investment
FIEO	Federation of Indian Export Organisations
FMS	Focus Market Schemes
FSSAI	Food Safety and Standards Authority of India
GDP	Gross Domestic Product
GI	Geographical Indications
GJEPC	Gem and Jewellery Export Promotion Council
GS	Global Standards
GSP	Generalised System of Preferences
GVCs	Global Value Chains
HACCP	Hazard Analysis and Critical Control Points
IBEF	India Brand Equity Foundation
IOPEC	Indian Oilseed Export Promotion Council
ITPO	Indian Trade Promotion Organisation
ITPO	India Trade Promotion Organisation
KSAPPECL	Karnataka State Agricultural Produce Processing and Export Corporation Limited
LICs	Low Income Countries
MAT	Minimum Alternate Tax
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act

MSME	Micro, Small and Medium Enterprises
MSME-DI	Micro, Small and Medium Enterprises Development Institute
NCRMI	National Coir Research and Management Institute
NFTP	National Foreign Trade Policy
NOP-NPOP	National Organic Programme-National Programme for Organic Production
PDEXCIL	Powerloom Development & Export Promotion Council
PPP	Public Private Partnership
RBSM	Reverse Buyer Seller Meet
REACH	Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals
SEZ	Special Economic Zone
SIDBI	Small Industries Development Bank of India
SSIs	Small Scale Industries
TBM	Tripura Bamboo Mission
TPP	Trans-Pacific Partnership
TRIBAC	Tripura Bamboo and Cane Development Centre
TTIP	Transatlantic Trade and Investment Partnership

USDA	United States Department of Agriculture
VAT	Value Added Tax
VKGUY	Vishesh Krishi Gram Udyog Yojana
VLWs	Village Level Workers
WCO	World Customs Organisation

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This publication was a result of the cumulative efforts of a number of individuals without whom it would not have been possible. The views reflected here were garnered from a diverse group of stakeholders from across the country who interact with India's trade policy at various levels. Without the input from these stakeholders, we would not have been able to put together this publication and the recommendations herein would not have been possible.

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Many other names deserve mention but could not be included here due to their requests for anonymity. We are grateful for their contribution to this study.

Finally, any error that may have remained is solely ours.

**CUTS Centre for International Trade,
Economics & Environment**

Preface

India's success with international trade over the past two decades has been testament to the benefits an economy can garner from an outward-looking foreign trade policy. Following its domestic reforms, which started in early 1990s, the Indian economy underwent resurgence and as a result of market-oriented policies, India began to experience unprecedented growth. By 2008, India's trade was twenty times what it had been in 1980.

Today, the Indian economy is the third largest in the world as per purchasing power parity and 11th largest in terms of nominal gross domestic product. Over the past twenty years India has become an important player in the international trading system, not only within the Indo-Pacific region but globally.

The last two decades have seen India's share of world trade increase from less than one per cent to more than three per cent. Not only that its total trade (export plus import) increased from US\$ 132 billion in 2011 to approximately US\$ 1.1 trillion in 2013 but also its trade openness (ratio of export plus import to gross domestic product) has increased from 27 per cent in 2001 to 58 per cent in 2013.

In spite of this formidable growth internationally, India has not managed to achieve similar success domestically. India's trade achievements are tempered with its striking inability to filter the benefits gained externally to its population. Indeed, although India is one of the largest economies in the world,

this feat is marred by its GDP per capita ranking which places it 123rd in the world. It is this dissonance that highlighted the necessity of a study of this kind.

Therefore, this study was motivated by the need to identify ways to enhance the developmental component of India's National Foreign Trade Policy. With the new Trade Policy about to be announced next month, it aims to contribute to discussions pertaining to how trade can be used as a tool for not only growth but inclusive growth.

While it is true that India's developmental needs is not the responsibility of its trade policy alone, a country like India, which is home to almost one-third of the world's extreme poor as per a latest report of the United Nations, have a fiduciary responsibility to make efforts to balance their developmental objectives with their economic ones. Trade policy can and should play a vital role in that respect.

This study comprises extensive feedback that was obtained from the numerous stakeholders ranging from policy makers to local artisans interviewed during the field surveys. It looks at employment generation and other related aspects of the current trade policy and addresses the crucial aspects of the participation of micro, micro, small and medium scale sectors in India's trade in particular and economy in general and provides cluster-specific recommendations for structuring schemes as suggested by various stakeholders engaged with the trade policy at different levels.

It notes the advantages of a 'Whole of Government Approach' or concerted efforts contributed by all government authorities associated with the formulation and implementation of India's trade policy and highlights that coordination among various government departments and stakeholders including those at the sub-national level would enhance the effectiveness of the new trade policy.

Furthermore, based on the views and concerns shared by local-level stakeholders, it provides some critical inputs on how to achieve effective export promotion, competitiveness and then include a section on the need for coherence between India's trade policy and its trade agreements. The concluding chapters provide lessons for India and other low income countries, and then delve into specific recommendations for the 'New' National Foreign Trade Policy of India.

The recommendations on how to enhance the development component of India's trade policy are drawn from information that was garnered from the interviews that took place across various sectors in different parts of India. They pinpoint what we felt were some important reflections of the identified interviewees.

This study contains a wealth of information that we were able to obtain from communicating directly with various stakeholders. Therefore, in addition to the recommendations, it also serves as a source for further research. We hope that it will inspire more research on this area.

Finally, I would like to thank my colleagues who made this study possible. I also acknowledge the support received from the India Office of the Department for International Development of the United Kingdom under its Knowledge Partnership Programme and that from IPE Global Limited which is managing this Programme. I thank them for their comments and suggestions, which have enriched our work.

I hope that this study will be read widely and, given its timeliness, it will contribute to the formulation of a well-informed trade policy cognisant of the needs on the ground.

Bipul Chatterjee
Deputy Executive Director
CUTS International

Executive Summary

Aim and Objective

This project was undertaken to identify ways to improve the developmental impact on India's National Foreign Trade Policy. The previous National Foreign Trade Policy (NFTP) 2009-14 and the manner in which it was implemented seems to presume that increased market access or an increase in exports results in employment generation. Evidence from the field, however, indicates that this assumption does not necessarily hold as it does not account for the use of technology, the subsequent bias in an increase in demand for highly skilled services and the eventual disparity in employment and wages.

While indeed the potential for increasing exports was an important criterion to determine the allocation of funds for schemes under the previous Trade Policy, in order to improve the development dimensions of the new Trade Policy, the NFTP 2014-19 will benefit from the use of additional criterion to determine the allocation of resources.

This study therefore shows that measures to improve not only export growth but employment generation, skill development, or forecasts of alleviating poverty in a few regions should be given more consideration within the new Trade Policy if it seeks to enhance its usage as an instrument for inclusive growth.

Methodology

The methodology used in the project survey entailed analysis of both primary and secondary data. A literature review of qualitative and quantitative information on the economic profile of states was conducted with special attention paid to state-level schemes and policies aimed at enhancing export competitiveness. Focus was then placed on specific state trading enterprises, with key informants from each being identified. After consultations with selected informants, a series of stakeholder consultations with selected ministry officials and export promotion councils in New Delhi were carried out.

The field surveys covered the North, North West, North East, South, and Central India. The project surveyed a wide range of clusters, particularly those that were labour-, technology- and research-intensive having both vertical and horizontal linkages with other sectors. The selected clusters were: Bamboo, Gems & Jewellery, Textiles & Garments, Handicrafts, Carpets, Coir, Food processing and Cars and Auto Components.

Survey Findings

The report comprises extensive feedback obtained from the numerous stakeholders ranging from policymakers to local artisans. The recommendations on how to enhance the development component of the Trade Policy that is to be released in 2014 is drawn directly from information garnered from extensive interviews that took place over the three-month period across various sectors across India. The report looks at employment generation and other related aspects of the Trade Policy; it addresses the participation of MSMEs in the Indian economy and then provides cluster-specific recommendations for structuring schemes as suggested by

various stakeholders that engage with the Trade Policy at different levels.

The report notes the advantages of a ‘Whole of Government Approach’ or concerted efforts contributed by all government authorities associated with trade policies and highlights that coordination in other areas including state, industry and academia could also enhance the new Trade Policy. It also provides stakeholder viewpoints on how to achieve effective export promotion and competitiveness, and then includes a section on the need for coherence between India’s NFTP and its other Trade Agreements. The concluding chapters consolidate the survey results that were obtained during the fieldwork, provide lessons for India and other Low Income Countries, and then delve into specific recommendations for the new National Foreign Trade Policy of India.

With the use of anecdotal evidence, the project was able to identify evidence that the previous Trade Policy has indeed resulted in employment generation and wage increases as a result of increased exports. However, the survey results highlighted a number of gaps that if addressed in the new Trade Policy could aid in improving the development dimension on the new Trade Policy:

While export generation is a key indicator of the success of India’s national Trade Policy, an increased focus on employment generation could enhance its development dimension as technology at times has negative implications on employment due to the subsequent bias in an increase in demand for highly skilled services and the eventual disparity in employment and wages.

One of the areas of improvement reiterated by key informants was a need for improved coordination with various local stakeholders. The report highlights the need to determine trade agendas with input from various stakeholders as the use of schemes in specific states can be counterproductive unless

coordination between civil society, states and central government is improved.

In the paradigm of measures which can be undertaken for export promotion, trade fairs are an extremely potent mode of connecting credible buyers and sellers across countries. Multiple key informants noted that Reverse Buyer-Seller Meets and trade delegations are the most credible channels through which buyers can be reached and therefore more attention needs to be paid to increasing such activities.

It was also noted that there were insufficient benefit-sharing mechanisms as the fruits of increased export generation through mechanisms put in place by the Trade Policy tended to be captured at the top of production chains.

Another area highlighted in the report is the need for increased coordination between relevant government ministries such as the ministry of agriculture and the Directorate General of Foreign Trade to ensure improved coordination among ministries.

The report concludes with a section on adding value to products and services. The current measures in place to encourage the import of goods that play a key role in export promotion could be particularly useful in the agri-processing sector.

Recommendations for the New Trade Policy

Based on field research and secondary data analysis, the report arrives at suggestions for policy improvements under six broad areas. Some of the lessons can also be applied to other low income countries. Drawing from the six broad areas of policy improvement, the report concludes with the following specific recommendations for the new Trade Policy:

Institute a sound monitoring and evaluation system

The new policy needs to distinguish between export promotion and employment generation. Chapter 3.15 of the existing policy notes that the objective of the Focused Product Scheme is to “incentivise export of such products which have high *export intensity/employment potential*” (emphasis added). However, the two concepts are not inter-changeable and such a distinction in the new policy will be an imperative. The inclusion of a sound monitoring and evaluation system within the policy will then aid in assessing the direct impact of increased exports on employment.

Engage national and sub-national organisations and actors

One way that the new policy can implement this change is by making modifications in Chapter 1C.3 which outlines the composition of the Board of Trade. Mandating the inclusion of representatives of local stakeholder groups to this Board will serve as a first step in ensuring that this policy reflects the essential inputs from directly affected stakeholders.

Make use of effective branding for better price realisation

Chapter 3.6 of the policy states that the India Brand Equity Fund was set up by the Ministry of Commerce & Industry “to promote and create international awareness of the ‘Made in India’ label.” This ‘Made in India’ label is too broad in scope and therefore, the new policy should advocate for more specific brands such as in the case of Darjeeling tea and put in place measures to protect them through more effective use of instruments such as geographical indication.

Implement a whole-of-government approach

Only the Ministry of Commerce & Industry is represented on the Board of Trade. A whole-of-government approach

should be in place by mandating the inclusion of other relevant ministries in this body as per Chapter 1C.3 of this policy.

Strengthen value chains by fostering effective regional and global partnerships

Moving up the value chain requires more than technological upgradation as in Chapter 1B.1 (ii). Other measures under Chapter 4 of the policy that focus on duty exemption and remission schemes make use of negative incentivisation to avail the benefits of imports as they need to prove that “a minimum 15 percent value addition” has been made. The new policy should adopt a more positive approach.

Make benefit sharing mechanisms sustainable

While benefit sharing mechanisms (BSMs) have evolved and are increasingly providing high returns to farmers, artisans, and workers, the linkage between trade and its direct benefits to local communities is not explicit in the policy. The new policy needs to put in place measures to ensure that all players within the supply chain of a traded product benefit from the increase in exports. There should be a new chapter articulating the modalities of BSMs.

Compatibility between Trade Policy and Negotiations

At present, India’s trade policy is largely isolated from its negotiations of bilateral, regional and multilateral trade agreements. The planning and administration of policy instruments under the NFTP has often been undertaken without sufficient consideration of the sectoral needs that get preferential market access through such negotiations. This approach, therefore, enhances market access for certain products through the Trade Policy without identifying the specific sectors or providing trade adjustment assistance to sectors impacted by imports.

Recent studies as well as evidence obtained from our survey indicate that while India has immense trading potential with its neighbouring countries in many sectors and products, most of those products are not included in the list of “focused markets” and “focused products” of its Trade Policy. Furthermore, it is rather surprising that none of the South Asian countries are covered under Focused Market Scheme that currently applies to over 125 countries. The new Trade Policy would benefit from addressing this particular issue.

While India’s strategy to engage in bilateral and regional trade arrangements has aided in ameliorating the negative impact of trade diversion, the lack of congruence between India’s participation in these free trade agreements and its Trade Policy have meant that India’s net trade gains have remained below potential. As a result, India’s increased involvement in such preferential trading arrangements has raised concerns over their impact on the domestic economy. Indeed, the new Trade Policy will need to give priority to those sectors under the Focused Product Scheme that are granted better market access by partner countries under India’s preferential trading arrangements.

