CUTS International

Making Things Happen

"Encouraging dialogue with the grassroots" — a quarterly newsletter on "Grassroots Reachout & Networking in India on Trade & Economics" (GRANITE)

No. 3/2006

A Historic Opportunity for India

Jagdish Bhagwati & Arvind Panagariya***

With the Doha Round at a critical juncture, India has a historic opportunity to seize the leadership role in bringing the Round closer to a successful conclusion.

The challenge and the opportunity for India are best understood against the progress that has been made in the Doha Round.

Cancun gave the developing countries a place at the table. The developing country group, G-20, emerged as a serious force for the first time in the history of multilateral negotiations. It is equally significant that after Cancun we have witnessed the death of the traditional quartet of developed countries, consisting of the US, Canada, EU and Japan, which had made many of the key decisions in the past.

The Economic Times

Today, we have a different quad – the US, EU, India and Brazil – that, with greater sensitivity to other negotiating countries and with a significant role for Japan (which is a major power and must also make significant agricultural concessions), effectively takes major initiatives.

The 2005 Hong Kong Ministerial also registered progress on several fronts. The least developed countries (LDCs) were promised duty-free and quota-free (DFQF) access to at least 97 percent of the goods in rich country markets.

We can, therefore, see Cancun and Hong Kong as having effectively cleared the way, leaving the negotiations now focused on the major players, the new Quad, which must make mutually acceptable concessions to close the Round. The US, which has a strong comparative advantage in agriculture, wants substantial cuts in both domestic subsidies and tariffs in agriculture in the EU in particular before cutting its own agricultural support. Its lobbies in manufactures and services are also seeking concessions, especially by India and Brazil in manufactures and services.

The EU has already agreed to eliminate export subsidies and also to some cuts in the trade-distorting production subsidies. With no comparative advantage in agriculture, it argues that any further cuts in agricultural protectionism must be matched by significant reciprocal cuts in manufactures and services abroad.

President Bush would like to close the Doha Round before his Trade Promotion Authority (TPA) expires.

This is where India can seize initiative. By moving ahead of the curve and offering real concessions in manufactures (meaning cuts in the applied tariffs) and services in return for concessions for its own exports, it can take credit for moving the Round forward and also advance its friendship with the US.

It was the reforms of the mid-to-late 1980s that helped place India on the higher growth trajectory starting in the late 1980s while the more systematic reforms of the '90s helped sustain that growth over the long haul.

The major advantage of moving aggressively within the Doha framework, however, is that it will also earn us the trade concessions by others, "doubling" the benefits to us. Five years from now, we would be bringing down our industrial tariffs to the five to seven percent range with or without Doha.

But with Doha, whose full implementation would take five or more years, we can simultaneously bring down the peak tariffs on our labour-intensive exports such as apparel in the rich countries and extract assured and expanded market access for our IT and other service exports. On top of that, we are bound to make gains in agricultural markets and become substantial agricultural exporters with suitable internal reforms.

So the likely scenario today is that President Bush will succeed in striking a deal with the EU and moving the negotiations forward. If he succeeds, is it not better that we would have taken the lead instead of having waited to become a reluctant follower? So, Dr Manmohan Singh and Kamal Nath: go right ahead and win this one for India! *(ET, 01.07.06)*

* *Professor of Economics and Political Science, Columbia University, USA*

** *Professor of Economics, Columbia University, USA*

INSIDE

Recent Farming Policies 2

Size Does Matter 3

Handloom Cluster Development 3

GRANITE Outreach Meetings 4

CUTS Centre for International Trade, Economics & Environment

CUTS CITEE

Email: citee@cuts.org

Website: www.cuts-citee.org

With the support of

Royal Norwegian Embassy, New Delhi & Oxfam Novib The Netherlands

World Trade in Agriculture

India has stressed the urgent need to correct structural flaws in the world trade in agriculture. The Confederation of NGOs of Rural India (CNRI) urged Kamal Nath, Commerce Minister, to examine the question of de-linking the agriculture and non-agriculture products, from the ambit of the World Trade Organisation (WTO).

This would secure and safeguard the livelihood of millions of farmers in India as well as other developing countries.

