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YOJANA

Let noble thoughts come to us from every side
Rig Veda

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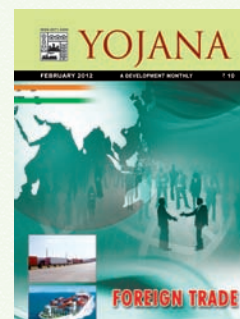
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About the Issue

From time immemorial, societies have prospered through trade and exchange of goods between far-flung areas and even between continents. In the modern day globalized world, global trade and exchanges have become inevitable. Countries are earning prosperity for their citizens by maximizing export of their products and minimizing the intake, i.e. imports. But as an emerging economy of the world, Indian foreign trade scenario is not very encouraging. India still has a very low percentage contribution in world trade. The second fastest growing country in GDP terms ranks 20th in merchandise export and 13th in merchandise import with only 1.44 percent share in total world export while import stands at 2.12 percent.



Higher import and lower export results in negative balance of trade and results in more outflow of the country's precious resources and fewer earnings in real terms. Therefore, for accelerating the pace of growth the balance of foreign trade needs to be reversed. This needs bolstering the manufacturing sector because only high quality domestically manufactured products, that too at internationally competitive cost can reduce imports and increase export of finished goods.

Exports are the main thrust of the India's trade policy. It is a core sector in the economic growth of the country. Here the focus remains on inducing foreign investors to set up export-oriented units in India. Today the challenge for India is to achieve a share in world trade commensurate with its size. Despite making great strides in its export growth with 20 percent plus growth continuously from 2002-03 to 2007-08, India has not made much progress in terms of the share in world trade. While India's exports were higher than those of China till 1954, they started lagging thereafter. In 1990 shares in world exports of China and India were 1.8 percent and 0.5 percent respectively and in 2009, their respective shares stood at 9.7 percent and 1.3 percent respectively. If India can attain at least half of China's share in world exports, the impact on its employment and manufacturing activity will be enormous. While trade policy measures, shift in focus to some markets and some products, trade facilitation, tariff reforms, etc. have helped in some measure, if India has to achieve a substantial share in world exports, a big push will be needed.

While India has diversified its export basket as well as export market over the years, substantial diversification in tune with world demand has not taken place. There are many items in the top 100 imports of the world where India's presence is negligible. India has become an active player in world trade negotiations and shaper of world trade policy, it is still a small player in world trade. While India is trying to gain markets and increase competitiveness in new areas it is losing markets in some traditional areas. To sum up while the potential for India in trade is great, the challenges are many.

This issue of Yojana has articles on different aspects of Indian trade, its policy and outlook, and the way forward. In this issue we also continue to bring to our readers articles on the Twelfth Plan. □

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YE-251/2012

Free Trade Agreements and India

*Bipul Chatterjee
Joseph George*



***The rapid growth
in world trade
during the past two
decades has been
achieved not only
by reduction in
trade restrictions
but also by the
transformation of
production patterns
and processes***

COUNTRIES ARE looking for opportunities to expand their export markets through free trade agreements. This has gathered momentum over the last two decades. The urgency for improving the economic fortunes of domestic stakeholders, whether producers, consumers or intermediaries, is stronger in the developing world, as their trade liberalisation policies are becoming more and linked with economic growth and poverty reduction strategies – two most important items of their development discourse. As of November 2011, the number of Free Trade Agreements (FTAs) notified under the World Trade Organisation has reached 505.

An FTA facilitates enforcement of legally binding commitments made by its member nations, either to sequentially reduce or completely eliminate various types of trade barriers facing each other, but keep

those facing non-member nations intact. Thus, FTA members gain an advantage in accessing each other's markets compared to non-members. The degree of coverage of barriers and traded sectors varies depending on the type of FTA formed. Most basic form is known as preferential trade agreements.

Mostly, signatories to an FTA belong to a specific geographical region. For example, the European Union (EU), the North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN) and therefore, they are also called Regional Trade Agreements (RTAs). RTAs are generally conceived as the first stage of deeper economic and even political integration between member states, which could graduate into customs union and monetary union, which give wider access and mobility to stakeholders within such unions with better prospects of raising their living standards.

