Making Things Happen

CUTS International

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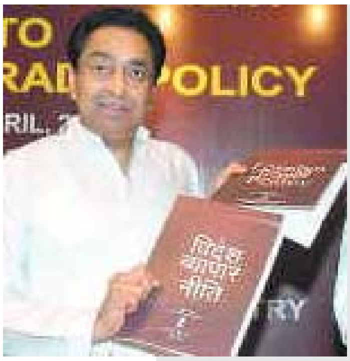
Foreign Trade Policy

Thrust on Export and Employment

Commerce and Industry Minister Kamal Nath announced the second annual supplement to the Foreign Trade Policy (FTP) 2004-09. In line with the National Common Minimum Programme (NCMP), the Policy focused on incentive schemes for employment generation. It is hoped to contribute to the government's objective of adding 20 million jobs a year. It has set a 20 percent export growth target for the current fiscal and sought to expand the export basket as well as diversify the markets. In the year 2005-06, for the first time India's exports have crossed US$100bn mark.



Two new schemes were announced. They are called 'focus product' and 'focus market' and have been designed primarily to encourage employment generation, particularly in semi-urban and rural areas. Among the thrust areas, there are gems and jewellery, marine products, leather products, auto components.

The 'focus product' scheme will provide additional fiscal incentive to boost export of products having employment potential like handicrafts, handlooms, leather products, marine products. The other scheme (focus market) is aimed at penetrating new export markets such as Africa and Latin America.

Besides merchandise export, the Policy aims to create jobs in the service sector, for not only skilled professionals from urban areas, but also the semi-skilled and unskilled persons. Another employment generating scheme is specifically targeted for agricultural products and export-oriented village and cottage industries.

Though the performance of these schemes are yet to be tested, particularly from the point of view of employment generation (as the export target of US$74bn for the FTP 2004-09 has already been surpassed), there are sceptics who question the relevance of such a policy when India is experiencing high growth in exports and quantitative restrictions on imports no longer exist.

This is true but the relevance of a FTP is not just confined to trade (export and import) but more importantly, as a means to achieve other goals like employment generation and poverty reduction.

Aren't you conservative in setting a target of 20 percent, when we had been achieving even higher growths in the last two years?

We are starting on a very high base. In 2004, I set a target of 18 percent and we hit 26 percent. Last year, I set a target of 19 percent, and said we will reach US$92bn. We have crossed US$100bn. On such a high base, a 20 percent growth target is realistic. Our increasing exports reflect the resilience of the Indian economy and the growing competitiveness of Indian exporters.

Isn't the policy focusing on too few products and categories?

It is only a supplementary policy. Other important products are already covered in the main policy.

The revenue department seems to object to all schemes on the grounds that many would be revenue defeating. How do you overcome that?

The revenue department's job is to protect revenue. They are fighting for their job, I am fighting for mine.

Didn't they say some schemes are not WTO compliant?

They can come to any conclusion. But that is not the issue at the end of the day.

You said that you would remit service tax paid by exporters.

We are going to build it into our remission schemes. We have made a new scheme, and are going to announce it soon. The government's clear decision is not to export taxes. However, all service tax paid by companies is not attributable to exports. How do you apportion that? It is a very intricate thing. This is what the government will have to look at.

What kind of expansion do you expect in the export-basket?

The products targeted by the new scheme have substantial scope. There is a huge market for products like sports goods, toys and fireworks. In the international toys market, China's share is 80 percent, ours is less than 1 percent. So, there is tremendous scope.

(FE, 08.04.06)

INSIDE

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Lobbying on Fertiliser Subsidy

The fertiliser industry has made a strong pitch for a subsidy based on actuals. At present, the concession on fertiliser is the difference between the normative production cost as approved by the government or the cost of imported materials and the maximum retail price indicated by the government.

The Union Budget of 2006-07 is likely to consider the anticipated cost of key inputs such as gas, naphtha and fuel oil while calculating fertiliser subsidy for the next fiscal. The subsidy is being determined on actual industrial cost for the first time.