Synergies between Trade and FDI Policies

A major criticism of the NFTP that was highlighted during our survey was its lack of congruence with other major domestic macroeconomic policies such as that on investment. The relationship between trade and investment, particularly foreign direct investment (FDI), is crucial for any country. The synchronisation of India’s Trade Policy with its FDI policy would boost FDI-led exports. For example, there could be mandatory provision for committing exports while allowing FDI.

Synchronisation of India’s Trade Policy with its FDI policy can boost FDI-led exports. Foreign firms in India have actually

shown higher export performance than their domestic counterparts and past studies have shown this to be true particularly in the Indian manufacturing sector. Developing countries like India, therefore, need to look at export-oriented FDI to strengthen their export competitiveness. Effective regulatory regimes can facilitate such export-oriented FDI.

SEZ policies and increased investments in export-related infrastructure can attract more export-oriented FDI. This would not only help foreign firms to set up their export base in the country, but also help domestic firms reduce their exporting costs and become more competitive. Thus policies to address these issues are strongly needed to boost India's attractiveness for export-oriented FDI.

Lessons for Low Income Countries

Many of the recommendations that were derived for the new Trade Policy are also relevant for Low Income Countries (LICs). The report expands on six broad lessons and recommendations which were drawn from the field work for input into the new National Foreign Trade Policy and can also be used as input into the foreign trade policies of other LICs.

With similar constraints as that of India in shaping their respective trade policies, LICs could also benefit by giving due consideration to the linkage between use of technology, bias in increase in demand for highly skilled services and resultant disparity in employment and wages; labour displacement as a result of other welfare-oriented schemes; and the need to provide trade adjustment assistance to sectors impacted by import substitution.

In addition, the lessons about establishing monitoring and evaluation systems for ensuring employment generation from export-led growth; fostering engagement of national and sub-national organisations and actors in the formulation and

implementation of the trade; ensuring effective branding for better influencing price realisation; enhancing sustainable BSMs; and putting special focus for the development of value chains are highly relevant for LICs.

1

Introduction

Both the National Foreign Trade Policy 2009-14 and the manner in which it was implemented seemed to presume that increased market access or an increase in exports would enhance employment generation. However, this assumption did not account for the linkage between the use of technology, bias in increase in demand for highly skilled services and resultant disparity in employment and wages. Furthermore, the policy did not account for seasonal unemployment in agriculture which often alters demand and supply for labour in labour-intensive export-oriented sectors such as gems and jewellery. The outcome of a lack of adequate measures to tackle this fluctuation is that there are no measures in place to act as a buffer against labour shortages in certain cases, and in the same vein, increases in available labour are not channelled into alternative modes of employment.

The survey found anecdotal evidence of various positive aspects pertaining to employment generation and wages as a result of increased exports:

- There was evidence that entrepreneurship increased in certain cases such as MSMEs in the leather sector. There was increased employment in sectors such as auto components in Chennai
- There were examples where revenue was passed on to artisans, such as with the Carpet Export Promotion Council, where 40 percent revenue reaches the artisans

- There were many recorded cases of limited employment opportunities for women, as was the case in Rajasthan and Uttar Pradesh (UP ceramic cluster, Jodhpur textiles). But field surveys unearthed cases where the opposite was true, such as in the agro-processing sector, where employment of women is high in Srinagar and in the North East.
- There have been cases where academic institutes of excellence have been instrumental in creating highly skilled employment. An example was that of coffee tasters (administered by Coffee Board, Karnataka), who differentiate between grades of Arabica and Robusta coffee, and who are employed by export houses in Karnataka.

A few challenges under the previous Trade Policy were also highlighted from the case studies:

- Multiple key informants noted that it was difficult to find semi-skilled labour in sectors such as gems and jewellery, carpet making, etc.
- While the shortage of labour has been substituted by mechanisation in some cases, there were instances where the use of mechanised labour caused deterioration in the quality of the final product such as in tea-leaf plucking. A potential solution which could be considered is whether strategic branding can accentuate the employment of female labourers and result in higher price realisation.
- The need for status escalation of artisans was also recognised and steps have already been taken by some

key informants to escalate their status. An example is the model carpet loom in the Indian Institute of Carpet Technology, Srinagar.

While the labour ministry has monitored loss of jobs in labour-intensive export-generating sectors as a result of the recession, governmental mechanisms/databases to track employment generation, consequent wage increases, and demand and supply for unskilled, semi-skilled and skilled labourers have not received as much attention. A positive development, however, is the web-based monitoring systems for skill development through MSMEs which employ call centres to track candidates who benefited from skill development programmes and identify if they were employed after participating in the programmes.

Therefore, while indeed the potential for increasing exports is an important criterion to determine the allocation of funds for schemes under the NFTP, the NFTP 2014-19 could benefit from the use of additional criterion. Projections to improve employment generation, skill development, or forecasts of alleviating poverty in a given region should be regarded for their potential to render change.

2

Scope of Field Studies

Clusters

The 2003 Exim Policy focused on a few clusters. Tirupur is definitely one of the success stories: from 2,000 units, the number has grown to 8,000. Leather has become a very technical subject because of the environmental impact of tanneries. However, the units have not kept up with growing competitiveness, either by technological upgradation or by increasing labour competitiveness. As per a representative from the Apex Cluster Development Services, the Tirupur cluster had a very strong lobby which set up an ICD. However, this benefit was not provided across the board to many players.

On the other end of the spectrum, as per experts from the MSME Development Institute, Chennai, the management of cluster development in South India has been highly unsatisfactory – this can be seen by the number of proposals for setting up common facility centres which have been left pending with the government. In Chennai, this is undertaken by the SIDBI.

Below is information that was gathered from some of the cluster visits that were undertaken during the project.

Bamboo Cluster

Economic Profile of the North Eastern States

Although 59 percent of income comes from the services sector in the North East, the manufacturing sector of Manipur, Tripura and Meghalaya has fared much better than the national average. The unregistered sector includes small-scale industries, including handicrafts. Assam has about 88 percent of the total industrial units in the region. These manufacturing activities are those based on locally available resources for which the plant sizes are not very large. Hence, industries which do require large-scale production, such as petrochemicals, cement, steel and sugar are absent. For example, despite the abundance of limestone in Meghalaya and Assam, there is no cement factory in the region. Also, despite Assam having large oil reserves, there is no manufacturing unit for petrochemical products.¹

TRIBAC is an autonomous, community-based non-profit organisation. A coordinator at TRIBAC mentioned that bamboo clusters are in the initial stage of its development. The core product in the bamboo cluster is bamboo baskets and loom-based fine mats. As many as 2,000 artisans are employed (of which 75 percent are women) and 70 percent of the employees are from minority castes. A stakeholder in the bamboo cluster noted that export promotion activities take place from the government — both central and state. However, he also mentioned that accessing wider markets for the product is very difficult due to weak road and rail connectivity.

A senior manager at the Tripura Bamboo Mission (TBM) noted that 70 percent of the bamboo products of India come from Tripura. However, he also noted that the trade pact with ASEAN affected the competitiveness of their product. He stated that international producers are producing goods by automatic machines on a large scale; yet they are still producing

manually in small quantities, resulting in loss of competitiveness. As different technology is required for different thickness of bamboo, mechanisation of products is therefore quite difficult.

Marketing Linkage is a major intervention under TBM to ensure viable operation of production centres and sustainability of livelihoods generated. The role of TBM is to provide both backward and forward linkages to the promoted producer groups.

Implementation of Clusters: Representatives of the Directorate of Industry, Cuttack, Government of Odisha noted the issues plaguing cluster development in Odisha are shortages of manpower, bad HR policy, low accountability at various levels, lack of social capital building and the lack of cooperative society.

Raw Materials: As per a representative from the groundnut clusters in Haripur, Jaipur, quality raw material is the main problem due lack of irrigation facilities exacerbated by the water crisis and price of inputs which has made them uncompetitive in the markets. Directorate of Industries, Government of Odisha has been working to develop this cluster with help of the Andhra Pradesh Industrial Technical Consultancy.

Impact on Employment Generation: Senior representatives from the Cluster Development export promotion, MSME-DI, MSME ministry, Government of India estimate that the development of clusters will result in a 20 percent increase in employment. They also note the importance of handling manpower shortage at the implementation level.

Training: An assistant director from the MSME-Development Institute, Kolkata, Ministry of MSME, Government of India noted that while dealing with the need of skill development, it is critical to undertake need-based training. He also noted that the number of units in a cluster should be reduced.

Clusters as a Tool to Ensure Social Security: A representative from Odisha Khadi and Village Industries Board, Bhubaneswar, noted that artisans should be covered under the scheme and brought under the umbrella of social security such as Janashree Bima Yojana and Artisans Welfare Fund Trust of the implementing agency.

Gems and Jewellery

Value Chain of the Gems and Jewellery Sector



What is the value chain differential of the product at different stages in the production process? There exists scope to increase value addition through the process of jewellery fabrication. Furthermore, the importance of hallmarking and adherence to the Kimberley Certification Scheme cannot be underplayed.

Employment: While the industry employs around 3.2 to 3.4 million people directly, there is a pool of artisans with knowledge and expertise in jewellery making and the largest resource pool in diamond cutting and processing, apart from the blend of technically trained designers who are well-versed in 2D and 3D design software.

The salary earned by the workmen depends on the type of work they do (which facets of the gem they worked on: ghaat, taliya, table, aath pail, mathala), and the size of the diamond worked on. For instance, artisans who work on ghaat and taliya may earn up to three times the amount earned by the people working on the aathpail and mathala.

Market Segmentation: India imports gold and rough diamonds. While Belgium and Israel dominate the cutting and polishing of larger-sized and larger-value diamonds, India dominates the lower-sized, lower-value market. However, India is the largest diamond cutting and polishing centre of the world. While the African continent dominates the mining space, India is the dominant player in processing

Textiles and Garments

As per some respondents, there is a great scope for increasing exports in the garment industry and this could also generate large-scale employment for females. They noted that the government should increase the incentives on exports of fabric and garments, which would encourage manufacturers to move into exports. This will also allow the manufacturer to offer cost-effective pricing, giving them a competitive edge over countries like China.

It was noted that the success of the skill development and training programs is constrained because the government's approach has made the accessibility of funds tedious for any agency interested in imparting skill development and training. Due to technological advancement which requires plant and machinery to be operated in a controlled environment (pollution-free, temperature-controlled), labour working conditions are improving. However, the export of high quality raw material (cotton and yarn) creates shortage of the same

for the domestic industry which in turn leads to the import of raw materials to cater to domestic demand.

Despite India's rich history in textiles compared to other countries, it has failed to make a mark in the global market. This is evident from the fact that even though India stands third in world textile exports, its share is 5.1 percent in comparison to China's 32.2 percent. India has huge potential to increase its share in world's textile and clothing exports from 4.5 percent to 8-10 percent by 2020.

The government provides two percent incentive for export to African and Latin American countries. However, trade has still not increased because of lack of confidence in payment receipts from these markets and government coordination with these nations.

Domestic manufacturers are not taking the initiative to export due to traditional mind sets and lack of awareness about other potential markets. In order to encourage domestic manufacturers to export, PDEXCIL is organising an International Reverse Buyer Seller Meet (RBSM) at Ichalkaranji, Kolhapur district, Maharashtra.

PDEXCIL exists for the purpose of developing and promoting exports of powerloom products and is organising an International Reverse Buyer Seller Meet at Ichalkaranji on 7, 8 and 9 March 2014, by inviting potential buyers and importers from abroad and their sourcing agencies. During the event, leading buyers from Sri Lanka, Bangladesh, Singapore, Malaysia, a few African countries as well as Europe and America will be invited to participate and have direct interaction with the manufacturers, especially those in the SME sector. This event is supported and guided by the Ministry of Textiles and financial assistance is available under the MAI scheme of Union Ministry of Commerce.

The majority of unskilled workers in the textile industry in Gujarat come from UP and Bihar. Existing government

schemes like MGNREGA however, are diverting this labour force back to their native villages, which is creating a shortage of workers in the textile industry.

Coir Sector

The world's natural fibre-based sector was in a state of crisis and was facing an uncertain future owing to the presence of synthetic substitutes. The coir sector provides employment to 3,75,000 people in Kerala. In 2012-13, total coir exports from India were worth around ₹11.66 billion, up from ₹10.52 billion registered the previous year, and 70 percent of it was Kerala's contribution.

The world's biggest event on coir, on both new products and machinery development was held in Kerala Alappuzha in January 2014. The trade fair targets exports worth ₹1.5 billion. A representative from the Overseas Indian Affairs noted that the Union Government should allocate more funds to the coir sector to help them bring out innovative products by carrying out research and development activities. This year, for the first time, a consignment of coir products is being exported to Kazakhstan from Kochi.

New machinery and technologies have been designed to improve productivity in the sector. Among them is a pneumatic loom for weaving geo-textiles and a revolutionary new de-fibreing mill developed by the National Coir Research and Management Institute (NCRMI), the coordinating agency for Coir Kerala 2014.

Use of Farmer Cooperatives for Raw Material: The Secretary of Coir is in talks with the Coconut Development Board to create a mechanism where farmers' societies from whom the board procures coconuts are able to supply coir fibre. This will be done by providing farmers' societies with de-fibreing

machines which allow the purchase of processed fibre. Between November 2013 and January 2014, the government procured 14,000 quintals of coir fibre and distributed them through Coirfed to coir cooperatives at the standard rate of ₹20/kg of raw fibre at a time when the market prices had soared to between ₹26 and ₹28.