The authors are Deputy Executive Director, CUTS International and Research Associate, CUTS Centre for International Trade, Economics & Environment, Jaipur respectively.

Motives and Merits of FTAs

A basic question addressed in the literature on trade agreements is whether multilateral agreements (such as those arrived by the WTO members) are superior to FTAs which are preferential by nature because of restriction of participation to a small set of countries. Multilateral trade liberalisation under the WTO is often considered as the first best option because non-discriminatory market access is granted to all member countries. On the other hand, preferential trade agreements stand the risk of diverting imports from more efficient producers outside a region to those enjoying preferences within a region.

To the extent that preferences granted under FTAs create barriers for non-members from entering markets within the free trade region, such agreements are in conflict with the basic principle of non-discrimination guiding the WTO system. This principle stipulates that if a country improves benefits for one of its trading partners, it has to give the same treatment to all other WTO members, so that they all remain most favoured. But the WTO system allows exceptions to this rule, permitting preferential agreements for the special needs and benefits of developing countries.

Thus, FTAs have proliferated and thrived across the world even as the membership and scope of the multilateral trading system has widened since the formation of the WTO in 1995. A number of alternative explanations exist to explain this duality. Relative ease of negotiations with smaller

membership compared to multilateral system, the motive of advancing trade policy reforms in stages, quicker way to increasing market size, a means to signal openness to foreign investors are some major factors which makes FTAs an attractive option. Governments may sign FTAs to lock-in their trade policy reforms and to weaken the chances of reversal of trade liberalisation policies at the national level. Relative easiness of negotiations also means that deeper levels of trade liberalisation, going beyond tariff reduction in goods to pursue the goals of enhancing cross-border investment and trade in services.

Furthermore, a number of political motives are attributed to the growth of FTAs. FTAs are often used as tool to reinforce diplomatic relationship between countries. Such agreements are entered into with the intention of pooling common resources, to ward-off external threat by showing regional solidarity, to increase collective bargaining power at the multilateral level, etc. For instance, many Latin American countries are observed to have entered into PTAs among themselves in order to improve their competitive position vis-à-vis the US. One of Argentina's key purposes to sign the South American Common Market Agreement (Mercosur) was to secure preferential access to the Brazilian wheat market at a time when Argentinian wheat exports were being threatened by Canadian and US export subsidies.

However, it is important to note that the multilateral trading system and FTAs function under the same guiding principles and share many common objectives.

The basic construct of reciprocity is the backbone of FTAs as well. FTAs are also often seen as building blocks of an eventual multilateral mode of globalisation by building links between them. Currently, there are negotiations between regional trading blocs, such as the European Union and Association of South East Asian Nations. Thus, FTAs are not just limited between two or three countries but are also extending between regional blocs consisting of several countries.

Indian Aspirations and Prospects

As one of the founding members of the General Agreement on Tariffs and Trade (GATT, 1947) and as a major player involved in its transformation into the WTO, India has contributed and benefitted immensely from the multilateral trade liberalisation process. Following the economic reforms which started in early 1990s, trade liberalisation has been actively pursued as a key strategy for accelerating growth and the country values its participation in the WTO process highly.

However, the slow rate of progress in multilateral trade negotiations and examples of success stories of FTAs elsewhere influenced India's reconsideration of prospects offered by preferential trade agreements. A turn in its trade policy outlook was necessary and by late 1990s the government started responding to it by actively seeking new avenues of preferential trade relations. The result was several FTAs and Comprehensive Economic Cooperation Agreements and many more are in the process of negotiations.

The basis of such initiatives is India's trade policy goals of fast expansion of export markets. The current foreign trade policy covering the period of 2009-14 aims to provide a stable and conducive environment for increasing exports. Some of its key objectives include 25 percent annual growth in exports by 2014, doubling of Indian share in global trade by 2020, improving export-related infrastructure, reducing transaction costs through trade facilitation measures, and securing enhanced market access, among others. It also aims for diversification of its export markets with focus on new markets like Africa, Latin America, Oceania and emerging Central Asian nations.