Increase in input costs has jacked up the subsidy requirement for the fertiliser industry. Unpaid subsidy bills involving large amounts have been carried forward year after year. Thus, the industry is lobbying hard to get the anticipated input cost in the budgetary estimates and to avoid stoppage of payment. *(FE, 06.01.06)*

Falling Farm Trade

India's poor performance in agricultural trade in the post-WTO period can be attributed to distortions in the international agricultural market. According to a study by the Indian Council for Research on International Economic Relations (ICRIER), in the ongoing WTO negotiations India must try hard to effectively reduce the production and trade distorting subsidies in developed countries.

In the WTO, the G-20 group of developing countries has proposed structured and tiered subsidy reduction formula with high reduction coefficients for countries with high level of trade distorting subsidies. The study said that, if effectively calibrated, such a formula could lead to a near harmonisation of subsidy levels. It can also take care of some of the shortcomings of the 'July Framework'. *(FE, 11.01.06)*

Second Green Revolution

India may soon witness the second Green Revolution. Organic farming is expected to be one of the focus areas to boost agricultural growth in the Eleventh Five-Year Plan (2007-12).

The Indian government is also considering establishing organic agricultural estates for small holders, to promote the green farming. It is expected that the Planning Commission of India may enhance fund allocation to organic farming in the next plan.

Recently, an outlay of Rs 57 crore (US$13mn) was allocated for production, promotion, certification and market development of organic farming in the Tenth Plan period. The government has also launched the National Project on Organic Farming, which extends subsidy for setting up of organic input production units. *(ET, 18.01.06)*

Agriculture Technology Mission

For the first time in the country, the Andhra Pradesh (AP) government has established an Agriculture Technology Mission (ATM). The ATM came into existence on January 15, 2006, when the AP Chief Minister Dr Y S Rajasekhara Reddy, as the Chairman of this body, formally launched it in Hyderabad.

According to the government order, the mission is expected to interact with related departments and fix targets in terms of production and productivity. It is to identify newer technologies and crop patterns to improve productivity of individual farmer.

Dr Reddy said that the ATM would be a take-off platform for the country's target to achieve four percent compounded annual growth rate in agriculture, which is a pre-requisite for achieving an overall annual economic growth rate of eight percent.

It would strengthen agriculture credit and bring out a legal framework for contract farming. It also aims at bringing convergence of on-farm enterprises, like dairy, poultry etc. *(FE, 24.01.06)*

No Surety for Higher Income

The harvest may be bountiful, but rural labourers at the country's backyard are fighting a grim battle for survival. The consumer price index of agricultural labourers (base 1986-87 = 100) has increased by 26 points between 2000-01 and 2003-04: from 305 to 331. So real wages increased at a considerably lower pace.

The plight of the agricultural labourers was probably the worst in the economically prosperous states such as Gujarat, Karnataka and Maharastra. The daily wage rate of a ploughman was below that of the national average in all of them.

The rise in gross domestic product (GDP) or agricultural production is unlikely to improve their (agricultural labourers) earnings. What they need are definite programmes to improve their marketability outside the sector. *(ET, 27.03.06)*

Trade Body For Agriculture

Prof M S Swaminathan, the Chairman of the National Commission on Farmers has recommended that the government should set up a separate trade organisation for the agriculture sector. The new body should be called as the Indian Trade Organisation (ITO), with its own boxes for domestic agricultural support on the lines of World Trade Organisation's (WTO's) blue, green and amber boxes.

Business Standard

Under this, the support extended by the government to farmers could be categorised without violating WTO agreements. In fact, it could be a virtual trade-watch organisation that should specialise on WTO affairs.

Serving as a think tank as well as information bank, the ITO should enable the government to take informed and proactive decisions. Besides, it could also keep a watch on farming activities to provide timely warnings on potential shortages and surpluses in major agricultural commodities.