The CNRI said that the continuing trade distorting farm subsidies of the developed world have pushed terms of agricultural trade to highly unacceptable levels for the developing countries.

Stating thus in a memorandum, Chairman, CNRI, Dr Dharia, along with Nirmala Deshpande, Member of Parliament and chief patron of CNRI and LV Saptarishi, co-Chairman and a retired civil servant, proposed that there should be a fresh round of initiatives under the auspices of the UN and not under the WTO. *(BL, 07.07.06)*

Recent Farming Policies

A brand new thrust to agricultural sector is likely to be introduced by the Manmohan Singh government. A policy would be introduced to include amongst others, a loan waiver scheme. To stem any further criticism on the work done by the government directly affecting the agriculture sector, for instance, the emergence of Special Economic Zones (SEZs), the policy seeks to offer to farmers who lose their lands, a stake in the project.

Further, the draft National policy for farmers is under public debate, which provides 24 policy prescriptions to ensure livelihood security to farmers. Some of the draft policy prescriptions are expanding the scope of the Minimum Support Price (MSP) to cover all crops, establishment of market risk stabilisation fund to protect farmers during periods of violent fluctuations, etc.

(TH, 21.08.06 & FE, 22.09.06)

Transfer of Land to SEZs

The Governments' promise of ensuring food security and well being of farmers may be looked upon as a farce. As the state governments are busy acquiring prime lands from farmers at cheap prices and gifting them to the corporate houses for setting up of SEZs without much concern for food security.

An alternative is to use some identified wastelands for non-agricultural purposes. The Wasteland Atlas (WA, 2003) has identified 5, 52,692.26 square kilometres (sq. kms) of wastelands.

This accounts for 17.45 percent of the total geographical area of the country of which 1421.72 sq. kms is due to mining and another 555.63 sq. kms due to industrial use. These are good options for developing industrial operations. *(FE, 25.09.06 & 28.08.06)*

Public-Private Partnerships

Prime Minister, Manmohan Singh, called upon the corporate sector to play a key role in productivity and diversification of the farm sector. Inaugurating a Research and Development centre at Ladhowal, he stressed that the public-private partnerships (PPPs) required a combination of entrepreneurship technology and commitment of the political leadership. He said that the farming community should benefit from technological changes, which would herald a new era of green revolution.

The Confederation of Indian Industries organised an agri-summit on September 28-29, 2006 bringing forth the opportunities of PPPs. The objectives were to create awareness on the state of agri-marketing, catalysing PPPs through knowledge dissemination. Also, deployment of key recommendations for the 11th plan and enabling effective integration of a larger proportion of the farming community in the mainstream market-related developments were discussed. *(BL, 24.09. 06 & TH, 28.09.06)*

Unabated Farmers' Suicides

From a survey conducted in Maharashtra, it was found that farmers cultivating crops other than cotton are falling victims to the farmer suicide epidemic. Rising input costs and low returns to farmers, crop failure, continuous drought, poor prices and weak support system are the real culprits.

The government must pay attention not to invite any more criticism for pushing the farmers to a capital-intensive technology.

This would require high doses of chemical fertilisers and pesticides. The demerits of chemical fertilisers should be taken as a warning bell against the farmer-suicide epidemic, which has already claimed more than 1,40,000 lives.

The Planning Commission has recommended fixation of a time frame of five years for removal of development backlog in Vidarbha. Also, it is putting in place a strong monitoring mechanism for ensuring implementation of a policy providing relief to farmers. *(FE, 22.08.06 & 21.08.06)*

Changes in APMC Act

The central government asked the states to amend their Agriculture Produce Marketing Committee (APMC) Acts to attract private investments in the sector. So far, only 19 states have amended their APMC Acts to allow setting up private markets and direct sale of produce by farmers to buyers, besides legitimising contract farming. This will bring the much-needed change in the infrastructural support to the agri marketing sector.