India's engagement in PTAs can be broadly divided into two phases. The first phase entails the formation of PTAs as a result of various political considerations and the prevailing international setting. Agreements that were formed on this basis include the India-Bhutan Treaty of 1949, the India-Nepal Friendship Treaty of 1950 and the Bangkok Agreement of 1975.

The second phase, starting from South Asian Preferential Trading Agreement in 1993, saw more focussed decisions on FTAs through a domestic consultation process with due consideration of potential economic gains. However, in the initial part of this phase, the consultation process was largely limited among the central government ministries and apex chambers of commerce. Gradually, other stakeholder groups are engaged in this process.

India's first new generation FTA, the India-Sri Lanka FTA, was signed in December 1998. Another important agreement is the

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. It is an important element in India's 'Look East' policy and was signed in February 2004. It marked the first instance of involvement of academia, business and the government in the form of a "group of experts" laying out the contours of negotiations and the Framework Agreement itself. India-Thailand FTA of 2003, India-Mercosur PTA of 2004, India-Singapore CECA of 2005 are some major arrangements which followed.

Since 2005, a number of proposals for trade agreements with non-traditional markets like Israel, several Central Asian and African countries etc. were mooted. An ongoing negotiation with EU is one of the most ambitious initiatives amongst these new proposals. One of the major achievements during this period is the long and hard-drawn FTA with ASEAN signed in 2009, the latest being a CECA with Malaysia signed in February 2011.

The history of India's negotiation of FTAs reveals that apart from an upturn in stakeholder involvement in the formulation of such agreements, there are developments along other lines. Most notably, prioritisation of economic benefits through FTAs by setting specific targets as well as efforts to strike a balance between economic as well as non-economic objectives show the high level of commitment and maturity the country has shown in its trade negotiations.

Moreover, a higher degree of employment of economic diplomacy in its neighbourhood is now evident. Continuing bilateral trade talks with Bangladesh, Nepal

and Pakistan and initiatives to rejuvenate the South Asian Free Trade Agreement are all positive signals indicating India's readiness to assume a larger role in regional prosperity.

Conclusions

The rapid growth in world trade during the past two decades has been achieved not only by reduction in trade restrictions but also by the transformation of production patterns and processes. The current global trend of specialisation and fragmentation of production processes is a result of access to efficient, reliable and low cost supply chains and other factors determining of competitiveness of firms as well as countries. Transport and other supply chain costs have been significantly reduced because of scale economies as trade grew and this has further inspired more trade and commerce.

Kick-starting this circular link of progress is an unavoidable prescription for all countries. If increasing dependency on FTAs worldwide is an indication that such agreements are a catalyst for progress, India cannot afford to neglect this global trend. Mutual dependency is both a necessity and a reality of today's world. Time has also come to acknowledge positive spin-offs from FTAs in the form of peace dividends at a time when divisiveness looms large as the most potent threat to global prosperity. At this juncture, the question facing emerging global leaders like India is not whether to pursue an FTA agenda or not, but how best to do it. □

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India's Foreign Trade Scenario

G Srinivasan



Physical exports from the SEZs have increased from Rs 2.21 lakh crore in 2009-10 to Rs 3.16 lakh crore in 2010-11, registering a hefty growth of 43 percent

THE COUNTRY'S foreign trade scenario at the end of the final year of the Eleventh Five-Year Plan (2007-12) appears to be well on course, though the wholesome high export growth the country compassed in the first half of the fiscal 20011-12 may not be repeated for the full year. This is because since October, 2011 the pace of double-digit heady export growth has perceptibly slowed down, due to multiple reasons, the most important of which remain the halting recovery in the case of the United States and no growth in the crisis-laden Euro zone since both of them still account for substantial chunk of the country's exports. Before a detailed analysis of the country's foreign trade picture is made, it would be appropriate to trace the performance of the export sector particularly in the aftermath of the global financial meltdown in 2008. In fact when every country in the world was hit by one way or

another of this world crisis, Indian authorities converted the challenge of the crisis into an opportunity to wean itself away from traditional markets and traditional products to experiment with the boldest policy initiative that it put in place in the five-year Foreign Trade Policy (FTP) for 2009-14.

