

# The National Foreign Trade Policy 2004-09

General and Specific Reflections



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## **Project Partners**

**Andhra Pradesh:** Consumer Guidance Society (CGS), Vijayawada

**Karnataka:** Consumer Research, Education & Awareness Trust (CREAT), Bangalore

**Maharashtra:** Samarthan, Mumbai

**Orissa:** Centre for Youth and Sustainable Development (CYSD), Bhubaneswar

**Rajasthan:** Centre for International Trade, Economics & Environment (CITEE), Jaipur

**Tamil Nadu:** Citizen, consumer & civic Action Group (CAG), Chennai

**Uttar Pradesh:** Network for Entrepreneurship & Economic Development (NEED), Lucknow

**West Bengal:** Calcutta Resource Centre (CRC), Kolkata



# Abbreviations

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|         |   |
|---------|---|
| APEDA   | Agricultural and Processed Food Products Export Development Authority |
| ASIDE   | Assistance to States for Infrastructure Development of Exports        |
| CSOs    | Civil Society Organisations   |
| CUTS    | Consumer Unity & Trust Society  |
| EU      | European Union  |
| EXIM    | Export-Import   |
| FDI     | Foreign Direct Investment   |
| FGD     | Focus Group Discussion  |
| FMS     | Focus Market Scheme   |
| FoB     | Free on Board   |
| FPS     | Focus Product Scheme  |
| GDP     | Gross Domestic Product  |
| GRANITE | Grassroots Reachout & Networking in India on Trade & Economics        |
| KASAM   | Kandhamal Apex Spice Association for Marketing                        |
| KWOT    | Kandhamal Women's Organic Turmeric                                    |
| MAI     | Market Access Initiative  |
| MDA     | Marketing Development Assistance                                      |
| MPEDA   | Marine Products Export Development Authority                          |
| NEED    | Network for Entrepreneurship & Economic Development                   |
| NFTP    | National Foreign Trade Policy   |
| NGO     | Non-governmental Organisation   |
| NREGA   | National Rural Employment Guarantee Act                               |
| SEZ     | Special Economic Zone   |
| TEE     | Towns of Export Excellence  |
| UPA     | United Progressive Alliance   |
| VKGUY   | <i>Vishesh Krishi Gram Udyog Yojana</i>                               |
| WTO     | World Trade Organisation  |



# Preface

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Globalisation in the form of increased trade and investment has affected and is continuing to affect a wide range of socio-economic activities in India. Moreover, it has also brought about changes in international policy regimes, such as the establishment of the World Trade Organisation (WTO), the implementation of its agreements and the more recent phenomenon of formulation and implementation of bilateral and regional trading agreements. These agreements have significantly impacted many sectors in India such as agriculture, marine and handloom and handicraft, which employ a significant portion of the country's work force. The opportunities generated by increased trade over the last two decades have undoubtedly contributed to India's growth but greater attention to the needs of the people at the grassroots is required. Decision making is still essentially centralised and adequate channels of communication between the grassroots and the policymakers are yet to be established and implemented.

This is where the Indian civil society can step in and act as a conduit or channel linking those supplying the policy (in this case the Indian Foreign Trade Policy) to those affected by it. Thus, civil society has three major roles to perform, namely demystifying the trade policy, taking feedback from those affected by the policy to those implementing it and communicating this feedback to the formulators so that adequate changes can be made taking into account the demands and needs of the grassroots. The Indian civil society is still at an evolving stage especially with respect to effective interventions on issues relating to globalisation and economic governance and their impact on the livelihoods of the poor and other marginalised sections of society and women. It is essential to build the capacity of Civil Society Organisations (CSOs) so that they can perform their roles effectively.

Keeping in mind the complexity of issues relating to trade and globalisation and their profound implications on people's livelihoods, CUTS Centre for International Trade, Economics & Environment (CUTS CITEE) successfully implemented the second phase of the project entitled *Grassroots Reachout & Networking in India on Trade & Economics* (GRANITE) in 2007-2008 in eight states of India with support from the Royal Norwegian Embassy, New Delhi and Oxfam India.

The underlying goal of the GRANITE project is to empower people at the grassroots to deal with the challenges of globalisation and also create an enabling environment for utilising the opportunities presented by the changing economic and political landscape. The project has completed its second year and has so far been implemented by building the capacity of CSOs in the eight project states on issues relating to globalisation, trade and economic governance in India.