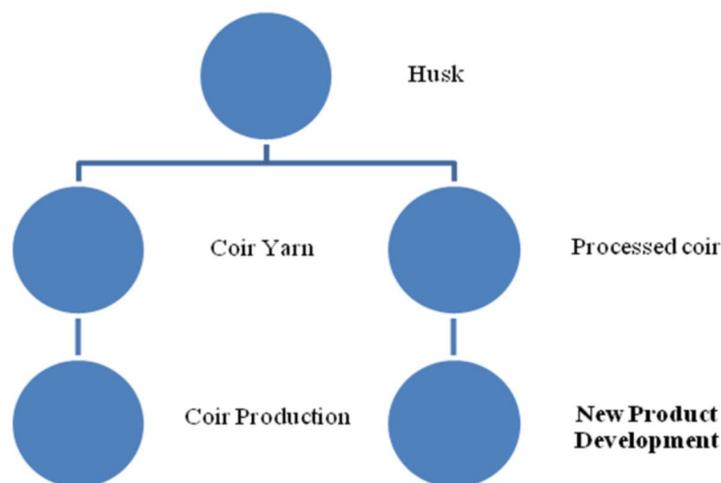
Mahila Coir Yojana: This is a women-oriented self-employment scheme in the coir industry which provides self-employment to rural women artisans producing coir fibre. It revolves around the distribution of motorised rates to women artisans after providing them with training.

New product development in coir: Some of the newly developed products include a collection of handicrafts and souvenirs, sound-absorbing materials designed for architecture and interior designing and environment-friendly coir geo-cells that prevent slope erosion and enable slope land cultivation.²

Quantum of Assistance: the beneficiaries observed that subsidies under the scheme are inadequate. The reasons for the closure of units after receiving assistance are marketing problems, shortage of skilled and unskilled manpower and high electricity charges.

The coir industry has undergone a massive transformation and has developed many new innovative products. However, as per a representative from the Coir Export Promotion Council, the coir and rubber export promotion council believes that it has not benefited much from export promotion efforts. The utilisation rate by this sector has been fairly limited.

Coir Production Process



In the Coir Sector, universities have played a significant role in the development of new technology. Currently, owing to business contacts in the Middle East, these products are being sold in the Gulf nations. Coir furniture is distinctive in it that it is eco-friendly and is made from waste material. Better branding of the products can prove immensely helpful.

Food Parks

As per a representative from Kashmir Kessar Mart, clusters/ food parks may not work unless significant investment is made in ensuring access to raw material, and in the establishment of facilities and infrastructure that can absorb and process the produce immediately after a harvest.

As per experts from Karnataka State Agricultural Produce Processing and Export Corporation Limited (KSAPPECL), a food park is identified, an expression of interest is provided

to the developer and the land is given to the developer. To ensure success, it is essential to develop common facility centres. The employment generated directly in the food parks may be 300-600 people, but indirect employment runs to a few thousands. The Malur food park has irradiation facilities, a packing centre and a coffee powder unit. Time-bound commitments should be provided to developers. 100 acres of land are provided at 2 lakhs/acre. Unfortunately, there is no monitoring of the establishment of common facility centres.

Auto component industry

As per a representative from the Automotive Components Manufacturers Association, Chennai has many large automobile industries like Ashok Leyland, Ford, Hyundai, Car Plans and Royal Enfield. The range of products produced by the auto components manufacturing industry is as follows: electrical parts, equipment, suspension and braking parts, body & chassis, engine parts, drive transmission & steering parts. While exports from the auto components industry were in the range of US\$3.8bn in 2007-08, it has now increased to US\$9.3bn in 2012-13. The organisation in charge of providing cluster support was the ACMA Centre for Technology (ACT). Currently, owing to the depreciation of the Indian rupee against the US dollar, cost of raw materials has increased.

The auto components industry is interesting to study because it used to receive protection which was gradually withdrawn. It is interesting to note how they were required to increase their productive capacity. In this respect, the ACT has been very active in increasing productivity. Sidbi implements the auto components cluster in Chennai.

A sense of insecurity prevailed in the auto components sector owing to tierisation of component manufacturers/associations. Earlier, they used to suffer from high rejection

rates owing to poor quality. Auto giants inside and outside also regularly consider global outsourcing, therefore linkages between the SMEs and the industries needed to be strengthened. The state also suffers from high electricity rates which negatively affect the competitiveness of the sector.

The actors in the Chennai auto component cluster include the following:

1. Large and medium enterprises
2. Vendors to large firms
3. Small firms which deal with replacement markets
4. Job shops in metal cutting, grinding and metal forming
5. Foundries
6. Heat treatment units
7. Forging units
8. OEM manufacturers of vehicles
9. Material suppliers

The specific focus of cluster-based operations is in reducing wastage, enhancing the quality of the products and rationalising their supply chains. However, the lack of skilled manpower is still a concern.

Technology Upgradation in Auto Components Cluster: The National Small Industries Corporation is involved in implementing the hire purchase, leasing and raw material assistance scheme to supplement the availability of raw materials to a number of units. The hire-purchase scheme is intended to be used for technology upgradation.

Improvement is quantified through the following indicators in the cluster:

- Kaizen,
- Poka Yokes,
- Accident Free days,

- Inventory Reduction and
- Productivity improvement.

Furthermore, ACT engineering excellence cluster programme was implemented in 2011 to build competencies to build lean machines, lean toolings and lean parts handling and logistics.

Handicrafts

As per a representative from the Export Promotion Council for Handicrafts, the handicraft industry has high potential for employment, export and foreign exchange earnings for the country. The sector is also economically vital from the point of low capital investment and high rate of value addition. Despite all this, the sector is not mainstreamed in planning priorities of many state governments. No state budget has been allocated to this sector.

Profiles of Clusters Covered During Project

- Khurja Ceramic Pottery Cluster, UP, is one of the largest white ware clusters in India. Established in 1981 by the Central Glass and Ceramic Research Institute, it has 494 units in the small-scale sector. The cluster has benefited from the Industrial Infrastructure Upgradation Scheme of the Department of Industrial Policy and Promotion.
- The Groundnut Cluster operates through a special purpose vehicle. There are 250 units operating in the cluster employing 10,000 workers. The turnover is 44.5 crore. However, there are no exports from this cluster. The average investment for plant and machinery is around ₹30 lakh.

- The Re-Rolling Mill Cluster, Liluah, Howrah, Kolkata produces bars, rods and other structural steels. It is operated through a special purpose vehicle called the MCCI Rolling Mills Cluster (P) Ltd. It has 180 units employing 36,000 workers who facilitate a turnover of ₹11,340 crore. The average investment for plant and machinery is around ₹5-7 crore, and major issues include raw material, infrastructural deficit and power crisis. Major issues include the use of modern technology, quality control and testing of raw materials.
- In the Pipili Applique Cluster proposed near Puri, Odisha, 117 units with 1,700 workers have a turnover of ₹50 crore. The value of exports from the clusters is ₹8 crore. A representative from the Ministry of Textiles noted that an applique raw material bank in Pipilibuys raw materials when the price is low to supplies to producers. Representatives from the Pipili Applique Cluster noted that duplication of design in other parts of the state and country were leading to destruction of the market.
- The Spices Cluster, Cuttack has 153 units employing 7,900 workers with a turnover of about ₹300 crore. However, the value of exports from the cluster is only ₹5 crore. Major issues plaguing the clusters include allotment of land in the name of special purpose vehicle for common facility centre (CFC) and testing laboratory.
- The Fan Cluster in Kolkata was organised in the year 2007. It has 260 units, employs 4,860 workers and has a turnover of ₹139 crore. A manager at DIC Kolkata noted that until 2000-01, they were exporting fans, but lost competitiveness in the markets. One of the reasons

could have been the huge trained labour shortage. 260 units in working condition produce all types of fans used in standard households and other business units. Usha Company used to procure fans from these units. However, due to labour problem, Usha shifted its base to Hyderabad. This is unfortunate as it is opined that the product quality is better than the Chinese product, the only problem is the market.

- The readymade Garments Cluster, Govindpur, Cuttack has 650 units employing around 3,000 workers. While the turnover from these clusters is approximately ₹25-30 crore, there are no exports. The major issues faced by this cluster are no in-process quality checks, lower value addition and value realisation, lack of customer confidence, poor marketing/pricing strategies
- Clusters in the North East: A project manager from the Livelihood and Rural Marketing, Ministry of DONER, noted that Agarbatti stick, Hapania jute, Shankhala handicraft, Handloom and Bamboo Clusters are being implemented to develop the region.

3

Employment Generation and Related Aspects

Examples of Increasing Employment

- At the MSME Technology Development Centre, Chennai, about 9,730 unemployed youth have been employed in various aspects of modern footwear technology. 4,507 employees are trained to develop multi-skills that help the industry ensure cost-effective productivity. In the past 10 years, around 50 different units have been set up by entrepreneurs who graduate from the Central Footwear Training Institute. Each unit employs 300 people; hence the total employment generated by these units is close to 15,000. After understanding the domestic market, these units develop the capacity to export to markets abroad.
- An assistant director of the Automotive Components Manufacturers Association, Chennai that there were around 160 units which produced auto components in Chennai and around 1,300 all over India. Each unit employs about 40-50 employees.
- A representative from the DIC Kolkata noted that before the formation of cluster there were 1,000-2,000 workers

there. After the cluster formation, direct employment generation is expected to be of 5,000-6,000 and indirect employment 4,000-5,000.

Demographic Composition of Labour Force: Gender Aspects

- As per a representative from M/s Asian Spices, a recognised export house, there are two reasons for the low participation of women in the work force in the spice industry in Gujarat:
 - (i) Firstly, it is laborious work which is not suitable for women and,
 - (ii) Second, processes like cleaning and sorting which were earlier done manually are now mechanised
- Due to a lack of representation, most of the traders in Unjha are losing out on business because the prospective foreign buyers are not aware of the fact that the goods are originating from Unjha.
- There is a sharp contrast in the employment of women in rural and semi-urban areas, in comparison to urban areas. Societal norms constrain female employment in Jodhpur, while it is common to find female engaged in the same sector in places like Delhi, Mumbai, and Jaipur.
- Demographic composition of labour force in Uttar Pradesh (as per informants from the UP Khurja Cluster) is 70 percent from Bihar, 15 percent from Odisha and West Bengal. As identified by experts from the Central Glass & Ceramic Research Institute, labourers from Bihar are highly desirable because they are willing to work for wages far below the minimum wage level.

However, in the UP Khurja cluster, the gender ratio of 5 percent female and 95 percent male is due to social stigma.

- Kashmir Kessar Mart engages as many as 1,500 women in agri-processing.
- As per a representative from the Export Promotion Council for Handicrafts, the number of workers (in Rajasthan) employed in the handicrafts sector is approximately 10 lakh, out of which nearly 60 percent are females and 40 percent are males.

Benefit Sharing Mechanisms

- Evidence indicates that there are benefit sharing mechanisms (BSMs) in place which allow the benefits to permeate from exporters to artisans, farmers and labourers. A welfare trust was instituted in Moradabad, Uttar Pradesh in order to oversee the development of artisans.
- As per experts from state entities engaged in providing support to farmers, it is essential to create Farmers-Producers Associations, link them with common facilities, and cut the number of middlemen involved. Similarly, in Kashmir, 14 cooperative societies have been formed by artisans who make carpets. However, entrepreneurship amongst artisans should go hand in hand. Apart from providing raw materials, market access should be provided and steps to enhance their competitiveness should be taken. All of this requires an establishment. While clusters are the starting point, they eventually have to form federations and become sustainable.

- One of the most critical findings is that BSMs which have evolved over a period of time to provide benefits to farmers, labourers and artisans should be made self-sustaining. This analysis of availability of labour should take into consideration availability of labour. For example, the Jaipur Rugs model of employing those employees who are seasonally unemployed has been used across the board in the carpet industry. This requires us to consider if a policy on employment can take into consideration factors pertaining to seasonal unemployment.

Skill Development

- As noted by a representative from the Crafts Development Institute, Srinagar, not all skills are available locally in Kashmir. For spinning, for example, products have to be sent to New Delhi. Hence, skill development has to be undertaken based on a bottom-up analysis and not a top-bottom assignment.
- Experts from the Central Glass & Ceramic Research Institute, UP Khurja cluster suggest that skill development must be undertaken in the local language. Notably, they also identified that the labour class which works on a daily wage is reluctant to enter skill development and training programmes due to the opportunity cost. They suggested that the training classes should be conducted after work hours and training should not be more than 2-3 hours. They suggest that skill development and training modules should focus purely on practical aspects of training, instead there is an emphasis on theoretical teaching which digresses from the main purpose of the programme.

- The Coffee Board, Karnataka administers a course in specialised coffee tasting. These coffee tasters are later absorbed by top export houses in Karnataka.

Moving into Entrepreneurship

- A representative from the Ministry of Textiles, Handicrafts identified the need for entrepreneurship motivational campaigns.
- Another representative from the District Industries Centre, Cuttack noted that many other initiatives are being taken to develop a positive atmosphere for both psychological as well as entrepreneurial capital building. The State Food Processing Act is expected to reduce stigma in the food processing clusters.