This could avoid wild fluctuations in their prices, in addition to providing guidance to small and marginal farmers. With its support, farmers can be saved from "the onslaught of the subsidy, technology and capital-driven agribusiness paradigm of the OECD (Organisation for Economic Cooperation and Development) countries," Prof Swaminathan said. *(ET & TH, 05.01.06)*

Cut in Customs duty

The textile industry has asked the government to slash excise duty on man-made fibres (MMF) and textile machinery by eight percent and remove customs duty on synthetic fibres. It wants to exempt the sector from the ambit of fringe benefit tax, banking transaction tax and service tax.

Hiren M. Shah, Chairman of the Confederation of Indian Textile Industry (CITI) suggested that all textile machinery covered by the Technology Upgradation Fund Scheme (TUFS) may be allowed to import at five percent custom duty.

CITI requested to remove customs duty of 15 percent on fibre intermediaries such as purified terephthalic acid (PTA), di-methyle terephthalic (DMT) and mono ethylene glycol (MEG) and on man-made fibres such as polyster staple fibre (PSF), viscose staple fibre (VSF) and acrylic staple fibre (ASF). CITI has also urged the government to scrap the ten percent customs duty on extra long staple (ELS) cotton. It said that imports of ELS cotton are becoming highly uncompetitive because of high international prices.

(ET, 30.01.06; FE, 04.02.06)

Re-discovering the Golden Fibre

It is time the golden fibre (jute) was accorded the freedom to re-invent itself. It should move up the value chain, from gunny bags to designer outfits!

The National Jute Policy, 2005, recently announced by the government, has fallen short of expectations. It pleaded for continuance of regulatory interventions, regular use of the minimum support price scheme and mandatory packing of foodgrains and sugar in jute bags. However, the way to give a new lease of life to the jute industry is not through administrative fiat but through market-based incentives.

Plastic, the alternative packaging material is environmentally unfriendly. The government could, therefore, impose some kind of tax on the use of plastic bags. That is likely to do much more for the jute industry than its inclusion as an essential commodity under the Essential Commodities Act of 1955. *(FE, 06.01.06)*

To Train Manpower

Many players feel export performance of Indian textile and apparel products would have been better than what it has been, but for the lack of skilled manpower. According to analysts, lack of skilled personnel is a serious problem plaguing the industry.

To solve the problem, the textile ministry is all set to hire foreign consultants to help train manpower. This is to set up productivity in the labour intensive textiles & clothing (T&C) sector.

The effort is being jointly undertaken by the ministries of textile, commerce and small-scale industries, while Apparel Export Promotion Council (AEPC) is entrusted with the task of implementing it. The services offered by the consultants will be implemented through Apparel Training and Design Centres (ATDCs) and individual exporting firms. The cost will be jointly borne by exporting firms and AEPC.

(FE, 09.01.06)

Jump in Raw Silk Prices

Sudden fall in silk production and change in government policies in China, the major raw silk and fabric supplier to India, has impacted the Indian silk industry in the current fiscal. The raw silk and cocoon prices have jumped by more than 40 percent year-on-year.

Trade sources said that the raw material prices would further increase. This is owing to widening demand-supply gap in the Indian silk industry. This is on the back of increased export orders and expected price escalation in Chinese raw silk.

Although India has imposed an anti-dumping duty on Chinese raw silk, the fact was that the Chinese were aware that the India has no option but to import silk raw materials from China. *(FE, 14.02.06)*

Protection for *Kota Doria*

Kota Doria sarees of Hadauti region of Rajasthan would now be sold along with a monogram to differentiate them from the duplicate ones mainly produced by powerloom. This is expected to check the look-alikes, which are sold at much cheaper rates.

The Kota Doria Development Hadauti Foundation has got the product registered under the Geographical Indications Act of India.

However, weavers said that coordination and cooperation among the state and the central government is required to check the manufacturing of look-alikes across the country. *(HT, 26.03.06)*

The New Textile Order

Abolition of quota restrictions put India's textile industry with new textile order full of opportunities and challenges. Indian textile exporters have apparently concentrated their efforts on the recently opened markets such as the US, possibly neglecting what were previously non-quota countries. India's share in world textile trade is a minuscule four percent despite recent growth in the textile and apparel trade. A stunted synthetic/blended textile sector is a major reason for this.