I thank all who have been associated with the project this year, and sincerely hope the study will aid a wide array of stakeholders in sharing information and voicing their opinions and needs. In this manner, the project would emerge as a significant milestone in facilitating effective civil society interventions in issues relating to trade and globalisation, especially those linked to livelihoods at the grassroots.

Jaipur  
November 2009

**Siddhartha Mitra**  
Director (Research)  
CUTS International & Head, CUTS CITEE

# 1

## *Introduction*

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Since the early 1990s, India has been pursuing significant economic reforms which have involved a significant opening up of the economy – reduction of tariffs and import quotas, easier entry for Foreign Direct Investment (FDI) and an environment more amenable for export promotion. In 2004, the United Progressive Alliance (UPA) government furthered this agenda by adopting the National Foreign Trade Policy (NFTP), 2004-09. This policy has replaced the Export Import Policy (EXIM) as a tool of export promotion. Recently, the NFTP 2009-14 has come into force. But in this paper our focus is only on the 2004-09 version of the policy.

The policy intends to promote exports through an increase in competitiveness of Indian products in the global market and thus generate increases in employment, which, in turn, would result in poverty alleviation and generate prosperity for the lower rungs of the Indian economy.

The NFTP aims to achieve its ultimate objective of employment generation through two means – increase in exports as a proportion of gross domestic product (GDP) and a greater stress on labour intensive exports such as agriculture, handlooms and handicrafts, spices, marine products etc.

In regard to the first objective, the NFTP 2004-09 set itself a task of almost doubling India's share in global trade from 0.8 percent to 1.5 percent over the period, 2004-09. There has been partial success in this regard with the mentioned share increasing only from 0.8 percent to 1.0 percent in the period 2004-07 (official figures for 2009 are still awaited).

This synthesis paper is an attempt to review the success of the NFTP in stimulating employment generation through promotion of exports of the mentioned labour intensive sectors. There is a need for in-depth analysis in this regard. For instance, if the mentioned increase in share of Indian exports in world trade, though small,

is due to promotion of labour intensive sectors, it can be concluded that even such small but discernible progress has been associated with significant employment generation. On the other hand, it is possible that such progress has been achieved in spite of and not due to trends in labour intensive sectors. In such cases, trade expansion might act against inclusive growth instead of promoting it.

In looking at the success of NFTP in catering to the needs of labour intensive sectors producing exportables, three aspects of the NFTP need to be examined:

- Whether incentives have been provided by the NFTP to these sectors to help these increase their scale of production/exports and, therefore, employment
- Whether the exporters/producers are aware of these incentives
- Whether the exporters/producers have a functioning channel of communication with the government and whether the government is receptive to the suggestions offered by them

In this synthesis paper, we examine the production, processing and export of various labour intensive products in different states of the country – Andhra Pradesh (turmeric), Karnataka (spices), Maharashtra (grapes), Orissa (spices), Rajasthan (gems and jewellery), Tamil Nadu (marine products), Uttar Pradesh (chikan craft) and West Bengal (mangoes) – in regard to these aspects. The idea is to critically review the content and implementation of the NFTP through these case studies and come up with recommendations as well as generate discussion. Thus, it is critical to identify the commonalities emerging from these diverse case studies.

This synthesis paper is the output of the second year of a project titled *Grassroots Reachout and Networking in India on Trade and Economics (GRANITE) Phase 2* implemented by CUTS International and supported by Royal Norwegian Embassy, New Delhi and Oxfam, India. The goal of this project is to “foster equity and accountability in the system of economic governance in India at the local, state and national levels”. The project seeks to further progress towards this goal through the mechanism (development objective) of “ensuring better economic literacy in India, particularly at the grassroots and enhancing positive linkages between good economic governance and human development”.

The specific mechanism of economic governance which is the focus of the project is the NFTP, the objectives of which have already been outlined above. In the first year, an overall and institutional critique of the NFTP was attempted on the basis of field studies in broad sectors of the economy in the mentioned eight project states. The second year of the project, of which this synthesis paper is an output,

is meant to provide greater specificity and focus to the lessons from the first year through state level case studies of specific products.