Status Escalation of Artisans

- A representative from the Indo-Sri Lankan Chamber of Commerce noted that the Rolls- Royce mark is hand painted, and the person who paints that mark is remunerated very highly.
- Status escalation has been considered quite seriously by the Indian Institute of Carpet Technology, Srinagar. In order to escalate the status of artisans, the model carpet loom was designed to remove the stigma associated with artisans working at the floor level.

Impact of mechanisation and Better Integration into the Value Chain

- A representative from Janbazar Leather Clusters, DIC Kolkata noted that unlike other cases, the workers are

highly skilled in this cluster. However, the workers still engage in manual production.

- It was stated that not all labour can be effectively substituted by machines – an example is that of plucking tea leaves. Despite companies deploying the use of machinery in this exercise, the quality which results from plucking the tea leaves by the delicate hands of women traditionally engaged in this activity is apparent in the final quality of the product.

Impact on Wages

- A representative from Shri Shiva Prints, Jodhpur noted that wages have increased four to five times what they were 10 years ago. As per another representative from the *Federation of Indian Export Organisations* (FIEO) due to a shortage of unskilled labour, exporters need to increase their wages. This is going to be particularly interesting looking at the case of wage increase in Bangladesh and China.
- In a factory in Jodhpur which undertakes printing of fabrics, it is noted that the top and senior management employees are on permanent company payroll but that is not the case for the labour force. Most of the labour force works on daily wage system where the wages are based on their work output per day.
- As per a representative from the Carpet Export Promotion Council, in the carpet industry, for example, the wages are on a work-based piece rate basis. If the revenue for one carpet is ₹1,00,000, the weavers get ₹40,000, which they have to divide amongst themselves.

- The growth of new generation entrepreneurs is limited. This is because the art of carpet weaving is diminishing, and it requires a lot of devotion. One silk carpet requires six months work by two artisans.

Possibility of Dealing with Labour Shortage in the Long Run

- Overdependence on labour-intensive modes of production exposes sectors to competition from other markets which have shifted to capital-intensive modes of production.
- A partner from Silico & Chemico Porcelain Works, UP Khurja cluster noted that the labour-intensive manufacturing process of the Indian ceramic sector has constrained its growth, especially in crockery, when compared to China, which utilises capital-intensive techniques. In his view, the twin issues of high production costs (due to labour) and low quality make our industry less competitive in exports in the global market, especially against China.
- He mentioned that the industry requires a huge infrastructure inflow for modernisation which will require the government's involvement.
- Many of the key informants believe that there is a possibility that there might be a shortage of labour in the long run, not least because of the impact of schemes like MGNREGA.

4

Participation of MSMEs

A representative from the Ministry of Micro, Small and Medium Enterprises, Government of India, noted that MSMEs contribute 40 percent of exports in India. He noted that Chemexcil has about 4,000 members, of which 70-80 percent are SMEs. However, key informants noted that cheap Chinese imports are hurting the Indian MSME sector. For instance, Indian manufacturers of engineering parts or cycle parts are hugely affected by cheap Chinese imports. This is because Indian manufacturing lags in competitive parity with its Chinese counterparts.

He also mentioned that the Ministry has made a lot of efforts in designing developmental programmes for the upliftment of the MSME sector. They have also started various programmes like Scheme of Micro Finance Programme, Micro and Small Enterprises Cluster Development Programme, Skill Development Programme. But one of the major problems faced by this sector is outreach.

He noted that there are around four crore MSMEs in India, out of which only 33 lakh are registered. He pointed out that the registered MSMEs absorb the direct benefits of several government schemes. MSMEs would benefit from single window clearances that will reduce the time and effort required by entrepreneurs to set up their businesses.

He mentioned the World Bank Report – Ease of Doing Business (2013). He stated that according to this report, India ranks 134 out of 189 countries. In 2012, India ranked 131. This report has ranked economies from 1 to 189, with first place being the best. India's high ranking reflects that the regulatory environment is conducive to business operation.

The prime reason for India's bleak business scenario is the continued practice of lengthy, archaic and unsupportive bureaucratic processes. The same report did go on to state that India can raise its rank to 100 simply by learning from domestic examples in states like Gujarat and Kerala. He suggested that India should try to learn from the success of the MSMEs policies adopted by these states.

Rather than adopting the policies of developed nations, whose economic and social circumstances are distinct from India's and instead should focus on evolving its own strategies from successful home-grown examples. If states can simply learn from each other, it will definitely solve the whole purpose.

When questioned about the failure of nearly 91,400 MSMEs in 2011, where out of these 13,000 were established in the year 2010, the response from key informants from the Ministry of MSMEs was that there were several causes behind their shutting down. One of the reasons was the lack of preparedness among the entrepreneurs: they did not have the proper domain knowledge; they could not survive the existing competition and they neglected to calculate the viability of their business at the onset.

Anshuman Mohanty, MSME noted that the Institute of Export Packaging undertakes the operation of determining how products should be packaged in such a way as to enhance value and reach the final consumer.

State and Central Government's Role: Use of MSME DIs

- An informant from the Industry Promotion Officer, District Industries Centre, Cuttack, noted that all clusters programmes are implemented by village level workers (VLWs), and extension officers (EoS) at block level. But, due to shortage of VLWs and Eos, implementation work is affected.
- As per a key informant from the MSME Technology Development Centre, Chennai (which also houses the Central Footwear Training Institute), despite the fact that government supports entrepreneurship in the sector by providing access to finance and in undertaking multiple short and long term skill development courses, lack of skilled manpower is the main factor inhibiting growth in the leather industry. Furthermore, there was support provided to rural footwear artisans through training about 4,000 rural footwear artisans in Salem, Erode, etc.
- Another key informant from the Ministry of Micro, Small and Medium Enterprises, Government of India, MSME Developmental Institute, Indore noted that there are 12 officers handling 51 districts and approximately 350 programmes in Madhya Pradesh.
- A representative from the MSME-Development Institute, Agartala, Ministry of MSME, Government of India also noted that the absence of a DGFT branch to help the exporters.

- MSME Development Institute Kolkata maintains the ISO reimbursement scheme, which would positively influence the number of cases which obtained ISO certification, and the industries from which maximum applications were received.

5

Cluster-specific Recommendations for Structuring Schemes

When the respondents were asked what recommendations they had for the new NFTP that would most benefit their specific clusters, a number of suggestions were raised and as well as information relating to the implementation of the previous NFTP:

- As per experts from the FIEO, the corpus of the funds being used for export promotion should be increased – they suggest instituting an Export Development Fund with a ₹3 billion corpus. The Market Development Assistance Scheme is MSME focussed.
- They also noted that Technological Upgradation Fund Scheme operates only for textiles, and is fairly effective. Schemes for R&D should focus on value addition by allowing a specific grant. There must be specific grants provided for getting your product registered.
- As per key informants from the IOPEC, the interest rate subvention scheme is given to processed agricultural

products, not raw materials. The scheme is applicable to labour-intensive sectors. Service tax on the following in agri-processing: local transport, warehousing, pest control, fumigation, pre-shipment, ROO result in reducing the cost-effectiveness of the product.

- A representative from Chemexcil noted that single window clearance is essential to ensure participation by SMEs. The current drawback does not provide all the solutions which are provided by Duty Entitlement Pass Book(DEPB). This sentiment was echoed across the board.
- He also noted that safeguard duties could be used strategically to monitor export competition. Should we begin to use countervailing measures? Trade remedies have already been used against APIs, bulk drugs and other low quality goods.
- Refunds under the value added tax (VAT) refund scheme should be expedited – currently, reimbursements are delayed.
- REACH regulations result in the imposition of two kinds of costs on importers: One is the cost of registration for which the government does compensate. However, there is a cost for sharing information which the government undertakes through consortium formation. SMEs find it hard to meet these costs. This assistance should be provided irrespective of SSI, SME and LSM status.
- Export Oriented Units are allowed to sell 50 percent of their products in the domestic tariff area. However,

when products are reduced to zero duty under FTAs, buyers would rather buy from import markets rather than buy from domestic export-oriented units. This results in decreasing the capacity utilisation of these units. Competitiveness is eroded and demand from the export market is reduced.

- As per experts from state entities engaged in providing support to farmers, some of the schemes under NFTP are a drain on resources. These should be scrapped and replaced by schemes which aim to provide technology, best practices, backward integration and demand profiling. It is also recommended that VKGUY benefits under the Trade Policy should be increased for onions. Import of value-addition machinery should be undertaken without export obligations under the EPCG scheme. There are difficulties in monitoring the conditions attached to these schemes, owing to which they should be scrapped.
- As per a representative from the Export Promotion Council for Handicrafts, there should be an inclusion of duty drawback reimbursement. He said they struggle with a lack of technological support and training, competition from technically more efficient units, lack of ability to produce on large scale and create economies of scale, inadequate market knowledge, shortage of skilled craftsmen, inadequate supply chain management, lack of standardisation of products, inadequate energy supplies to rural areas, inadequate promotion for craft products in domestic market, inadequacy of marketing facilities.

- An exporter noted that there was a need for technology upgradation funds in agri-processing because although the government provides subsidies on the purchase of new machinery, there is no such provision for technological upgradation. Further, he noted that knowledge of pesticide residue is low among Indian farmers due to lack of education and awareness, which creates hurdles in exporting agricultural products to highly regulated global markets.
- A representative from the Crafts Development Institute, Srinagar, noted some of the problems with the manner in which schemes under the National Foreign Trade Policy operate: a) Mismanagement of the administration of funds, b) Skill development is not monitored, c) Integrated Skill Development Schemes do not move hand in hand with market-exploration programmes.
- A director from the Pithampur Auto Cluster, Indore noted that impressions about the political condition of a state play a major role in attracting investments. He pointed out that Madhya Pradesh is incorrectly conceived as unviable for setting up industries. He gave a recent example of Japanese delegates who gave preference to Pithampur over Bangalore for setting up their industrial projects.
- Another respondent noted the need for the state to introduce some component of risk insurance to absorb the shock of undergoing production in states like Jammu & Kashmir.

6

Coordination between Relevant Government Bodies

Need for Coordination between Ministry of Agriculture and the Directorate General of Foreign Trade: *An example of the Loss in Sesame Oil Industry Owing to Lack of Convergence on Fumigants*

- There was limited produce of sesame seeds this year, owing to which industries which dealt in value-added segments of sesame oil production decided to import sesame oil. However, there is a disparity between the fumigant used in India and the fumigants used in other countries. While methyl bromide is the only substance recommended for use in India, the countries which export sesame seeds to India have traditionally been using aluminium phosphide. At the time when a key informant from the Indian Oilseed Export Promotion Council (IOPEC) was interviewed, it was conveyed that sesame seeds worth crores were held up in ports, and the IOPEC was engaged in corresponding with government bodies for their release.

- The key informant from the IOPEC noted that it was highly essential that some form of international understanding similar to the Mutual Recognition on Equivalence was concluded on the subject of fumigants. Further, it has been suggested that a warning system needs to be maintained to identify quick changes in the regulatory regime.

Determining Trade Agendas with Bilateral Trading Partners: *An example of India-Bangladesh*

The Central Government aims at enhancing trade between India and Bangladesh, with a focus on decreasing the trade deficit that Bangladesh faces. The pattern of trade between India and Bangladesh is very distinct – the profile of what is traded by the North Eastern states is very distinct from what is traded by Bangladesh. The NER can provide fruits and vegetables to Bangladesh as a result of trade complementarities. The state-level strategy is to provide the North East with the ability to export raw materials to Bangladesh, so that Bangladesh can in future send up processed products, and hence improve the capacity to export, thereby reducing the trade deficit.

However, the government of Manipur has argued that industrialisation should precede the opening of trade. It argues that local industries like agro-processing should be encouraged through employment-led expansion of the regional market, which can result in substitution of the imported product with local produce while at the same time servicing external demand. Further, there is already scope for industrial expansion of medicines, rubber goods, cycles and cycle parts, pharmaceuticals, edible oils, petroleum products, cement, cotton yarn, etc.³

In another example, a board member of Southern India Chamber of Commerce & Industry, noted the importance of

understanding how best to weave two economies together by ‘delinking’ the political and the people-to-people and economic aspects of our relations with Sri Lanka. Indeed, with more engagement, India is likely to have more leverage with Sri Lanka to make it embark seriously on ethnic reconciliation, similar to the method that India used in Myanmar.

Use of Schemes in Specific State Governments

A key representative from the Pitampur Auto Cluster, Indore mentioned that the Madhya Pradesh government lacks resources to fund its industrial development programmes. He emphasised that the state government makes sincere efforts to support industrial units in Madhya Pradesh but central government policies impact the working of these units. For example, the provision of Minimum Alternate Tax (MAT) has been made applicable to SEZ with effect from 2012. Under this 18.5 percent MAT is imposed on the book profits of both SEZ developer and units located inside these enclaves. He pointed out that this has greatly affected those who have made huge investments in developing SEZ projects based on the tax exemption offered by the government prior to MAT.

Coordination with Export Promotion Councils

- Regarding coordination with export promotion councils, respondents noted that the following areas require attention during trade negotiations, export promotion and Trade Policy formulation:
 - Stakeholder input into Trade Negotiations
 - Need for quick reconciliation of errors in negotiation
 - Monitoring of Regulations and Market Conditions
 - Expiration of preferences
 - Change in demand owing to new regulations
 - Need for specific skill development

- According to a representative from Chemexcil, it is essential to understand the profile of the items which are being imported or manufactured. It is similarly essential to determine the potential to graduate into New Product Development. This should be done in tandem with skill development. Furthermore, regular monitoring of technical regulations to determine areas where the cost of production may have to increase owing to an increase in the cost of compliance, the need for trainers/consultants, other value-added services required to monitor compliance.