As a corollary to the paradigm shift in foreign trade policy, exports in 2010-11 logged an unprecedented growth rate of 37.5 percent over the previous year. The export target of \$200 billion for that year was far exceeded with exports fetching \$245.86 billion, crossing way ahead of the target for the first time. Imports in that year stood at \$350.3 billion. Trade deficit which was \$118.40 billion in 2008-09 and \$109.62 billion in 2009-10 had come down to \$104.2 billion in 2010-11. This was rendered feasible primarily due to stability in policy, conscious bid to diversify products and markets and additional incentives to sectors affected

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adversely by global recession. This has also been complemented by due fillip for technological upgradation of export sector and through simplified procedures for exporters to cut down their transaction costs. Mention needs to be made of the two significant export promotion schemes that are essentially tailored to enable innovative entrepreneurs to explore new markets and products. The Focus Market Scheme (FMS) aims at diversification of markets covering 112 markets, while as many as 41 existing markets have been given additional one per cent duty credit scrip effective from April 1, 2011. With the objective to promote exports of products of high export intensity but which have a low penetration in identified countries, the Government unveiled a timely Market Linked Focus Product Scheme (MLFPS). Nearly 300 products from the ready-made garments sector were incentivized under MLFPS for further six months from October 2010 March 2011 for exports to 27 European Union countries.

The Government also meanwhile released a timely Task Force report on Transaction Cost to trade and industry which responded to issues raised by exporting community from the different line Ministries. The report envisaged implementation of 23 identified issues across seven different line Ministries of the Central government. The measures are likely to mitigate the transaction cost to the tune of Rs 2100 crores in perpetuity. Accordingly in a bid to make filing and issue of Import Export Code (IEC) hassle-free with minimum human interface between the trader and the regional offices of DGFT, an additional facility of

filing “online application” filing facility for obtaining IEC is made available on the DGFT’s website.

More recently, the Commerce Ministry laid out a draft strategy paper for more than doubling the country’s exports to \$500 billion. This strategy is so designed as to accelerate the growth of exports so as to keep the trade deficit within manageable bounds. The strategy is centred on four key elements which include (i) at first level, there is product strategy where clearly we need to build on the intrinsic strengths of our industry such as engineering and chemicals. (ii) Second pillar would be strategy of marked diversification as in the coming years the developed world is unlikely to see high growth and strong demand. There is a clear rebalancing of the global order under way and markets in Asia, Africa and Latin America will certainly have far greater potential. (iii) Third pillar of the strategy would be the support for technology and R & D and (iv) it is proposed to give a focused thrust in building a brand India which would need strengthening of quality enforcement regime through the Bureau of Indian Standards (BIS).

Meanwhile, the Government also intensified the concept of Special Economic Zones (SEZs) that were exclusively designed to offer a trouble-free and dedicated infrastructure amenities in the export enclave so that the exporters need not run from pillar to post to get many things done but instead focus on their core and sole goal of enhancing exports. It may be noted that India was one of the foremost in Asia to recognize the efficacy of the Export Processing Zone (EPZ) model in promoting exports, with

Asia’s first EPZ set up in Kandla way back in 1965. Seven more EPZs were set up subsequently. In order to entrench the concept of export enclave in a more durable fashion for ensuring enduring benefits to the economy, the Government brought the Special Economic Zone Act, 2005 which was enacted in February 2006 with supporting rules. Thus over and above seven Central Government SEZs which were the earlier EPZs and a dozen State/private sector SEZ set up prior to the SEZ Act 2005, as many as 582 fresh proposals had been cleared by the Government till November in a short span of less than seven years. Out of this, 383 SEZs have been notified in which as many as 148 SEZs have been already exporting.