The structure of this synthesis paper is as follows. Section 2 provides a brief description of some of the schemes being implemented through the NFTP so that the linkages between NFTP on the one hand and export promotion and employment generation on the other can be appreciated. A brief critique of the NFTP based exclusively on this description is also attempted. Section 3 reviews the findings of the institutional analysis of NFTP conducted in the first year of the project. Section 4 elaborates on the main findings and conclusions of the product specific state level case studies conducted in the second year of the project. Section 5 derives recommendations on the basis of Sections 2, 3 and 4.



## 2

# *NFTP 2004-09 – Constituent Schemes*

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The NFTP operates through various export promotion schemes such as:

- Assistance to States for Infrastructure Development of Exports (ASIDE) which encourages the development of roads connecting production centres with ports, setting up of inland container depots and container freight stations, development of minor ports and jetties etc.
- Market Access Initiative (MAI) and Marketing Development Assistance (MDA) which provides finance for medium term export promotion efforts such as export promotion councils, industry and trade associations etc.
- Promotion of Towns of Export Excellence (TEE), according to which towns producing agricultural/non-agricultural products in excess of Rs 250/1000 crores with potential for export promotion would be classified as TEE and given priority for assistance under ASIDE as well as provided assistance under MAI scheme for creating focused technological services
- Provision of export house status depending on recent performance of exporting entities which would lead to the following facilities: customs clearances on self declaration basis; exemptions from furnishing of bank guarantee etc.
- Reduction in duty payments by five percent of Free on Board (FOB) value of exports for import of agricultural inputs under *Vishesh Krishi and Gramudyog Yojana* (VKGUY); in the case of flowers, fruits and vegetables this reduction is even higher at 7.5 percent

- Focus Market Scheme (FMS) which involves reimbursement of duty payments of up to 2.5 percent of FOB value of exports to offset high cost involved in freight transport to select international markets with a view to enhance export competitiveness
- Similar reimbursements under Focus Product Scheme (FPS) for products with high employment intensity produced in rural and semi-urban areas

As is apparent from a description of these schemes, the NFTP rightly focuses on creation of supply side capacity through infrastructure creation etc. as well as provision of incentives for greater exporting activity. Moreover, there is an emphasis on the stimulation of labour intensive exports through schemes such as FPS and special incentives given under programmes such as TEE. The FMS is also appropriate, given the saturation of traditional markets in US and Europe and their recent contraction during the recession.

The formulation of the NFTP can, however, be faulted for the lack of balance between incentives to exporters and those to producers – there is a tendency to concentrate more on provision of incentives to exporters whereas exports actually originate through the actions of producers. Incentives provided to exporters only have an indirect effect on export volumes through an increase in the derived demand facing producers.

Again sectors such as agriculture are characterised by long supply chains in which exporters/traders have a monopsonistic status – numerous producers /farmers cater to a single trader/exporter who can use his exclusivity to keep the former pegged to subsistence income levels, irrespective of the incentives/ demand faced. Thus, the supply chain as a mechanism for transmission of offered incentives is imperfect. This further strengthens the case for providing incentives directly to the producers and also encouraging them to undertake exporting activity directly. In other words, export promotion efforts would be incomplete without reform of the supply chain and enhancement of the capacity of producers to undertake exporting activity themselves.

This section has reviewed the schemes being implemented under the NFTP and thus made inferences about its strengths and weaknesses. The next two sections also attempt to critique the NFTP but from the viewpoint of the affected stakeholders themselves by examining their perceptions.

# 3

## *A General Review of NFTP's Impact*

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The study conducted in first year of GRANITE Phase 2<sup>1</sup> relied extensively on fieldwork in the eight project states facilitated through Focus Group Discussions (FGDs) and interviews with relevant individuals, exporters and government officials. In each state a specific sector or two were examined – only agriculture in Andhra Pradesh; Karnataka, Maharashtra and Orissa; agriculture and gems and jewellery in Rajasthan; marine and related products in Tamil Nadu; handicrafts and value based agricultural products in Uttar Pradesh; and horticulture and handloom in West Bengal.

The study concluded that the NFTP (2004-09) formulation and implementation was probably too centralised and not a participatory exercise involving various sections of the population, especially those at the grassroots. By all indications, a similar observation can also be made about NFTP 2009-14.