Speaking at the Agri Marketing Summit 2006, agriculture secretary, Radha Singh, said that the gap between farm gate prices and retail rates in several states needs urgent correction allowing more gains to farmers. *(ET, 29.09.06)*

Size Does Matter

Indian companies are going in for many acquisitions. Industry observers like Welspun India's executive director for marketing and production Dinesh Hinduja said, many players were waiting for the industry scenario to play itself out after the 1974 multifibre agreement quota restrictions were lifted after on January 01, 2005. Both domestic and international markets are growing at exponential rates. In fact, the government has set an ambitious textile export target of US$50bn by 2010 from US$13bn at present.


The Financial Express

The WTO estimates that India could increase its share in the US market to 15 percent in future from 4 percent in 2004. However, the flip side of the 'size' coin is that is several smaller players are selling out in the face of increasing margin pressures. The only way companies can counter margin pressures is by improving operating efficiency and getting into value added products, an option not available to small companies. *(FE, 23.09.06)*

Labour Law in Textiles

The Prime Minister's statement that labour market needs to be more flexible has struck the right cord with the apparel exporters. Substantiating the same, Premlal Udani, president of the Clothing Manufacturers Association of India (CMAI), said, capital investment into the apparel sector could rise by 30-40 percent, if the labour market flexibility is assured.

Currently, India employs close to about 32 million people in the textile and clothing (T&C) sector. India's apparel exports, which have been in the range of US$6-6.5bn, have jumped to a record high of US$8.2bn (for the year ended March 31, 06). This was driven by robust uptake in demand from the US and Europe. Apparel exporters said that, for an exit policy, they are willing to provide gratuity, retrenchment allowance, besides providing four-eight weeks salary.

Given this, the government need to focus on labour reforms with renewed enthusiasm as well as structural changes notably in areas of taxation. *(ET, 04.07.06)*

Handicrafts Get GI Status

After having lost its patent to *basmati* rice in 1999, India has woken up to the reality of Intellectual Property Rights (IPRs) issues. The Indian government plans to bestow geographical indication (GI) status to over 75 special products that are unique to a region, apart from an overall brand identity for handmade products from the country. Three crafts from each state will be identified and will be registered at the GI Registry, Chennai.

21 handicrafts have already been identified by the National Institute of Design (NID), Ahemadabad from seven states, namely, Karnataka, Gujarat, Tamil Nadu, Rajasthan, Bihar, Kerala and Madhya Pradesh. GI identifies a product as originating in a territory where a given quality, reputation or any other characteristic is essentially attributable to its geographical origin. *(BS, 13.08.06)*

Textiles and TUFS

Speaking at a function to distribute the Cotton Textiles Export Promotion Council (Texprocil) grants awards, Shankersingh Vagela, Union Minister of Textiles, indicated that the government is considering extending the Technology Up-gradation Fund Scheme (TUFS) up to 2010 to further shore up the Indian Textile sector.

Exports of cotton T&C have recorded a growth of 27.56 percent, rising from US$14bn in 2004-05 to US$17bn in 2005-06. This growth has been driven by the increase in exports of home textiles and cotton yarn.

However, BK Patodia, Chairman of Texprocil, also speaking on the occasion, stressed the need for further reforms. "There is an urgent need to address labour and power issues as well as a need to reduce transaction costs as all these are affecting our competitiveness", he said. *(BL, 19.09.06)*

Handloom Cluster Development

To promote handloom sector, the government is planning to extend the reach of its cluster development programme. Textile ministry will develop 500 handloom clusters, up from the present number of 20, at an estimated investment of Rs 50 lakh each. The Textile ministry has started making moves to speed up its Integrated Handloom Cluster Development Scheme. The clusters will help handloom weavers in designing, packaging and marketing products such as *dhotis*, silk *sarees*, bed sheets and furnishings.

The government had allotted Rs 40cr to develop 20 clusters in the first year of its introduction. This would eventually increase to 50 clusters at a cost of Rs 50cr. The cluster development approach and capital subsidy would boost production as well as consumption of handloom products, which may be instrumental in increasing exports. *(ET, 25.08.06)*

US Curb on Chinese Textiles

The safeguards on certain categories of Chinese textiles shipments by the US in June 2005 have served their purpose of curbing the flood of Chinese T&C items.

However, contrary to the notion that India will gain from the US curbs on Chinese textile exports, total T&C exports to the US increased just 13.82 percent in April, 2006. While apparel exports increased by 14.18 percent.