Available official figures reveal that as on end-September 2011, SEZs have provided direct job to 7.33 lakh persons across the country. Physical exports from the SEZs have increased from Rs 2.21 lakh crore in 2009-10 to Rs 3.16 lakh crore in 2010-11, registering a hefty growth of 43 percent. In the first half of the current fiscal (April to September, 2011), exports from SEZs has been of the order of Rs 1.76 lakh crore, logging a growth of 26 percent over the exports of corresponding span of the fiscal year 2010-11. The aggregate investment in SEZs till end-September 2011 amounted to Rs 2.77 lakh crore, including Rs 2.58 lakh crore in the newly notified zones. It is also noteworthy that 100 percent foreign direct investment is allowed in SEZs through automatic route, enabling industrially advanced States like Gujarat, Tamil Nadu, Karnataka, Andhra Pradesh to

get one up with the rest of the country. The Commerce Ministry is fully conscious of this lop-sided growth in SEZs and in response to criticism of this and others like misuse of lands meant for export enclave, it has decided to revisit the rules of SEZs to make it more geographically spread and devoid of scope for any misuse as far as possible. In the wake of widespread criticism that lands meant for agriculture are being misused, it has also proposed to prune the area of multi-sector SEZs from the extant 5000 hectares to a reasonably modest level without compromising the benefits bestowed on the SEZs.

It is also revealing that studies done by the Commerce Ministry and independent visits to the SEZs by economists and media also highlighted how these zones have fostered a significant local area effect in terms of direct as well as indirect employment, emergence of new activities, change in

consumption pattern and social life with qualitative change in terms of ensuring basic education and primary health facilities.

Besides sound growth in merchandise exports in goods, India's trade in services too has been notching up notable growth in recent years, thanks to the successful information technology(IT) exports in general and outsourcing of jobs by Indian IT industry in particular to the highly service-centric western world. In 2010-11, India's services exports fetched a massive \$132 billion even as services imports took much of the earnings, leaving a small net surplus in this account to help supplement goods exports earnings.

In sum, mandarins managing the foreign trade issue of the country in the Ministry of Commerce are quite optimistic that the slowdown in exports noticeable from October 2011 would get reversed from the figures of January 2012 till the

end of the current fiscal, enabling the country to reach an export level of \$300 billion for the year 2011-12. With Indian rupee value decelerating, the export proceeds for the current fiscal would not turn out to less than \$300 billion, though the fortunes of the foreign trade front is uncertain for the next fiscal with global economic growth not exhibiting any discernible uptrend and the euro zone crisis still remaining a difficult nut to crack. Indian policy analysts are still quite hopeful that considering the fact that the rate of growth of exports which was minus 3.5 percent in 2009-10 and picked up to 40.4 percent in 2010-11 with first eight months of the current fiscal running at 33 percent in dollar terms, the short to medium term prospects for India's commercial engagement with the rest of the world would continue to be bright, barring any unexpected mishaps on the external sector. □

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Hallmarking of Gold made Mandatory

In a move aimed at protecting the interests of consumers and prevent frauds in sale of gold jewellery, the Union Cabinet recently approved the proposal to make hallmarking of gold mandatory. At present, hallmarking of gold is voluntary in nature. The move to hallmark gold will certainly provide value and authenticity to the jewellery bought by the consumers and amounts to purity certification of the yellow metal. The Bureau of Indian Standards (BIS), under the Consumer Affairs Ministry, is the administrative authority of hallmarking.

The Union Cabinet cleared the proposal by approving amendments to the Bureau of Indian Standards (BIS) Act, 1986, that aims to expand the ambit of mandatory hallmarking to include more products, including gold. The BIS (Amendment) Bill, will empower the government to bring in compulsory certification regime any article and/or process that it considers necessary from the point of view of health, safety, environment and prevention of deceptive practice. At present, about 77 items, including cement, mineral water and milk products, are certified through mandatory hallmarking under the BIS Act for conformity with expected quality levels. The BIS hallmark bestows on the consumer additional confidence on the quality of products such as gold jewellery.

Besides mandatory hallmarking, the amendments moved by the Consumer Affairs Ministry sought to introduce registration of relevant standards as an alternative mechanism to the compulsory certification regime to facilitate growth of sunrise sectors and protect consumers from spurious and substandard imports. It also aims to strengthen the penal provision for better and effective compliance. □

DO YOU KNOW?