Second, an examination of popular perceptions reveals that most stakeholders are of the opinion that the NFTP is aimed at large farmers/producers/exporters. This might be due to the fact that only such agents are educated/aware enough to be cognisant of various NFTP schemes being run by the government. In certain cases, the government trainings and incentives might only be relevant for those with a high level of physical or human capital i.e. the large farmers/producers/exporters. The organisation of special programmes for small farmers/producers/exporters might have been of some help in this regard.

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1. Srivastava, Jayati (2008) *A Critical Look at Economic Governance in India: The Case of National Foreign Trade Policy*, CUTS International

Another weakness of the NFTP is that it primarily addresses the middlemen and traders and not the producers as incentives/subsidies are mainly provided to the former group. However, enhancement of production for export also requires the provision of incentives to the latter group.

Inadequacies in formulation are only part of the problem. Poor implementation is also a major headache. Coordination among various levels of the government machinery including the Board of Trade, Ministries of Commerce at the Centre and states, State WTO Cells, and various district functionaries right down to the level of the *Gram Pradhan* leaves a lot to be desired. This implies that even well formulated schemes under the NFTP do not yield the expected outcomes.

The application of the NFTP also needs to be more nuanced and mindful of local needs and realities. Second, it has to be realised that there is no substitute for lack of infrastructure. Financial incentives are of not much use if infrastructure related bottlenecks – poor roads, inadequate power supply, insufficient storage etc. – are not remedied.

Apart from inadequacies in formulation and implementation, lack of awareness among affected stakeholders is another major problem, according to the study. This can be attributed to poor levels of economic literacy among affected stakeholders as well as lack of systematic dissemination by the government of information related to its export related schemes and policies.

Poor awareness has various consequences. While there has been some employment creation in labour intensive export oriented industries as a result of the NFTP, the affected stakeholder groups often fail to attribute such progress to it and give credit to other schemes such as National Rural Employment Guarantee Act (NREGA). This implies that the NFTP does not get the desired attention and therefore attracts neither the necessary dialogue/efforts required to facilitate improvements in it nor participation by stakeholders in its various schemes.

The above study arrives at a general appraisal of the NFTP. A more nuanced appraisal is necessary to appreciate the differences in benefits produced by NFTP across states and products. In the next section we review in detail the findings of the second year of this project, in which product specific state level studies were conducted.

# 4

## *Product Specific*

### *Case Studies of NFTP's Impact*

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#### **4.1 Andhra Pradesh (Turmeric and Chillies)**

Production of turmeric in Andhra Pradesh has increased from 3.21 lakh tonnes in 2003-04 to 5.19 lakh tonnes in 2005-06. During this period, Indian exports have registered an impressive increase – from 34,500 tonnes in 2003-04 to 51,500 tonnes in 2006-07, an increase of around 50 percent. Andhra Pradesh is also the largest producer of chillies in India, accounting for almost 70 percent of the country's total production. Given that Andhra Pradesh is by far the largest producer among all Indian states of chillies and turmeric (producing 60 percent of Indian output), the increase in Indian exports can be attributed to increase Andhra's production stimulated by the provisions of the NFTP.

However, some other evidence prevents a strong drawing of this inference. In all FGDs carried out most farmers were not even aware of the NFTP. Moreover, they did not know that the turmeric and chillies produced by them were exported, nor were they interested in knowing. However, it is possible that incentives provided to exporters (in the form of reimbursement of a fixed percentage of export value etc.) got transmitted to farmers through increased demand from exporters. This is a plausible explanation of the rise in production that accompanied the implementation of the NFTP, especially when the years preceding the implementation of the NFTP saw a dip in exports as well as production.

Still a stimulus to farm production derived from incentives given to exporters is nowhere near as effective as that given to farmers directly. For example, farmers could have been given incentives similar to the ones given to exporters – reimbursement of a fixed proportion of the value of production.

In addition to not being aware of the NFTP, producers in Andhra Pradesh were not aware of the standards set by their export destinations, resulting in best practices not being followed in the production process. In fact, one of the motivating factors behind studying these two products was that many consignments going to the European Union (EU) had been rejected because they were deemed to have high residual content. The fact that there is currently no laboratory in the whole of Andhra Pradesh to test residual content, further compounds the problem of rejected consignments. Recently however, plans have been initiated to set up a laboratory in Guntur.