Similar cases such as the withdrawal of benefits under the Generalised System of Preferences (GSP) should be closely monitored. India should also put in place specific mechanisms like Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

However, while evolving such systems to monitor qualitative changes, we should keep in mind the capacity of our own SMEs to adhere to these regulations. For example, under the EU GSP, preferences on chemicals have now been withdrawn. This impacts the margins with which the product is competitive. Hence, there should be a buffer mechanism over a specific timespan.

- As per experts from the Oilseeds Export Promotion Council, there is a need for the harmonisation of product descriptions with World Customs Organisation (WCO) norms. Peanut butter is not classified as a value-added product and the export of edible oil is restricted. While we do import edible oil, and understandably should not export it, the same restriction should not apply to peanut butter.

- The Agricultural & Processed Food Products Export Development Authority (APEDA) deals with floriculture, fresh fruits and vegetables, processed fruits and vegetables, animal products, processed foods (groundnuts, cocoa products) and cereals. APEDA is currently closely monitoring the impact of specific FTAs on agricultural products. An example is that of the Japan-India CEPA and subsequent impact on Indian trade in those specific products of APEDA's interest.
- As per a representative from Chemexcil, owing to the need for handling and storage needs to be controlled; currently a specific council on skill development (Council of Skill Development in Chemicals) has been convened to deal with technically skilled, semi-skilled and skilled.

7

State, Industry and Academia: Examples of R&D Support

- The Integrated Skill Development Scheme has been used by the Indian Institute of Carpet Technology to empower artisans. The Indian Institute of Carpet Technology works on the development of human resources, research and development and design creation and development. The institute focuses on retaining traditional designs by saving them for posterity by using technology. Contemporary designs are developed using the software apart from traditional designs.
- The Crafts Development Institute offers a course on Masters in Craft Management with a focus on design and technology. It trains entrepreneurs to market handicrafts by improving functionality of the products concerned (e.g. willow table with iron scaffolding to improve sturdiness). The institute engages in design innovation and new product development of crafts in Srinagar to enable exporters to diversify their markets. Some of the student entrepreneurs receive support

through a programme called Commitment to Kashmir ordained by an NGO named Dastghar. The Crafts Development Institute obtained geographical indications for Khatambandh, Kashmiri Papier Mache, Sohri needle embroidery work, walnut woodwork, etc.

- The Central Glass & Ceramic Research Institute in the UP Khurja Cluster undertakes skill development and training programmes, including in ornamental jewellery. Till now, 20 training programmes have been undertaken by them in places like Verna (Goa), Thallakulam (Kanyakumari), Sasaram (Bihar), Katni (Madhya Pradesh), Kondagaon (Chhattisgarh), Sheikhpura (Bihar), Hathras (Uttar Pradesh), Purva Madanpur (West Bengal) and Okhla (Delhi). He also mentioned several problems associated with skill development and training programs.

8

Effective Export Promotion

Reverse Buyer Seller Meets

Multiple key informants noted that Reverse Buyer-Seller Meets and trade delegations are the most credible channels through which buyers can be reached. As per a representative from FIEO, Focus Market Schemes (FMS) should not be based on markets which have limited buying power like Bangladesh and Nepal. These FMS Schemes should be more focussed on markets with large buying capacity like the US and the European Union (EU). These markets are many times larger than the others and their demand profile is rapidly changing with respect to the earlier demand profile. Hence, a thorough study of the EU and US market demand profiles must be undertaken.

In the paradigm of measures which can be undertaken for export promotion, trade fairs are an extremely potent mode of connecting credible buyers and sellers across countries. The credibility arises from the notion that contact is perpetuated by the two governments and their respective embassies.

The Indian Trade Promotion Organisation (ITPO) is known for the India International Trade Fair. The theme of the 2013 India International Trade Fair was 'Inclusive Growth'. AAHAR was a trade fair of the new and upcoming food processing sector and hospitality sector. It attracted over

25,000 business visitors. The overseas visitors were from Austria, China, Italy, Malaysia, Singapore, Turkey and UAE. Notably, the Food Safety and Standards Authority of India (FSSAI) is a key participant. A stationery fair was undertaken with the Delhi Book Fair as the stationery industry is a focus area for MSMEs. As many as 13 items of stationery are reserved for manufacturing in the Small Scale Industries (SSI) sector. ITPO uses mobile apps and other Information & Communication Technology advances to reach across to newer markets and personnel.

The ITPO has created joint ventures with state governments like the Karnataka Trade Promotion Organisation, the Tamilnadu Trade Promotion Organisation (a joint venture company of the Tamilnadu Industrial Development Corporation and the Indian Trade Promotion Organisation). Some of the solutions and recommendations given for effective export promotion were as follows:

- Creating a list of exhibitions in the world which are the oldest and most impactful exhibitions in independent sectors. These trade promotion events can be extremely useful for identifying demand overseas.
- In organisations like the ITPO, provisions to mentor newer exporters who can potentially be integrated into the value chain should be facilitated. The same can also be undertaken for those exporters who are in the nascent stages of exploring newer markets.
- The ITPO and similar organisations should develop a vision to encourage the development of new products. This is already being undertaken to some extent. For example, in the export promotion activities undertaken in the automobile sector, the events focused on India's growing capacities; scaling up the supply chain; need

for quality upgrade of components, and were intended to help automobile manufacturers source components and assemblies, component vendors network with automobile manufacturers, technology tie-ups and joint ventures, Foreign Direct Investment (FDI), government departments, greenfield ventures and entrepreneurs. However, metrics need to be devised to ensure that this is better integrated.

- After having negotiated free trade agreements with partner countries, these trade fairs can be used a channel to identify consumer demand for products for which low tariffs have been negotiated. Furthermore, these trade fairs can be used to identify quality products (despite there not being enough quantity to satisfy bulk demand) and to still capitalise on entering these markets.

Need to Focus on New Markets with High Potential

To sustain growth in exports, a market diversification strategy in keeping with the changing global economic scenario should be adopted with emphasis on tapping into new markets with high potential. To boost exports, India should try to identify potential product groups which can be pushed into export market; identify major markets which can absorb a country's potential products; select the right manufacturing export units which can undertake the responsibility of entering the overseas markets and check the domestic consumption of commodities which have great export potential so as to make surpluses available for exports and to make exporters cost and quality conscious.

The government provides two percent incentive for export to African countries but still the trade has not increased because of lack of confidence in payment receipt from these

markets and government coordination with these nations. These issues ought to be solved through constructive and continuing engagements. A long-term vision will need to be at work in order for this to happen. China has been quick to recognise the importance of Africa and South Asian countries and has moved swiftly and is therefore way ahead of India. Indian policymakers need to understand the dynamics of the global international competitive markets and be flexible when it comes to foreign policies.

Major gems and jewellery export destinations are USA, UAE, Hong Kong, Belgium and Israel. In order to expand the export market, new potential destinations need to be explored. For instance, in the case of cut and polished diamonds, potential markets exist in EU, Singapore, Malaysia, Turkey, Lebanon and Russia. In order to target untapped markets to increase exports, the government should encourage gems and jewellery industry participation in B2B interactions under Market Access Initiative and Market Development Assistance schemes.

There is a dire need to include South Asian countries in Focus Market Schemes. It is ironical that none of the South Asian LDCs are covered under Focus Market Schemes which currently span and apply to over 125 countries – a pertinent example is Guatemala, which was included under the Focus Market Scheme while Bangladesh was excluded.

It is vital for high value commodities like gems and jewellery to be constantly promoted in foreign markets to maintain consumer attention and loyalty towards them. Gem and Jewellery Export Promotion Council (GJEPC) concluded through a survey at the India Show 2011 in Basel that the India G&J brand has the potential to become a leader because of favourable customer perceptions. For this, it is crucial to enhance brand promotion via concentrated campaigns as this will raise the consumer perception and also help exporters extract more benefits by moving up the value chain.

To aid export to new markets, the government should help in reducing the procedures and time required for gaining approval in foreign markets. This could be made possible through new generation trade agreements that are being negotiated. Some domestic manufacturers do not take initiative to export due to traditional mind sets and lack of awareness about other potential markets. The government should create a platform where there can be a buyer-seller interaction which will create awareness about potential markets for a particular product.

In the paradigm of measures which can be undertaken for this, Reverse Buyer-Seller Meets and Trade Fairs are an extremely potent mode of connecting credible buyers and sellers across countries.

9

Achieving Competitiveness

Effective Benchmarking

As per a representative from the Apex Cluster Development Services, competitiveness has two aspects: efficiency and transaction costs. The state and the enterprise both play a role in determining transaction costs. The ideal competitiveness target should be that of China. This should be undertaken through effective benchmarking. He noted that in China, machines are much better and that though there are similar machines in Ludhiana, it required extensive benchmarking in order to obtain the most out of labour.

Some of the critical indicators which surfaced as a result of the field work were as follows:

- It is essential to track the impact on the availability of labour;
- We may have to prepare for labour shortage in the long run;
- ‘Status escalation’ of artisans has to be undertaken in order to ensure that artisans continue to participate in contributing their creative talents to arts and crafts;
- Focused skill development has to be undertaken in specific sectors based on inputs from export promotion councils;

- There needs to be renewed focus on export promotion to economies with considerable buying power (US, EU). This should be done after undertaking extensive demand analysis for new products;
- Sustained trade promotion through embassies and other modes of export promotion for value-added products, new products and products in new markets;
- Schemes should be aimed at enhancing *export competitiveness* of products/services.

Achieving export competitiveness (across sectors) depends on the following factors:

- **Production:** Availability of raw materials, infrastructure (cold storage, pack houses), labour, ability to meet local standards;
- **Export:** Making a choice between domestic consumption and exports, determining demand for products, engaging in product modification, ability to meet international standards, transport and infrastructure;
- **Access to Finance:** Cost of finance to MSMEs is 24 percent which erodes their competitiveness, banks do not know how to value intangible assets;
- Some form of risk insurance should be introduced in areas which may be conflict-prone/vulnerable to security threats in order to incentivise trade and investment.

Raw Materials

According to a representative from the Export Promotion Council for Handicrafts, small purchasers are facing a problem of sourcing quality raw materials in sufficient quantity at reasonable prices. And this will continue because they are unable to take advantage of bulk buying, hence they are forced to purchase whatever is available to them at any quality at

high prices. This impacts their output quality and costs. Similarly, as per a key informant from the Apex Cluster Development Services, for example, the FSSAI has specific conditions on the quality of the water which should be used in agri-businesses. But this water is not freely available. In the food processing sectors, it is essential to provide high quality water and other inputs to SMEs.

Access to Finance

As per a representative from the Apex Cluster Development Services, the cost to MSMEs is 24 percent – this directly impacts the manner in which money is raised. Banks refuse to provide finance to the Information Technology sector and other sectors which provide services owing to their holding tangibles as assets. Hence, there is a need to train banks on the value of intangible assets.

Overdependence on Labour

The respondent from the Cluster Development Services for the auto components sectors noted that it is essential to maintain good toolrooms and have them automated. This is because a variety of vehicles require small, differentiated products.

Making a Choice: Domestic Consumption or Exports?

As per an informant from Kashmir Kessar Mart, India produces 40,000 MT of walnuts and USA produces 5,00,000 MTs of walnuts. While in 2006-07, the domestic consumption was 10 percent of the total production, currently 30 percent of the produce is consumed domestically. This is especially because of growing awareness about the health benefits of walnuts. Similarly the cost of our product is ₹35,000/ton,

which makes it more expensive than Iran's saffron. While India produces 12,000-15,000 kg of saffron annually, it consumes 70,000 kg of saffron. They would rather not export, because it is possible to recover the same cost from the domestic market as the domestic consumption base is increasing.

Shopkeepers in Lal Chowk, Srinagar were questioned on their appetite to export their products. Dry fruit exporters were not interested in exports because of the supply being absorbed by local demand. However, exporters of walnut woodwork did export to specific markets in the Middle East.

As per a representative from the Unjha spice trade park, out of approximately 1,200 registered traders, less than 10 percent are involved in direct exports. Instead, they are selling the produce to other exporters in Mumbai. This could be seen as a business loss for local traders. As per another respondent from the same spice park, domestic sale is preferred over exports by the local traders as the process is speedy, there is less regulation in the domestic market and with the rising awareness on quality, traders are beginning to get good price for the produce.

Making up for the Lack of Cold Storage Facilities

India is the second largest producer of vegetables in the world, after China. It produces approximately 71 MT per year. However, as much as 40 percent of the fruits and vegetables which are produced in India, worth US\$13bn are wasted owing to the lack of cold chain storage facilities.