SPECIAL ECONOMIC ZONES

What is the policy regulating Special Economic Zones?

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

What are the objectives of SEZ Act?

The main objectives of the SEZ Act are:

- (a) generation of additional economic activity
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities;

What is the Approval mechanism and Administrative set up of SEZs?

The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval.

The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus.

What are the Incentives and facilities offered to the SEZs ?

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment are as under :-

Duty free import/domestic procurement of goods for

development, operation and maintenance of SEZ units

- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/ excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).



Agricultural Products Exports in India

Sandip Das



For boosting agricultural products exports further, the government's thrust is on Good Agricultural Practice standard for ensuring that Indian food products are accepted by consumers across the supermarket in Europe, USA and other developing countries

INDIA IS the world's largest producer across a range of commodities due to its favourable agro-climatic conditions and rich natural resource base.

India is the world's biggest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper.

It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

Being a critical sector of the economy, agriculture does provide direct employment to about 60 percent of working population in the country and also forms the basis of vital industries including the textile, jute, and sugar industries. Agriculture and allied sector contribute about 17 percent to GDP and about 25 percent of India's cumulative exports belong to agricultural products category.

Realising the importance of high value food products exports from the country, the government back in 1985 had set up a specialized body - Agricultural and Processed Food Products Export Development Authority (APEDA) through an Act of Parliament which functions under the commerce ministry. In the initial years, the focus was to support the exporters in areas of marketing and packaging and training and identify key thrust areas for exports. Some of the key areas identified were meat, fruits and vegetables, basmati rice, guar gum etc.

Since mid 1990s, with WTO regime and globalization, issues such as phytosanitary or sanitary norms, market access, non-tariff barrier become quite prevalent in the global trade. Besides, Hazard Analysis Critical Control Point (HACCP) also became quite prevalent in global market which concerns food safety. The government

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had to scale up its operations for meeting the stringent quality standards of the food products from the importing countries. "From undertaking feasibility studies to setting up industries which adhere to international standards spanning 14 products categories which include fruits and vegetables, dairy and poultry products, floriculture and cereals, the government had been playing a key role in pushing up exports," Asit Tripathy, Chairman, APEDA said.

From a small beginning of the exports worth of only Rs 582 crore during 1986 - 87, country's agricultural and processed food exports from APEDA basket has grown manifold to Rs 40,242 crore during 2010-11. In this fiscal as well, the exports are anticipated to rise further. However besides APEDA, there are agencies like Spices Board, Coconut Development Board, Tobacco Board, Coffee Board, Rubber Board also contributing substantially to country's agricultural exports.

Basmati : the key driver

One of the key factors in growth in exports from the APEDA basket during last one decade is Basmati rice, an aromatic premium rice mainly grown in Punjab, Haryana and parts of Uttar Pradesh. Due to huge success mainly because of initiative taken by the government for brand promotion of Basmati in key markets such as Gulf countries mainly Saudi Arabia and Iran, Europe and United States, the volume of exports of Basmati rice have gone up to 2 million tonne during 20010-11 from a level

of half million tonne a decade back. In value terms, the basmati rice exports have gone up to Rs 10,578 crore during 2010-11 from Rs 2,792 crore achieved during 2006-7. Till India imposed restriction on non-basmati rice exports in 2008, the annual exports earnings from this segment of exports was close to Rs 8000 crore. Substantial financial resources are allocated annually for protection and promotion of Basmati rice as geographical indication in India and abroad. A world wide watch agency had been appointed to monitor the trade mark registers across the globe for any third party attempted registration of the name – Basmati.

Traceability

With most of the importing countries following stringent sanitary and phytosanitary regulations and quality standards, APEDA initiated Grapenet in 2006-07 as a first of its initiative in the country in the fresh fruits sector which replaced the earlier system of monitoring pesticide residue which was supported by all the stake holders. This software system integrated all stakeholders in the supply chain of grapes export, such as farmers, horticulture department, testing laboratories etc. With the success of Grapenet, similar steps were taken in monitoring pesticide residue in grapes, pomegranates, groundnuts and organic products.