India's textile exports to the US, since the abolition of quotas in 2005 increased by an average of 18 percent on a year-on-year basis and apparel exports grew at an average of 21 percent. US' curbs on Chinese exports have not led to any additional gain for India. *(FE, 11.07.06)*

GRANITE Outreach Meetings

Outreach meetings under GRANITE project are held to share experiences, generate ideas and to mobilise different stakeholders. The main objective of these meetings is to gather existing perceptions of the grassroots people regarding issues relating to globalisation and WTO by bringing them to a common platform where they could share their present livelihood concerns and could identify the anti-poor impact of the existing policies.

Participants in these outreach meetings included farmers, farm labourers, handloom weavers, craft persons, artisans, representatives from cooperative societies and trade unions, self-help groups (SHGs), panchayati raj representatives and local media. All state partners in various districts of their states conducted these meetings. The meetings followed the methodology of interviews followed by focused group discussions (FGDs).

Karnataka

Fourth outreach meeting was held at Shimoga district, Karnataka, on July 31, 2006. Farmers were made aware and provided with inputs to face the consequences of globalisation. Farmers, in turn, spoke about the harmful effect of genetically modified (GM) crops and said that not only were they at a loss, but also the consumers. Agriculture has to be viewed as a profession and not as a family tradition in order to counter globalisation.

The farmers have to look at the positive aspects of WTO. The farming community should use Seed Bill and IPRs as an advantage rather than blaming globalisation. It was discussed that the local cooperative institutions should be strengthened and the government should extend full support to the farmers.

Weavers mentioned various problems related to the handloom sector like inadequate credit facilities, insufficient raw material, lack of training and capacity-building programmes, corruption prevalent in the cooperative societies, low wages and returns, dependence on moneylenders, lack of marketing facilities, lack of assistance from *panchayats* and non-existence of appropriate textiles policy. It was emphasised that the government should make the weavers aware of its policies so that they can reap the benefits in the proper manner.

Rajasthan

Sixth outreach meeting was held at Bharatpur district, Rajasthan, on August 25, 2006. Discussions were primarily on the production and marketing of oilseeds and related problems. It was emphasised that the production of oilseeds needs to be increased and the cost of production needs to be reduced otherwise the oilseed sector would face tough competition. Adulteration practices like mixing of palm oil with mustard oil and selling it at the rate of mustard oil was also clarified to the farmers.

The importance of Sanitary and Phyto-Sanitary (SPS) standards were provided to the farmers. Farmers mentioned problems like poor infrastructure, fear of adoption of new technologies, corruption, spurious seeds and fertilizers and failure to align with the government schemes.

Seventh outreach meeting was held at Barmer district, Rajasthan, on August 27, 2006. Discussions were made on:

- the weakened trade union movement in the handloom sector;
- inefficient labour laws;
- increase in unemployment and competition; and
- inability of handloom sector to face it.

West Bengal

Seventh outreach meeting was held at Purulia district, West Bengal, on September 07, 2006. Discussions were held on various local agricultural issues. It was highlighted that an adequate government support was required in the areas such as training on modern farming techniques, water harvesting, timely supply of fertilisers, flexible access of funds from banks etc.

It was discussed that the government should impart training on *Laksha* cultivation technique for the local farmers and should make the crop insurance facilities more people-friendly. Farmers highlighted the problems of inadequate water and fertiliser's supply, high prices of spraying machines, improper irrigation facilities, lack of storage facilities etc.

The problem related to the excess use of fertiliser was also stressed. It was mentioned that the farmers should have access to the System for Rice Intensification (SRI) technique and a campaign should be launched to popularise this scientific concept to raise the production. It was also recommended that the Integrated Pest Management (IPM) training should be provided adequately to the farmers.

SOURCES: BL: THE HINDU BUSINESS LINE; BS: BUSINESS STANDARD; ET: THE ECONOMIC TIMES; FE: THE FINANCIAL EXPRESS; TH: THE HINDU

Making Things *Happen* newsletter: Composed and Published by CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India, Ph: 91.141.228 2821, Fx: 91.141.228 2485 Email: citee@cuts.org, Website: www.cuts-citee.org. Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India.