Food processing is the act of adding value to agricultural produce at the post-harvest level. It includes within its realm even primary processing such as grading, sorting cutting, seeding, shelling, packaging, etc.⁴ An investment subsidy amounting to 25 percent of the capital cost up to ₹50 lakh is available to set up infrastructure which will aid in 'direct'

service delivery to producers/farming community in post-harvest management/marketing of the produce. However, this investment subsidy is allowed only to those states that have undertaken reform of their APMCs to allow Direct Marketing and Contract Farming, and to permit agricultural produce markets in private and cooperative sectors. However, only states that undertake only partial reforms, like West Bengal, are denied the opportunity to avail of this subsidy. Illustrations of this infrastructure include refrigerated vans used for transporting agricultural produce, essential for maintaining supply chains.⁵

Year	Number of Cold Storages	Installed Capacity (in lakh MT)
2010	5,837	269.03
2011	6,156	286.82
2012	6,307	301.10

Source: Comprehensive note on creation and management of cold chain infrastructure for Agriculture & Allied Sectors

Cold Storage Requirement and Gap⁷

State	Cold Storage Requirement (in lakh MT)	Present Capacity (in lakh MT)	Gap (in lakh MT)
Bihar	42.41	11.47	30.94
Maharashtra	62.73	5.47	57.26
West Bengal	105.66	56.82	48.84

India has only 5,386 cold storages, which have a capacity of 23.6 MT. Eighty percent of this is used only for potatoes. The losses of farm produce, particularly of fruits and vegetables have been estimated at ₹1 trillion.⁸ This is despite the fact that FDI has been permitted into cold chain infrastructure through the automatic route. Opening up of multi-brand retail is supposed to result in creating adequate infrastructure. It has been envisaged that progressive states will undertake gradual reform of the Agricultural Produce Market Committee (APMC) legislations in order to ensure direct procurement. This is supposed to be limited to the procurement of horticultural produce from farmers to allow them to obtain better prices.⁹

The Capital Investment Subsidy Scheme (CISS) for construction/expansion/modernisation of cold storage for horticultural produce was introduced by the Government of India in order to address the gap in cold storage requirement.

100 percent of FDI is allowed in the cold storage sector. Further, full excise duty exemption is allowed on cold storage. Spire Group Ltd, a Canadian company, explored the possibility of entering into a joint venture with Apollo Group. Gati had acquired Kausar India. Gateway Distiparks acquired a controlling stake in Snowman Frozen Foods. The Future Group which was interested in food retailing has expanded to include storage and transportation. State-owned enterprises include the Container Corporation of India.¹⁰

It is critical to examine the likelihood of possible burgeoning anticompetitive practices in these sectors. The entry into backward processing by food retail chains and the linkage by cold storage providers with transport companies may well give rise to vertical anticompetitive practices such as price fixing, refusal to deal and exclusive supply arrangements.

As noted by experts from the Container Corporation of India, long-term storage capacities for storage should not be

wasted for using short-term low quality products. Other alternatives to cold storage include tetrapacks and cane. Interestingly, Mother Dairy is looking at the market for frozen vegetables. Currently, FDI in retail does not mandate mandatory sourcing of agricultural produce.

KSAPPECL received recognition for being the best agri export zone. While the entity also engages in merchant exports, their objective is to bridge the gap between the farmer and the exporter. It mainly invests in post-harvest infrastructure like dry godowns, cold storage, reefer vans and integrated cold chain facilities.

Use of Public-Private Partnerships

A Working Paper on the analysis of schemes involving industry associations noted that “The Indian Government also has been increasingly shifting from the approach of ‘direct delivery of subsidised services’ to that of being a facilitator involving the industry and the BMOs in the delivery process as partners.’ This is apparent from the implementation of the schemes through the usage of the Public Private Partnership.”¹¹ Similarly, as per key informants from the Crafts Development Institute, Srinagar, public private partnerships should be developed in order to ensure judicious spending of funds allocated under the different schemes (example of Commitment to Kashmir).

However, not everyone feels favourably about the use of Public Private Partnerships (PPPs) across all endeavours. For example, key informants in public sector utilities from Karnataka believe that PPPs in food parks are not a successful model worthy of replication. The PPP in Hubli is running into losses because the government stake is taken for granted. PPP in agri-processing may not be successful because the government is often locked out of decision-making processes.

10

Adding Value to Products and Services

Agri-processing

The agriculture sector in India supports and provides a living to more than half of the country's population but farmers still lack technical skills, sufficient management expertise and access to markets in order to be able to grow better crops, achieve greater yields and prosper financially. The Indian government established autonomous bodies called APMCs in various parts of the country. Every APMC is like a 'centralised marketplace' — a meeting point for sellers, buyers and agents. The APMC covered here is the Unjha Cluster, Gujarat.

In response to the need for cold storage, the Mahuva plant for onion dehydration which produces 500 crore annually, has currently set up 62 dehydration plants. Notably, there has been a hike in the domestic demand for dehydrated onions.

Another successful model of a value chain identified was that of gherkin cultivation through contract farming: Seeds are imported, gherkins are processed, farmers deal with the seeds making use of their technical knowhow and the gherkins are either bought by companies or exported. Because the products are bought from the farm gate, the commission of middlemen are eliminated. Gherkin farmers (who include small

and marginal farmers) are encouraged to produce the best grade of gherkins.

Organic Products

As per a representative from Kashmir Kessar Mart, organic products sell for a premium price in US and EU markets owing to increase in consumer preferences. Walnuts are organic by nature unless they are contaminated by the cultivation of apples nearby. However, walnut trees take as long as 20 years to start bearing fruit, while apples take six years.

Use of Lower Grade Agricultural Products

As per Mr Sameer, Kashmir Kessar Mart, lower grade products are being processed. For example, apple chip cubes are made from fallen apples. Though Kashmir Kessar Mart found a buyer in Nestle (UK), they were unable to service bulk orders.

Export of food products: Using bar coding to ensure traceability

GRAPENET: Use of bar coding to ensure exports to the European Union

Traceability is the case where products, production batches and logistic units are easily identifiable. The links in the supply chain between production branches and logistic units exist throughout the supply chain. The downstream partner is supported information throughout to provide traceability.¹² The system which has been developed is an Internet-based residue traceability software system which monitors grapes exported from India to the EU. The steps involved in the process include residue analysis and agmark inspection/certificate by authorised laboratories, consignment creation

where a phytosanitary certificate is provided online. When a 'lot' is created on the Internet, the minimum residue level itself demonstrates conformity with the requirement of the pointed export destination.

Logistic Related: As per a representative from Chemexcil the clusters in Ankleshwar, Baroda and Surat, owing to their proximity to ports and those specific state governments and availability of raw materials are the most successful. Similarly, informants from Kerala noted the increasing significance of ports like Cochin, Mangalore and Mumbai has increased in the wake of other projects. Logisticians need to advise traders to load from Cochin instead of Tuticorin. In order to improve the attractiveness of the port, docking, refuelling and other processing facilities need to be put in place. There may be a conflict between sectoral focus policies and policy instruments geared at general trade promotion.

Exploring Newer Markets: A respondent from Alembic Pharmaceuticals Ltd, Vadodara, noted that domestic companies who primarily produce for local market should focus on other markets like Europe and United States (as these countries are increasing their focus on generics) to diversify their risk in order to sustain in the long run. He added that uncertainty over patent security and tightened rules surrounding clinical trials act as deterrents to conduct of drug research in India by foreign companies.

Moving Higher in the Value Chain: As per a key informant from Manilal Jamnadas, Unjha Cluster Unjha is known as a source for raw material (spices seed) and despite the huge scope for business, there is no value addition taking place. Due to the traditional nature of business, traders lack interest in diversifying into exports or value addition. There is also an

absence of basic infrastructure (like spice hub) to promote manufacturing and exports. One of the major concerns faced by the traders is adulteration, which takes place after the produce is shipped out of Unjha. It gives the trader a bad reputation.

New Product Development – Leather with Embroidery: A student from the Crafts Development Institute, Srinagar, is currently exploring making a new product using Ari work. He will soon explore newer markets (particularly the European Union). The product develops bags across three ranges (crossover, clutch and hardbacks). Because of the use of tweed, they are suitable for the weather in the European market. Currently, he is exploring online marketing to identify customers who are willing to pay a premium for original products. The online platforms being explored include shoppat, artisan guild and craftsvilla. In order to convey the value of artisanal labour in making the bag, he intends to insert a write-up describing the value of the work undertaken.

Importance of Building One's Credibility for Successful Branding: As per a representative from the Apex Cluster Development Services, it was noted that the use of Geographical Indications such as given to the Basmati Rice brand is beneficial. The GI was filed in 2001. There is a need for strategic branding. For Marks & Spencer's most of the apparel's value is generated here, locally, however, the cost value-addition is absorbed at the final stages of marketing.

Adulteration in Saffron: National Mission on Saffron invests ₹358 crore. A representative from the National Project on Agricultural Innovation noted that the centre generally transferred technology to the farmers without any payment of royalty. This project was studied to understand attempts to

ensure an increase in exports and increase in market diversification. Pampore Saffron has a GI. Pampore and Pulwama Saffron are the best in the world because of colour value (250 units), in comparison to Iran's saffron (180 units). Production facilities are being extended to Budgam. With the aid of the National Project on Agricultural Innovation, they are putting in place a high tech chromatography lab in order to identify adulteration in saffron. High performance liquid chromatography checks the amount of adulterants in saffron. It was noted that the competitor, Iran has mechanised farming, and they use vacuum drying for better results. A delegation of exporters went to Spain and Iran in December 2013 to explore newer markets. Recently, some people from Afghanistan came to Pampore because they want to shift their production from opium to saffron.

Crafts Development Institute – Focus on Pashmina Testing: As per an informant from the Faculty, Crafts Development Institute, Srinagar, he noted that their focus activity includes imitation testing, particularly in Pashmina shawls, whose exports are worth around ₹2,000 crore. The stages at which imitation can occur include the following: (i) origin of the material; (ii) spinning style; (iii) weaving. The hallmarking of pashmina shawls after the conclusion of this imitation testing process will increase the value of exports by 10-15 percent.

Global Standards 1: A product recall procedure was deployed by GS1 for counterfeit or tainted packaged products to GS1 India. This could be used to prevent erosion in the value of the indigenously produced foodstuff/handicraft item as adulteration and counterfeits was a problem repeatedly encountered in our survey visits. It remains to be explored to see if bar coding or adopting a GS1 standard can ensure that artisans/exporters are not deprived of their rightful income.

Brand India/Brand Bangla: A representative from the MSME-Development Institute, Kolkata, Ministry of MSME as well as another from the Micro & Small Scale Enterprises, Government of West Bengal noted the creation of the 'Biswa Bangla' in the Kolkata Airport. A project officer from the State Export Promotion Society, West Bengal noted that Export Haats in USA, UK, and Germany need to be formed for better market access.

Use of Research and Development: As per a representative from Chemexcil, R&D is limited to large-scale industries. It results in the creation of knowledge-based products. An example includes specialty chemicals which have been gaining demand over the last 10 years. Specialty chemicals are used in leather chemicals, food colours, good export markets, high value items, and high quality products.

He noted the case of FTA Negotiations where the value-addition of Oleo Chemicals as a result of FTAs-ASEAN has been impacted. This is because of an inverted duty structure where the tariff on raw materials is higher than the duty on final products owing to which production in a particular sector ceases to be competitive.

Progression up the value chain was present in the castor oil industry – the incentive to undertake this was based in the acts of competitors. The incentive to explore such progression is present in the cosmetics industry.

Use of Clarifications: As per an informant from Kashmir Kessar Mart who provided the views of a business player on the state of agri-processing in Kashmir, certifications like Fair Trade, National Organic Program and National Program for Organic Production (NOP-NPOP) USDA and HACCP help to increase the price which can be charged for the product.

11

NFTP and India's Trade Agreements

The Need to Synergise the NFTP and India's Multilateral and Preferential Agreements

In the past, the planning and administration of policy instruments under the NFTP has often been undertaken without sufficient consideration of the sectoral needs that get preferential market access through trade agreements. Recent studies as well as evidence obtained during the survey indicated that while India has immense trading potential with neighbouring countries in many sectors and products, most of these products are not included in the list of focus markets and focus products selected under India's NFTP.

As a result, India's increased involvement in RTAs has raised concerns over the impact of India's participation on the domestic economy. While India's strategy to engage in further RTAs has aided in ameliorating the negative impacts of trade diversion, the lack of congruence between India's participation in these PTAs and its NFTP have meant that India's net gains in terms of an increase in exports have been negligible. Indeed since India started participating in PTAs, there has been no consistent positive relationship between a

country's membership in India's existing PTAs and its share in India's total exports.

India needs to give priority to those sectors under the Focus Product Scheme, which are granted better market access under India's trade agreements by partner countries. At present the Trade Policy remains isolated from the negotiation of trade agreements at a bilateral or multilateral level. This approach therefore enhances market access for certain products through the Trade Policy without identifying the specific sectors or providing trade adjustment assistance to sectors impacted by import substitution through preferential trade agreements.

Survey respondents noted that the new Trade Policy would benefit from inputs obtained from various levels of government, industry associations and other stakeholders who are privy to the impacts of bilateral and regional trading agreements. Apart from providing a valuable source of domain-specific information, such engagement would also assure negotiators of buy-in from stakeholders at various levels.

The extent of involvement of state governments in negotiating trade agreements, esp. border trade agreements, is therefore significant. Interviews conducted in the North East regarding different approaches at state and central level to the bilateral trade between India and Bangladesh were a clear indication of the need for this coordination as the Trade Policy decisions that were being taken at the central level were contrary to the approaches that respondents from the state government preferred for the bilateral relationship.

Rising Standards in Developed Country Markets

Rising standards in developed country markets are creating market access difficulties for Indian products. Studies show that complying with complex trade-related standards such as environmental or labour standards add to trade transaction

costs that often hinder India's competitiveness in these markets. While the Market Development Assistance Scheme focuses on export promotion activities abroad for Export Promotion Councils (EPCs) and approved organisation/trade bodies, these schemes may need to branch out into aiding these bodies attain rising standards in order to enhance market development. Using new instruments under its market development schemes, the NFTP could be formulated to assist Indian firms to comply with new standards.