The farmers that are somewhat aware of the NFTP feel that there are too many procedures to follow in the policy, thereby discouraging them from being exporters themselves. There also seems to be a big divide between producers on the one hand, and processors and exporters on the other, with the latter two groups making no effort to improve awareness among producers of the various standards set by export destinations.

Further, there is no coordination between the central and state authorities in realising the export potential of these two products. For example, there are no coordinated efforts to help farmers obtain quality seeds, which they have difficulty in procuring. There has been a marked improvement in establishing a marketing mechanism; however, again there is no coordination among the three marketing boards set up in the state.

It was also increasingly obvious that infrastructure needed for encouraging larger production of turmeric and chillies – roads for transportation of produce, cold storage etc. – were poor. The NFTP can help in this regard, especially through ASIDE. Similarly, other catalysts such as primary processing facilities and trained personnel were found to be scarce.

## **4.2 Karnataka (Spices)**

Despite the global economic recession, both production and exports of spices have reached record levels, with Karnataka contributing handsomely. 35 percent of India's total exports of spices originates from Karnataka.

The spices industry in Karnataka mostly involves producers and exporters, with processors not playing a very big role. Interviews with producers showed that they did not know much about the NFTP. The main reason for this was the lack of interaction between the state's spices board and the growers. Exporters hardly revealed any information in regard to the incentives they were getting through the NFTP. Moreover, the benefits received from these incentives were almost certainly not passed on to the producers. As is the case in Andhra Pradesh, producers are unaware of the standards they have to adhere to, which has resulted in

consignments being sent back. There is a lack of testing laboratories in the state which needs to be addressed through the NFTP.

Interviews with exporters revealed that they have been greatly benefited by the schemes provided under the NFTP though the incentives used were not clearly identified as mentioned. Spice production, especially for export has expanded with positive implications for employment as cultivation is extremely labour intensive – to illustrate, the cultivation of each hectare of land requires a labour input of 150 farm days by ten farm workers. Employment opportunities for women, who play a significant role in cleaning of spices, have also been given a boost. Their incomes have helped to add to the food security of their families.

Although most producers in Karnataka are not aware of the NFTP and its benefits, the increase in demand for labour following the impetus given to spice export has resulted in an increase in daily wages of labour – the percentage increase has been 100 percent for the period 2004-09 or an annual equivalent of 14.8 percent. The increase in incomes of parents and even children has provided for expenditure on education and books and led to increases in school attendance and enrolment. However, the improvement in schooling indicators cannot be attributed to NFTP alone as welfare schemes such as *Sarva Shiksha Abhiyan*, *Mid Day Meal* etc. have also made a positive contribution in this regard.

### **4.3 Maharashtra (Grapes)**

Export quality grapes are cultivated for European markets in Nashik. These grapes fetch a per unit price which is almost three times that in domestic markets. Thus, although greater costs are incurred these are more than neutralised through revenue gains. Moreover, there are other benefits generated – environmental gains and a boost to employment.

Such export quality grapes need to have the following characteristics and therefore associated processes on the supply side:

- larger size which requires a labour intensive operation called thinning; the restriction on number of berries per bunch of grapes which again requires human intervention in plucking off excess number of berries; and the spreading of branches through labour intensive operations so that adequate supply of sunlight, another determinant of size, is ensured
- greenish colour which requires protection of grapes from sunlight during certain parts of the growing season – an objective which can only be attained through the labour intensive operation of paper wrapping of grape bunches
- spotless skin, which requires grading of grapes and the human identification of grapes with blemishes

- low pesticide residue which requires organic cultivation that is again labour intensive

The above requirements therefore imply that a reallocation of land for cultivation of such exportable grapes would greatly lead to an increase in the demand for labour because of the higher labour intensiveness of such cultivation. Thus, any encouragement given through the NFTP to this sector will not only enhance aggregate export volumes/earnings but also add to the aggregate amount of employment generated.