With the demand for more stringent certification growing in Europe and other importing countries, the government is setting up a traceability system for all horticulture products exported

from India. The traceability system for grapes, pomegranates, groundnut and organic products would be integrated into the new system.

For promoting high value mango exports to United States and Europe, an irradiation facility at Bhabha Atomic Research Centre (BARC) at Lasalgaon, Nashik was set up with the assistance of Apeda. Lasalgaon facility can handle 500 tonnes of mangoes annually. All these measures have resulted in Indian mangoes commanding better price in last few years.

For boosting agricultural products exports further, the government's thrust is on Good Agricultural Practice (GAP) standard for ensuring that Indian food products are accepted by consumers across the supermarket in Europe, USA and other developing countries.

Rising meat exports

The exports of frozen meat exports has been rising steadily during the last few year. Because of various safety measures initiated by the government the exports has risen from Rs 3279 crore of meat export achieved during 2006-7, to Rs 6285 crore during last fiscal.

Despite lack of harmonization of Minimum Residue Levels (MRL) across European Union, the exports of fruits and vegetables have been growing northwards with an annual growth of more than 20 percent during last four years.

The annual exports had been to the tune of Rs 3200 crore.

Organic products

A decade after launching the National Programme for Organic Production (NPOP) to export green products from India, a comprehensive web-based traceability software named 'Trace Net' to trace operations from farms to consumers online had been launched last year. 'Trace Net' software is expected to boost the existing certification system for the export of organic products.

The system would help us in maintaining authentic and updated production, certification and export data of organic products online. The European Commission and the US, key export destinations for country's organic product, recognise NPOP standards, due to stringent standards in place.

India is the first Asian country to get recognition from EU and Switzerland for equivalence and by US for conformity assessment.

All these measures would certainly help India achieving exports of organic food worth \$1 billion in the next five years with its produce receiving wide acceptance in many mature markets of the US and Europe.

Opportunity for expansion

With substantial rise in exports of agricultural products during last five years, the government is aiming at increasing exports to reach close to Rs 1 lakh crore during next five years. In the last five years, APEDA monitored exports in the developed world rose by 35 percent, which were growing at 20 percent before 2003-2004 and if such momentum

is maintained there would be significant rise in total volume of exports when APEDA turns 30 during next five years.

Although India exports products from the APEDA basket to 80 countries, the country's, share in the global trade of agri processed products is only about 1.6 percent. Only about 15 countries including Saudi Arabia, United Arab Emirates, United Kingdom, Bangladesh, South Africa etc accounts for more than 63 percent of the country's export of fruits, vegetables and other agri products. This calls for significant market expansion drive from the export promotion body.

Spices

Besides the exports from the APEDA basket, spices exports have registered substantial growth during the last five years, registering an annual average growth rate of 21 percent in value and 8 percent in volume. During the year

2010-11, spices export from India has registered an all time high both in terms of quantity and value. Most of the spices

exports include pepper, cardamom, chilli, ginger, tamarind, coriander, cummin seeds etc.

In 2010-11, the export of spices from India has been 525,750 tonnes valued at Rs 6840 crores as against 502,750 tonnes valued Rs.5560.50 crore in 2009-10, registering an increase of 5 percent in volume. India commands a formidable position in the World Spice Trade with 48 percent share in volume and 44 percent in value.

Coffee

According to Coffee Board officials, the exports are recording encouraging in the recent years. Between 2006-07 and 2010-11, coffee exports recorded a growth of 2.27 percent per annum in volume terms. Also, export earnings registered a higher growth rate of 10.62 percent. Unit value realisation (R/kg) also showed an 8.1 percent growth rate per annum during the period. Coffee exports reached highest-ever figure during 2010-11, both in volume terms. (2,94,362 tonne) and value terms (Rs 3,305.32 crore). The current year is also seeing a promising growth where export permits for the period from April to November have touched 228,578 tonne valued at Rs 3139.58 crore.