The importance of such a mechanism is particularly important given the emergence of mega-regional agreements. The Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership account for two-thirds of world GDP and one-third of world imports. Of the countries party to these agreements, the United States and the European Union account for 30 percent of India's merchandise exports. Given that these two countries are at the helm of these agreements, these standards are likely to be more stringent and adhere to their norms.

It is becoming increasingly clear that the thematic agenda of these agreements is far more extensive and complex than traditional regional agreements. These agreements include a significant number of areas that fall outside the scope of many WTO agreements such as environmental and labour regimes, the degree of protection of intellectual property, the operation of state enterprises and the possibility of using capital controls. These mega-regional agreements are putting strong emphasis on regulatory convergence between the normative frameworks in the countries involved in both trade in goods and services.

The Indian economy, however, is not yet fully in a position to adhere to such high standards and still be competitive. Therefore, the new Trade Policy needs to address these deficiencies.

12

Compatibility of Foreign Trade and Investment Policies of India

The relationship between trade and investment, particularly foreign direct investment (FDI) is of great importance for any country. A country's economy is usually appraised from its trade and investment relations with rest of the world, especially the volume and growth of trade.

Developing countries such as India need to look at export-oriented FDI to strengthen their export competitiveness. This type of growth-led and export-oriented FDI can be increased if the regulatory regime facilitates greater freedom to the MNEs in their operations.

Foreign firms have shown higher performance following the implementation of India's economic reforms in 1991. At present, however, India has attracted more domestic market-seeking FDI than export-oriented. Existing foreign firms in India have not yet started to take advantage of India's comparative advantage in cheap and skilled labour force to tap the export market.

Indeed, the synchronisation of India's Trade Policy with its FDI policy can boost FDI-led exports. Foreign firms in India

have actually shown higher export performance than their domestic counterparts and past studies have shown this to be true, particularly in the Indian manufacturing sector. Developing countries like India, therefore, need to look at export-oriented FDI to strengthen their export competitiveness. Effective regulatory regimes can facilitate such export-oriented FDI.

A liberal Foreign Trade policy therefore for the import of raw materials may be useful for encouraging foreign firms to export more. In this context, government policies to increase non-price mode competition among competitive firms in the domestic market may be fruitful to create surpluses in promoting foreign firms to look for export markets.

India's potential to attract more export-oriented FDI could also be enhanced if it improves infrastructure. Poor infrastructure at ports (both air and sea) and road networks make exports less feasible, because costs cancel out the competitive advantage gained from location-specific cheap factors of production.

However, recent policies on SEZs and increased investments in export-related infrastructure are expected to attract more export-oriented FDI. This should not only help the foreign firms to set up export bases in the country, but domestic firms to reduce their exporting costs and to become more competitive. A strategic approach to India's Bilateral Investment Treaties (BITs) would also aid in this regard.

13

Lessons for India and Other Low Income Countries

Both the National Foreign Trade Policy of India and the manner in which it is implemented seem to rest on the following assumptions:

- i. Increased exports enhance employment generation.
- ii. Manpower is absorbed into sectors in such a manner as to harmonise with seasonal unemployment in agriculture, altering demand profiles for labour-specific goods (gems and jewellery).
- iii. Negotiation of trade agreements at a bilateral or multilateral level results in enhancing market access.

However, these assumptions do not account for the linkage between use of technology, bias in increase in demand for highly skilled services and resultant disparity in employment and wages; labour displacement as a result of other welfare-oriented schemes; and the need to provide trade adjustment assistance to sectors impacted by import substitution.

Below are six broad lessons and recommendations which were drawn from the field work for input into the new

National Foreign Trade Policy and can also be used as input into the foreign trade policies of other low income countries.

Lesson 1: Instituting a sound monitoring and evaluation system which juxtaposes increase in exports against increase in employment opportunities, or an increase in wages as a result of skill enhancement should be put in place so that it is possible to monitor the impact of the Trade Policy

The NFTP 2009-14 as outlined in the policy document has two objectives: the first is export promotion and the second is employment generation. While the government has closely monitored increase in exports, the increase in employment generation has been tracked through studies. The field research indicates that there is indeed evidence of increased employment and wages due to increases in exports in certain sectors. Interviewees reported increased entrepreneurship through MSME technology development and increased employment, such as in the auto components sector.

Therefore while the potential for increasing exports is one of the criteria determining the allocation of funds for schemes under the NFTP, the new NFTP could benefit from additional criteria that indicate potential for employment generation. Projections to improve employment generation or skill development, or forecasts of alleviating poverty in a given region could be regarded for its potential to render change. This focussed skill development, however, would have to be undertaken in specific sectors based on inputs from export promotion councils. Therefore, while it is important to measure increase in exports, various other facets of enhancement of employment privileges also need to be taken into consideration.

Based on the interviews with a number of stakeholders, a striking aspect that was highlighted as an area that the NFTP fails to address was seasonal unemployment. Due to fluctuating

demand for labour in agriculture, this has repercussions on the demand and supply for labour in other labour-intensive export-oriented sectors such as gems and jewellery. In the new NFTP, there will need to be a mechanism to aid in ascertaining the impact of other welfare schemes such as MGNREGA on the availability of labour to prepare for labour shortage in the long run.

Lesson 2: Engage national and sub-national organisations and actors in the formulation and implementation of the Trade Policy – Policy Coherence

Feedback from interviewees indicated that the National Foreign Trade Policy does not adequately reflect input from stakeholders. India's National Foreign Trade Policy-making process tends to be centralised, lacking established channels of communication between the direct beneficiaries and its policy-makers. Addressing the conflict of interests faced by certain stakeholders is imperative in ensuring an inclusive NFTP.

There is a need to engage in trade negotiations informed by inputs from diverse stakeholders in order to allow negotiations to benefit from stakeholder consensus. The interests of different parties must be taken into consideration while evaluating the NFTP and suggesting changes.

An area that has been currently neglected but which can be harnessed to achieve the above-mentioned objectives, is by increasing engagement with sub-national actors such as state governments in implementing India's National Foreign Trade Policy.

At present, the NFTP remains isolated from the negotiation of trade agreements at a bilateral or multilateral level and results in enhancing market access without identifying/communicating the same to specific sectors or providing trade adjustment assistance to sectors impacted by import

substitution. In order to continuously monitor change in market access, the following steps need to be taken:

- Regular monitoring of changing trade regulations and demand-supply gaps can enable targeted capturing of market access opportunities by exporters.
- Similarly, a mechanism for quickly modifying FTAs once errors/deleterious trade impacts are identified should be instituted. For instance, APEDA monitors the impact of free trade agreements on horticultural commodities.
- Trade adjustment mechanisms: Slow and sustained support (which is reduced over a five-year span). For example, in the case of withdrawal of EU-GSP for chemicals, buffering the marginal difference across a number of years may enable the domestic industry to address the loss in competitiveness.

The new National Foreign Trade Policy will benefit from inputs for trade negotiations obtained from various levels of government, industry associations and other stakeholders. Apart from providing a valuable source of domain-specific information, such engagement may also assure negotiators of buy-in from stakeholders at various levels.

The extent of involvement of state governments in negotiating trade agreements, especially border trade agreements, is significant. The interviews undertaken in the North East regarding the different approaches at state and central level to the bilateral trade relationship between India and Bangladesh were a clear indication of the need for this coordination.

Similarly, based on inputs from export promotion councils, we found that there are multiple cases where errors such as inverted duty structure and incorrect HS Classification result in losses for local exporters. Furthermore, Export Oriented Units are deleteriously impacted as a result of zero percent

duty under FTAs. This impacts their capacity utilisation and, ultimately, competitiveness. Similarly, facilities for trade adjustment-assistance programmes and early warning system which alert exporters on those trading benefits which are withdrawn as a result of reduction/elimination of benefits under international agreement. The losses in the sesame oil industry owing to a lack of convergence on fumigants were reflective of this need.

Lesson 3: Effective branding is necessary in influencing price realisation

Branding products as organic, Fairtrade or HACCP certified may enhance the price realisation of the product in certain cases (not all). For example, Kashmir Kessar Mart markets its walnuts as organic. This is fairly lucrative because the criterion for walnuts to be certified as 'organic' is that they should not have been contaminated by apples from nearby orchards. There is potential for effective branding of handicrafts and horticultural products in the North East based on the story of the local indigenous communities.

The importance of Conscientious Branding and preserving the Integrity of Brands has become more and more important across agricultural commodities, handicrafts, etc. Therefore, the new NFTP would benefit from including the importance of effective branding. Bar coding may be used in certain cases to affirm the veracity of a Geographical Indication (GI). There are actual examples where this may result in a sharper price realisation.

The incorrect use of GIs, however, can result in a loss of consumer confidence which in turn results in brand depreciation, which again may result in lower price realisation. Some of the instances which demonstrated this lesson in the field study undertaken in the project includes cases of adulteration in Saffron (Mission on Saffron), Pashmina (Indian

Institute of Craft Technology, Srinagar) and the impact of incorrect use of name 'Chanderi'. While the government certainly has focused on the use of certain brand names such as Brand India and Brand Biswa Bangla (for West Bengal products), it is essential to re-evaluate the effectiveness of such branding.

Lesson 4: Need for Whole of Government approach should be used in implementing the Trade Policy

In order to effectively tackle all the issues of particular significance to India's development, India's NFTP requires a whole of government approach. In pursuit of a country's overall national interest, government entities cannot function as separate entities. This method is designed to establish a common approach and understanding to problem solving.

In order to strengthen the functioning of the NFTP, there is a need for better coordination between the NFTP and other domestic strategies. Increased attention needs to be focused on the interface between trade and other policies to ensure policy coherence. Situations where products which have high import demand in countries with which India has formal trading agreements fail to receive assistance as focus products are reflective of a lack of policy coherence with other government strategies.

There is therefore a need for coordination between central ministries in order to obtain macroeconomic coherence. A positive example in this regard is that of the export of green goods. Similarly, there is a need to align policy instruments aimed at enhancing value-added production of jute, textiles, etc., with targeted demand analysis, marketing and support for value addition across the whole policy cycle.

There has to be coordination between central and state governments for the implementation of Centre-state schemes such as the Inter-State Trade Council (established in 2005,

which has not begun operations!), the state-level Horticulture Missions and subsequent focus on exports. For example, while the ‘return to farmer’ is ₹75,000 per hectare in case of focusing on specific commodities (gherkins/grapes) it may be as little as ₹30,000 in case of cultivation of bananas. This has repercussions on the decision-making of a farmer on whether to engage in subsistence farming or cash-crop farming.

However, it is noteworthy that MSME Development Institutions across the country are in many cases undermanned. For example, only 12 offices handle 51 districts and 350 programmes in Madhya Pradesh.

Lesson 5: Strengthen value chains – Foster effective regional and global partnerships

Global value chains (GVCs) remain an area that India has not adequately explored. There has not been much deliberation on how policies and instruments contained in the NFTP can be used to facilitate the participation of Indian business units in both regional value chains and GVCs. According to UNCTAD, India is one of the top 25 exporting countries in the world. However, if these countries it has one of the lowest foreign value added trade share at only 10 percent and the lowest rate of GVC participation.

India’s NFTP could play a key role in exploring and strengthening participation of Indian business units in both regional and global value chains to enable it to leverage the large potential for growth in this area.

Considering that 60 percent of India’s imports are intermediaries in manufacturing, the new NFTP will have to focus on imports and their upgradation, which is essential for value-added exports.

Lower grade agricultural products can be channelled into processing. As noted by key informants from APEDA, an example that has worked is a dehydration plant that was set

up in Mahuva to compensate for the absence of cold storage facilities.

Notably, owing to stringent requirements resulting from FSSAI norms, there is a pronounced requirement for consultancy services which hand-hold MSMEs in the agro-processing sector. While agro-processing is a sector in which multiple new enterprises have been set up, the stringent FSSAI norms make it difficult for these MSMEs to thrive, owing to which they are quickly closed down.

Lesson 6: Benefit Sharing Mechanisms should be made sustainable through instruments in the Trade Policy

Benefit sharing mechanisms (BSMs) have evolved over the years in order to ensure high returns to farmers, artisans and labourers in the absence of middlemen. There is a need to juxtapose the evolution of BSMs with efforts to make them sustainable so that they are capable of functioning despite a subsequent reduction in the amount of support received. Some of these BSMs evolve in the following manner: Artisans organise themselves into clusters and finally into artisan federations, cooperative societies result in the formation of clusters, and farmers who engage in contract farming may organise themselves into farmer-producer organisations.

While the welfare impact of some BSMs is directly measurable, the benefits from some others are less tangible. For example, insurance, health check-ups, education for children are facilitated through the Artisan Welfare Trust in Moradabad. Similarly, in Karnataka, contract farming for gherkins has been used to limit dependence on middlemen. Artisans obtain 65 percent of the total cost of production in Artisanal Federation, SEWA Kalakruti.

The National Foreign Trade Policy should incentivise the provision of research & development, improved inputs, marketing assistance and export promotion support to these

BSMs through their evolution. Services which enable progression into value-added goods and services (design development, effective branding, and compliance with regulatory standards) should be incentivised and trade promotion efforts in trade fairs and buyer-seller meets should be specifically focused in this regard.