Most of the farmers interviewed during the study were medium or small but were quite well educated and lived on the edge of towns. Twenty of the 38 farmers interviewed had export certification which reflects their awareness about preconditions for export. However, although the areas producing these grapes are characterised by better infrastructure and higher average levels of education than in most other states, it was found in most cases that producers blindly signed contracts with processors and exporters. Processors and exporters were easily renegeing on the contracts on different pretexts, resulting in large losses for the producers. The Government of Maharashtra has developed a set of guidelines for developing contracts between producers and processors or producers and exporters, but producers are largely unaware of these. Thus, it is necessary to spread awareness among farmers on contract farming.

Another reason for producers facing losses is their exposure to a small group of processors/exporters who impose strict terms on them and offer prices for their produce well below the market price. This is the consequence of the presence of a large number of trade restrictions on wines, which discourages small processors and exporters from entering the market, leaving only the bigger processors/exporters in charge.

Only 6 percent of the sample report some help from the government in linking up with exporters – this is obviously a potential domain for positive interventions by the government. Farmers also cite the high cost of inputs such as pesticides and poor availability of infrastructure such as cold storages as deterrents. Clearly, schemes such as ASIDE have not had the desired impact.

Exporters echo the views of farmers but add an additional concern: farmers often have problems in adhering to the required product standards. Processors interviewed reported that they have a problem getting timely credit – this is an area in which NFTP can provide more facilities. However, they do acknowledge the support of the government in terms of subsidy, duty exemptions etc.

#### 4.4 Orissa (Turmeric and Ginger)

As mentioned, exports of spices have registered an impressive increase in the recent past. Orissa is a significant producer of spices — it occupies second place among states as a producer of turmeric and produces around 25 percent of the country's ginger output. Exports are sourced from organised turmeric farming through the government sponsored *Kandhamal Women's Organic Turmeric Project* (KWOT) run by a private firm, *Omfed*. *Omfed* organises the training of workers, mobilisation of inputs and marketing of output. Besides this initiative, the World Bank had implemented a project to empower rural communities to export spices. This involved training of NGOs and farmers on basic standards, organic production methods, documentation, inspection and certification as well as provision of hardware and software to NGOs for export promotion.

The data for the study in Orissa was collected from three districts – Koraput, Kandhamal and Cuttack. A total of 51 farmers, 2 processors and 2 exporters were interviewed and an effort was made to keep the gender mix in the sample representative of the population of spice growing farmers in the districts.

The farmers sampled were characterised by low levels of literacy which led to poor confidence in handling modern technologies. As a result, most followed traditional methods of production, which can often be unhygienic, such as the use of cow dung during the production process. According to the farmers, the state government has done little to promote the effective use of modern technologies (i.e. training the farmers to use these) which can aid more efficient and hygienic production. Some officials of the district administration who were interviewed were of the view that producers in the state would follow traditional methods regardless of what new technologies were introduced and what training was provided. About 95 percent of the farmers were small, marginal and landless and this perpetuated the lack of confidence in accessing loans and other government provided inputs, and taking initiatives for better marketing of products.

A prominent organisation in the state called Kandhamal Apex Spice Association for Marketing (KASAM) operates as a society for upgrading, purchasing, processing and marketing organic spices. Currently 12,000 farmers in Orissa are members of KASAM. However, when some of them were interviewed they said they felt isolated from management issues and that although the organisation is growing in terms of infrastructure, it is not doing much to address farmers' interests.

The middleman's monopoly is felt by both ginger and turmeric producers. In addition, lack of facilities such as cold storage is affecting the producers negatively. In the state agricultural policy of 2008, there is a provision to improve marketing facilities. However, Agricultural & Processed Food Products Export Development Authority (APEDA) is of the opinion that improvement in the state's marketing

facilities is the responsibility of the district administration and the policy cannot do much in this regard.

The major concern from the exporters' side was that the nearest port mostly exported minerals. This meant that they had to go to ports further away to export their products and the consequent increase in transportation costs discouraged most of them from exporting more spices. One of their other concerns was that because of delayed payment from the international market, a lot of producers were shifting their attention from the export market to the domestic market.

All three groups – farmers, processors and exporters – reported that they had not benefited from any facilities under the NFTP, at the micro or macro level. Moreover, most of them were not even aware of the NFTP. Keeping in mind the issues mentioned above it is evident again that the provisions of the NFTP need to be widely disseminated among the producers to increase awareness. In addition, the policy needs to include producer-friendly elements rather than just exporter-friendly ones.