The inability on the part of largely fragmented Indian textile industry to scale up, despite the abundant notice given, is one area of concern. Besides this, there are other reasons like low degree of mechanisation, obsolete technology, and paucity of capital. Above all, the Indian textile industry has not enjoyed the benefits of large-scale production as compared with that of China's.

In the coming years, the country's known strengths – a relatively inexpensive and skilled workforce, abundant supply of quality raw material and design expertise – can be expected to bear fruit. The government must strive to realise the substantial export and employment potential of this industry. *(ET, 21.02.06;TH, 08.02.06)*

Budget 2006-07

Big Disappointment for the Handloom Sector

D Narasimha Reddy*

Presently, handloom weavers are facing severe livelihood crisis because of adverse government policies, globalisation and changing socio-economic conditions. There have been number of suicides. Ineffective implementation of the schemes meant for handloom development and the changed context of textile industry – increasing unfair competition from the powerloom and mill sectors – has been responsible for the crisis in the handlooms.

There appears to be an inadequate appreciation among the legislators and policy makers of the actual state of the handloom sector, the appalling conditions of weavers and the fate of the policies meant for them, and the consequences therein for the individual, communities and the economy.

Year	Handloom Budget			Total Budget			Handloom as % of total
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	
1997-98	107.00	96.50	203.50	260.00	479.04	739.04	**27.5**
1998-99	89.80	61.80	151.60	260.00	726.58	986.58	**15.3**
1999-00	81.80	56.50	138.30	266.00	740.10	1006.10	**13.7**
2000-01	112.00	53.29	165.29	457.00	754.30	1211.30	**13.6**
2001-02	116.00	40.50	156.50	650.00	660.30	1310.30	**11.9**
2002-03	117.00	35.83	152.83	715.00	870.50	1585.50	**9.63**
2003-04	129.77	125.91	255.68	760.00	947.84	1707.84	**14.9**
2004-05	119.36	132.37	251.73	878.00	902.31	1780.31	**14.1**
2005-06	131.00	63.89	194.89	1150.00	858.25	2008.25	**9.7**
2006-07	150.00	91.29	241.29	1349.50	1696.25	3045.75	**7.9**

Source: Compilation by CHIP, 2006

Government policies are increasingly influenced by the globalisation processes and are related to WTO-induced trade regimes. Government of India has been continuously reducing budget allocations for the handloom sector over the past several years. This is especially glaring in the last five years.

In the last ten years, budget allocation has been decreasing gradually and continuously. It is also interesting to see the overall budget for the Ministry has been increasing. It has grown four times between 1997-98 to 2006-07.

The reduction in budget for handlooms is inexplicable, when the Planning Commission admits that handloom sector is still the major sector next only to agriculture in rural India. No positive programmes are being included in the Plans. It remains to be seen whether the Tenth Plan would give any scope for handloom weavers to look for.

Rise in budget for non-handloom sector essentially mean that handloom is no longer considered as the mainstay of the Ministry of Textiles' work. There is a clear divergence from the pronouncements and budget allocations. Handloom sector is being 'weakened' by reductions in budget allocations and further by active promotion of powerlooms and mills. In fact, rise in Non-Plan budget is also seen across all major heads of Ministry's budget.

It is time that government recognised the value of the handloom sector in achieving sustainable development of the country. On its own, government would never be able to provide employment to such a large workforce. Going by the logic of liberalisation, government in turn ought to formulate, promote and encourage policies, which sustain this employment, and cannot work to its detriment.

Despite adverse conditions, due to larger support from the consumers and being a livelihood option for millions of weavers, handloom sector has been surviving, and has the potential to be so. Government has to ensure a 'level playing field' for this sector towards healthy competition among the different sub-sectors of textile industry.

(Associated with the Centre for Handloom Information and Policy Advocacy, Chirala, Andhra Pradesh)*

SOURCES: **ET: The Economic Times; FE: The Financial Express; HT: Hindustan Times; TH: The Hindu**

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