14

Recommendations for the 'New' National Foreign Trade Policy of India

Institute a Sound Monitoring and Evaluation System

One of the overarching comments raised by the respondents was that the focus of the Trade Policy is more on export promotion than it is on employment generation. It was noted that exports are not a goal in and of themselves but rather should be viewed, particularly in India's Trade Policy, as a means to an objective. In numerous places in the Trade Policy, the phrases "export promotion" and "employment generation" are often used interchangeably. One such example is Focus Product Schemes where the NFT states their objective in Chapter 3.15 as:

"to incentivise export of such products which have high *export intensity/ employment potential*, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products." (emphasis added)

Under section 3.3 of the Trade Policy, financial assistance under the Market Development Assistance Scheme is provided

to exporters having an annual export turnover as prescribed in MDA guidelines. However, there is no provision for providing financial assistance to exporters that generate maximum employment. In the new Trade Policy, we recommend that employment generation serve as a criterion for the allocation of financial assistance. Under Chapter 3, Promotional Measures, we recommend a set of prescribed guidelines to incentivise those exporters who maximise employment.

In Section 1B.1 (iii) of the

Trade Policy, it notes that the government recognised status holders contribute approximately 60 percent of India's goods exports and measures such as duty credit scrips are granted to further aid in their export promotion. However, again, the emphasis is on the volume of export as opposed to employment generation.

A solution to this could be an amendment to Chapter 1C.2 (ii) under the Terms of Reference of the Board of Trade. One of the functions of this body is:

“To review export performance of various sectors, identify constraints and suggest industry specific measures to optimise export earnings;”

Included in this text could be an explicit reference to employment generation performance as a stated outcome of the review of the export performance. We recommend expanding the Terms of Reference by including the linkage between employment generation and export. The Board of Trade could include the constitution of a body to undertake this research.

Engage National and Sub-national Actors

The Board of Trade, which plays an advisory role on relevant issues connected with Foreign Trade and under Chapter 1C.3 of the Trade Policy stipulates that the government

“...shall also nominate up to 25 persons, of whom at least 10 will be experts in trade policy. In addition Chairmen of recognized EPCs and President or Secretary-Generals of National Chambers of Commerce will be ex-officio members.”

During the field survey, many of the respondents noted that the Trade Policy does not adequately reflect input from stakeholders. Nor does it have adequate measures to ensure that the concerns of the traders who are directly impacted by the decisions taken at the government level are adequately addressed. The new Trade Policy could benefit from the inclusion of an explicitly stated consultation mechanism that requires feedback from local stakeholders. This could be achieved by ensuring that the section on the composition of the Board of Trade mandates that there be specific representatives from civil society. An amendment to the composition of the BOT to include civil society representatives who are most attuned to the circumstances on the ground could aid in ensuring that the interests of those most affected by the Trade Policy are involved in its formulation.

One such example, as reported by respondents, was the Special Focus Initiatives in Chapter – 1B.1 (i) Market diversification. The section was inserted in the Trade Policy as “[w]eaker demand in developed economies, triggered by falling asset prices and increased economic uncertainty has pulled down the growth of India’s exports to developed countries.”

A number of respondents, however, noted that the identified alternative markets were unable to compensate for the previous

demand from developed countries. Evidence from field surveys indicated that exporters actually felt that as opposed to shifting markets, India needed to refocus on the EU and the US, particularly as the global economy was slowly beginning to recover. While the expansion of the ambit of the Focus Market Scheme is laudable, most respondents felt that it should not be at the cost of existing markets as the demand was not comparable.

Expansion of BOT to make mandatory the inclusion of civil society representatives who are most attuned to the circumstances on the ground

Under Chapter 3: Promotional Measures, the Trade Policy notes that the objective of the Scheme for Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) is:

“to establish a mechanism for involving the State Governments to participate in funding of infrastructure critical for growth of exports by providing export performance-linked financial assistance to them.”

Many of the interviews respondents noted that the involvement of states needs to be more than financial.

Under Chapter 3.2, the Market Access Initiative, financial assistance is provided only for export promotion activities. While indeed such support is not only important but necessary for exporters, survey respondents noted that state support for their businesses needed to be expanded to other more technical and knowledge-based areas. Under Chapter 3.3, the Market Development Assistance Scheme, the Trade Policy again notes that “financial assistance is provided for a range of export promotion activities implemented by EPCs and Trade Promotion Organisations.” Feedback from the respondents noted that while indeed this had proved to be very useful,

more government support in their implementation could add legitimacy. The involvement of Indian embassies was cited as a way of assuring buyers that such initiatives were supported by the government.

Chapter 3.14 on Focus Market Scheme has a limited objective of providing assistance to exporters to reduce freight cost. We recommend expansion of the objective of FMS under which exporters can also seek and receive assistance through Indian missions and embassies. Respondents noted that in the paradigm of measures that can be undertaken for export promotion, Reverse Buyer-Seller Meets and Trade Fairs are an extremely potent mode of connecting credible buyers and sellers across countries. The credibility arises from the notion that contact was perpetuated by two governments and their respective embassies. So more government backing is required to render legitimacy.

Make Use of Effective Branding for Better Price Realisation

In many cases, branding products can aid in influencing price realisation. The Foreword of the Trade Policy states on page viii that the “[t]he Government seeks to promote Brand India through six or more ‘Made in India’ shows to be organised across the world every year.”

Chapter 3.6 noted that the IBEF was set up by the Ministry of Commerce “with the primary objective to promote and create international awareness of the ‘Made in India’ label in markets overseas.” It was established in an effort to “promote India as a business opportunity by creating positive economic perceptions of India globally as well as effectively present the India business perspective and leverage business partnerships in a globalised market-place.”

Feedback we received from the survey respondents noted that while the 'Made in India' brand was indeed helpful, it was too broad in scope and more focused branding could be more beneficial to exporters. We recommend branding products according to the region of produce as in the case of Darjeeling tea, its branding has made the region synonymous with highest blend of tea, recognised the world over.

Another area the new Trade Policy could benefit from would be the inclusion of measures to protect India's brand(s). Respondents noted that the incorrect use of GIs often resulted in the loss of consumer confidence and measures needed to be put in place to ensure that these remained unadulterated.

Implement a Whole of Government Approach

Under the Trade Policy, only the Ministry of Commerce & Industry is represented in the Board of Trade by the Commerce & Industry Minister who serves as the Chairman of the Board of Trade (BOT).

In order to effectively tackle all the issues that are of particular significance to India's foreign trade, India needs a whole new approach to the implementation of its Trade Policy. One such way is by mandating the participation of representatives from other government ministries. Chapter 1C.3 could be amended to ensure the inclusion of not only the Minister of Commerce & Industry but other ministerial representatives as well. Coordination between central ministries is crucial to achieving a coherent new Trade Policy.

There also needs to be coordination between the state governments and the central government. Therefore, while there are indeed provisions through which the BOT could receive feedback from state governments when they review export performance, institutional frameworks and policy instruments, states need to play a key advisory role in the BOT.

This can be achieved through the implementation of central-state schemes such as the Inter State Trade Council. Although this body was created in 2005, it has never begun operations. The new Trade Policy could mandate that such a body be operational and then obligate a representative from this body to sit on the BOT.

Strengthen Value Chains by Fostering Effective Regional and Global Partnerships

Considering that 60 percent of India's imports constitute intermediaries in manufacturing, the new Trade Policy will have to focus on measures to further facilitate imports essential for value-added exports. In the Trade Policy, promotional measures are heavily skewed towards exports and while indeed this remains a crucial function of India's Trade Policy, in today's global economy, the emergence of global value chains requires that increasingly, attention needs to be paid to imports to facilitate the participation of Indian business units into both regional value chains and GVCs. The Trade Policy states in Chapter 1B.1 (ii):

“To usher in the next phase of export growth, India needs to move up in the value chain of export goods. This objective is sought to be achieved by encouraging technological upgradation of our export sector. A number of initiatives have been taken in this Policy to focus on technological up-gradation”

While indeed technological upgradation is a key component of increasing exports through facilitating imports, there are a number of measures under Chapter 4 that focus on duty exemption and remission schemes on a number of imports that the new Trade Policy could benefit from, making the import process easier for exporters.

An example can be found under the Advance Authorisation Scheme where the Trade Policy stipulates “a minimum 15 percent value addition on imported inputs.” Feedback from our respondents noted that the negative incentivisation approach to availing the benefits in this scheme discourages exporters from importing. The new Trade Policy will need to adopt a more positive approach to encourage the importation of goods and services that are necessary for exports.

Indeed, for global value chains to work, there needs to be ease of flow of goods and services both into and out of the country. The new Trade Policy needs to include measures that also facilitate the import of services – particularly from developed markets. In the Trade Policy, the acknowledgement of the significant contribution of services exports is acknowledged. Additionally, services exports comprise the largest component of India’s exports. Given their growing importance of GVCs, India’s inclusion of rewards and incentives under the Served from India Scheme in Chapter 3.12 is laudable. Given that most of India’s exports in sectors such as coir are directed to these countries, the import of services that serve as inputs such as design will also need to be fostered.

Make Benefit Sharing Mechanisms Sustainable

Over the years, Benefit Sharing Mechanisms (BSM) have evolved and are increasingly providing high returns to farmers, artisans and labourers in the absence of middle men. While the NFTP has a focus on export promotion, the linkage between trade and direct benefits to local communities is not explicit.

Based on recent statistics from the World Bank, as the world’s third largest economy, India’s economic ascendance within the global community is indisputable. Undoubtedly, India’s contribution to global trade is a major factor. However,

although India can boast this newly acquired status, India is also responsible for the world's largest poor populations. One of the shortcomings of the Trade Policy is the lack of focus on ensuring that all players within an export good supply chain benefit from increased exports.

India's new Trade Policy could benefit from the inclusion of a chapter that seeks to facilitate benefit-sharing through measures such as the provision of research and development, improved inputs, marketing assistance and export promotion support to BSMs throughout their evolution as they become full-fledged artisan federations, farmer producer organisations, clusters, etc.

Services which enable progression into value-added goods and services (design development, effective branding, and compliances with regulatory standards) should be incentivised and trade-promotion efforts in trade fairs and buyer-seller meets should be specifically focused, for participants at that level are lower down the supply chain. Feedback from the survey respondents noted that middlemen are generally the reason for the low trickle-down of benefits to labour lower down the supply chain.

Endnotes

- 1 Joint Report, Research and Information System for Developing Countries (2011), Ministry of Development of North Eastern Region, “Expansion of North East India’s Trade and Investment with Bangladesh and Myanmar: An Assessment of the Opportunities and Constraints”, available online at http://mdoner.gov.in/sites/default/files/silo4_content/REPORT%20STUDIES%20ON%20THE%20NORTH%20EASTERN%20REGION/RIS_Border_Trade_Report_%20final.pdf, accessed on 28.03.14.
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- 4 ‘Value Added Products’, available online at <http://mofpi.nic.in/ContentPage.aspx?CategoryId=131>, accessed on 27.02.13.
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- 6 ‘National Centre for Cold Chain Development’ available at <http://nhm.dacnet.nic.in/NCCD/index.html#>, last visited on 06.03.13.
- 7 *Ibid*
- 8 ‘Background Material on Cabinet Decision on the [sic] FDI in Retail’ available online at <http://pib.nic.in/newsite/erelease.aspx?relid=77619>, last accessed on 04.03.13.
- 9 Opening up of multi-brand retail is supposed to result in creating adequate infrastructure. It has been envisaged that progressive states

will undertake gradual reform of the APMC legislations in order to ensure direct procurement. This is supposed to be at least limited to the procurement of horticultural produce from farmers to allow them to obtain better prices.

- 10 'Out of Cold Storage', June 1, 2008, *Business Today*, available online at <http://businesstoday.intoday.in/story/out-of-cold-storage/1/2178.html>, accessed on 05.03.13.
- 11 FISME (2009) Working Paper on Analysis of Schemes Involving Industry Associations & Suggestions for Effective Implementation ,available at http://www.fisme.org.in/FISME_Capable/Study.pdf, accessed on 01.02.14.
- 12 Grapenet Users Manual (APEDA 2005).

About the Project

India's shift to a more outward-looking foreign trade policy in the 1990s served as a catalyst for unprecedented economic growth in the years that followed these reforms. Unfortunately, in spite of this formidable growth, as time has progressed, India's economic achievements have been mitigated by its inability to filter these benefits down to its domestic population.

While it is true that India's developmental needs are not the responsibility of its trade policy alone, home to one-third of the world's extreme poor, a country like India has a responsibility to make efforts to balance its developmental objectives with its economic goals. Trade policy can and should therefore play a vital role in that respect.

The National Foreign Trade Policy (NFTP) is one of India's main pillars of trade promotion. Its purpose is to streamline India's domestic policies to meet the supply-side constraints faced by export-oriented sectors and thereby create advantages for such products in destination markets. Over the last five years, however, one of the major criticisms of the NFTP has been its lack of inclusiveness as well as its lack of coherence with India's other domestic macroeconomic policies and trade negotiations.

The idea for this project was spurred by the need to identify ways to enhance the developmental component of India's National Foreign Trade Policy. This publication therefore, is the result of a project that CUTS International undertook, with support from the India Office of the United Kingdom's Department for International Development under the Knowledge Partnership Programme, and IPE Global Limited, to garner the perspectives of various Indian stakeholders on how India's trade policy can be used as an instrument for inclusive growth.

About CUTS

With its headquarter in Jaipur, India; Regional Centres, in Lusaka, Nairobi, Accra and Hanoi; and an International Centre in Geneva, CUTS International has three verticals: Trade, Regulations and Governance. Through policy- and action-research, advocacy, networking and capacity building, it has established its relevance and impact in several policy-making areas and among the larger development community.



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