#### **4.5 Rajasthan (Gems and Jewellery in Jaipur)**

Gems and jewellery is an important emerging sector in the Indian economy with an annual growth rate of 15 percent in recent years and associated employment of 1.3 million people. Processed diamonds and diamond jewellery constitute major exports from this sector. In the year 2008-09, this sector was hit badly by the recession and exports registered a poor growth of around 1.45 percent.

Several incentives have been provided through the NFTP for the gems and jewellery sector – duty waivers of up to 2 percent of value of exports; increase in the time period within which branded unsold jewellery can be reimported; increase in the limit value for jewellery parcels for export through foreign post offices; establishment of Special Economic Zones (SEZs) and gems and jewellery parks etc.

In theory, therefore the gems and jewellery sector in Rajasthan should have got a major boost from the NFTP. The SEZs and parks in Jaipur alone account for a turnover of Rs 450 crores, out of which Rs 300 crores is exported.

Three characteristics, however, still mark the gems and jewellery sector in Jaipur: highly unorganised trade, labour intensive operations and volatility in prices. This makes the gems and jewellery industry a very suitable recipient of assistance through the NFTP. Enhancement of formalisation is likely to boost exports and in turn have significant implications for employment opportunities.

However, in practice the study reveals that the perceived gains from the jewellery sector are smaller than anticipated because of low levels of awareness, especially among manufacturers. Even relevant agents who are aware find it difficult to utilise schemes under the NFTP because of the non-transparent nature of procedures.

#### **4.6 Tamil Nadu (Marine Products in Chennai)**

Tamil Nadu has 13 coastal districts and 13 percent of India's marine export comes from this state. Initially it proved difficult to find data from Marine Products Export Development Authority (MPEDA) or the Fisheries department and this prompted a study of how marine products make their way from the producer to the exporter. A large variety of related economic agents were surveyed during the field work: fishing boat owners and drivers, wholesalers, processing unit employees and exporters. All these agents raised concerns about the facilities/incentives provided through the NFTP.

Boat drivers complained that no training was facilitated through the NFTP to inculcate the fishing and preservation practices demanded by importing countries. Such training could have enhanced the volume of exports. Boat owners complained that rules for providing subsidies made it impossible for them to avail of these, especially because such rules did not take cognisance of new cost effective technologies. In addition, it was found that basic inputs such as diesel and ice which contribute to efficient catch of marine products were not readily available. On board processing such as preservation of catch was not taking place, which resulted in poor quality products being delivered. Producers said MPEDA provided assistance for improving infrastructure but this was only limited to the exporters. Agents/wholesalers complained of incentives in the NFTP being targeted towards exporters. Processing unit employees complained of the frequent shutting down of units threatening their livelihoods – a development which the NFTP had obviously failed to prevent. It was also felt that there was a need to understand the traditional methods which the fishing community followed in order to link small markets better. Note that the export market follows a top-down approach with middleman exploitation rife and contributing to inequitable benefit sharing.

The feedback from exporters led to the conclusion that only a few large exporters had benefited from schemes under the NFTP as heavy investment was a precondition for availing of benefits. Exporters, agents and wholesalers all felt that improvement in infrastructure facilities – landing centres, ice factories etc. – was imperative and identification of marketing opportunities necessary for more effective export promotion.

In addition, when considering a product such as marine items, it is imperative to ensure that the volume of its production increases sustainably. Thus, when looking at the NFTP's objective of increasing the volume of exports, it is important to keep in mind the need to promote sustainable trade practices, where the success of the industry does not only depend on the magnitude of increase in exports and the amount of employment generated, but also the industry's ability to regenerate its natural resources in order to ensure future viability.

#### **4.7 Uttar Pradesh (Chikan Craft)**

The study/survey was conducted in Lucknow and Sitapur districts. Manufacturers, artisans and exporters were surveyed. While artisans in this sector are primarily female there is a significant number of exporters, manufacturers and retailers associated with this operation. Thus, male employment generation is significant as well. The survey seems to reveal a lack of direct information flows about the NFTP. Thus, the data unearthed by the study does not facilitate a clear impact analysis of the NFTP.

There was one significant achievement during this project – the state level project implementer, NEED got *chikan* craft registered under the internationally recognised Geographical Indicators Scheme, guaranteeing that for a product to be recognised as an output of *chikan* craft, it has to be produced by artisans from Uttar Pradesh. This was achieved with the help of likeminded organisations: the officials of the Ministry of Textiles, Government of India; and state government officials. This move will enhance exports of *chikan* from Lucknow by ruling out competition from producers trying to imitate its production.

#### **4.8 West Bengal (Mango Economy of Malda)**

Malda was declared an Agricultural Exporting Zone (AEZ) for mango under the EXIM Policy, 2001. A sample of 110 economic agents connected to the mango economy were interviewed during the course of the study – mango exporters, mango merchants who invest their money in mango cultivation, mango growers, wage labourers, owners of processing units and their women employees etc.

The large number of stakeholders groups is reflective of the length of the supply chain. This contributes to the fact that the price at the farm gate is a mere 40 percent of the final export price.

In general, the mango economy in Malda and mango exports have expanded considerably in the last few years, enhancing incomes and employment for almost all groups of associated stakeholders. Vast employment opportunities have been generated for women in the processing industry – a woman earns almost Rs 55-60 per day working in one of the processing units.

Some groups of stakeholders such as exporters do confirm that they have received significant benefits from the NFTP schemes such as *Vishesh Krishi and Gram Upaj Yojana*, *Duty Drawback Schemes* etc. However, the production and export of mangoes can become even more profitable if alternatives to the Bangladeshi market (where most of the exports are sent) in the form of developed country markets are identified and accessed. This would further enhance the differential between the export price and domestic price of mangoes due to the superior purchasing power of developed countries.

One reason for these markets not being accessed is the lack of necessary export infrastructure: no quality certification labs, ripening chambers or cold storages in Malda. In general, this implies that schemes such as ASIDE under the NFTP are not being utilised adequately to boost the mango economy. Human capital formation and provision of subsidies to processing units through the NFTP is also inadequate.



# 5

## *Conclusions and Recommendations*

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The NFTP seems to have had variable impacts across states and products. While products such as grapes in Nashik, Maharashtra and mangoes in Malda, West Bengal seem to have drawn significant benefits, others such as spices in Orissa seem to have not benefited at all.

A number of factors might be responsible for the differential levels of success across states and products. Literacy and education levels of the stakeholders might be a major factor – consider the high levels of education of farmers/exporters in Nashik and the very low levels of literacy among the spice farmers of Orissa. There are some supply side explanations of variability of NFTP impacts as well. For example, provision of infrastructure by the state government through schemes such as ASIDE leaves much to be desired and varies across states.

While the NFTP does address the issue of export promotion and through it employment generation there is vast scope for improvement in regard to formulation and implementation. The formulation of the NFTP is biased towards large economic agents – small producers/exporters often do not qualify as beneficiaries of the various schemes under the NFTP. In many cases, though not all, awareness levels among such small players is also low. Correlation of size with education/literacy not only affects awareness but leads to such players getting intimidated by the complexity of schemes.

The above findings in turn lead to the following recommendations:

- Special schemes targeted towards small players are the need of the hour.

- Information dissemination mechanisms need to be more extensive and better structured and should provide information in a simple and digestible form.
- Schemes should be made less complex and more transparent.
- More attention needs to be paid to the Policy's scheme and its effective implementation. It is important to make sure problems at all levels in regard to lack of infrastructure are identified, instead of focusing exclusively on infrastructure problems facing exporters.
- The policy making process should be more inclusive and consultative with grassroots stakeholders being more informed and thus more empowered to influence decision-making in regard to their livelihoods.

In general, human capital formation for export purposes through the NFTP has been poor and needs attention. There is also a bias in favour of exporters and against producers in the provision of incentives which needs to be corrected as production decisions are made by the latter group and impinge directly on export volumes and associated employment.

Finally, the NFTP should provide a mechanism to achieve better coordination among various stakeholders in the supply chain. For example, often exporters make promises/commitments to farmers without any formal contractual arrangement. Not only can governments help to link up producers/farmers with exporters but also stimulate the development of relationships with solid contractual foundations. The resulting security for producers/farmers should bring about an increase in output produced for export.

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