Tobacco

Tobacco's contributions to the national economy is staggering as the government earned central excise revenue by selling cigarettes to the tune of Rs 13,500 crore and foreign exchange of Rs 4,163 crore from exports of tobacco and tobacco products during 2010-11. □

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Table : 1		
APEDA exports trend during five years		
Year	Exports (in crores)	% change
2010-11	Rs 40, 242	15.5%
2009-10	Rs 34,825	- 4 %
2008-9	Rs 36,294	13.88%
2007-8	Rs 31,870	46%
2006-7	Rs 21, 805	16%
2005-6	Rs 18,782	

Source: APEDA

SUGGESTIONS FOR THE TWELFTH PLAN

Mohan Dharja

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ATER AND Food Security

According to eminent international experts, it has been envisaged that developing countries like India will have to severely face scarcity of water and food during the next 50 years. Millions of people may starve and die due to such scarcity.

India gets nearly 400 MMH water mainly from rains every year and 50 percent of lands are degraded or wastelands. Besides, present productivity of food grains or crops per ha, milk or fats per animal is too low. Though India has invested thousands of crores of rupees on construction of big, medium or minor dams, India has not been able to harvest even 10 percent of water showered by Nature. By conserving every drop of water whenever and wherever it rains, it is possible to take adequate care of water for drinking and for bringing most of the huge waste lands under some culture from various types of grasses to food grains, fruits, vegetables etc. Besides, this with the use of new developed technology, present productivity of lands per ha, per animal or birds, may further add to the growth rate which could be considerably increased. Of course, this calls for scientific micro watershed development programme in the vicinity of all six lakh villages in the country.

Health for all

India should adopt Integrated Medicinal System instead of relying only on "Allopathy". Indian Ayurveda, Unani and Siddha have tremendous potential to take care of most of the minor ailments.

Through Ayurveda, Unani or Siddha System, low cost medicines could be used for minor ailments like - fever, cold, cough, indigestion etc. Our great traditional system should not be victim to the costly allopathic system at least for minor diseases or ailments.

The Planning Commission should recognize the research made by Allopathic scientists. It is equally possible to undertake such research for our traditional indigenous systems to scientifically establish their credibility, and provide health to all at far lesser costs.

Shelter

Though few thousand houses are constructed for the poor every year, compared to vast requirement they are too inadequate. Besides, the cost of construction is unaffordable. Planning Commission could advise to develop a programme of massive Bamboo plantation along with teak, poplar or other straight growing trees. Like North Eastern States, Bamboo plantation should be encouraged in all states. Regenerating natural species including teak, poplar or bamboo and such other species could take care of the shelters required for housing, storage or cowsheds. Instead of thinking of next hundreds of years, we plan just to meet the immediate need.

Employment to All

India has accepted "Free Market Economy" policy since 1991. Growth rate has no doubt gone up to 9 percent. However, during the same period more than 2 million people have become jobless alone from the Corporate Sector. Besides,

lakhs of small scale units (SSI) in state owned Industrial Development Corporation areas had been forced to close their establishments. Huge unemployment created by this situation has resulted in unrest among the people. Having regard to the serious problem of unemployment, it is necessary to give more emphasis on the growth of small scale and cottage industries. Indian Handicraft industry and its products have great demand in foreign markets. Our handicraft industry could not only generate employment opportunities, but also earn considerable foreign exchange. Agro-based processing industries are also of equal relevance. Unfortunately not even 2 percent of agro-based produce is being processed, as there is no encouragement from the Government. Planning Commission should insist on small scale and cottage industries along with our huge handicraft sector having tremendous potential to generate new assets and employment opportunities. Plan for Inclusive Growth has no relevance, if it fails in providing employment to millions of people and in improving their quality of life, along with all possible care to preserve our agri-produce.

Art, Culture and Sports

Till 5th Five Year Plan the word "Sport" was not even mentioned in earlier Plan Documents. While I was Minister for Planning, when 5th Five Year Plan was under preparation, I insisted to provide adequate funds for sports. After great efforts an amount of Rs. 100 crore was provided in the Plan Document. India has a long

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tradition of culture in various areas. India has always excelled in handicrafts, painting, carving and sculpture. In cricket or tennis, India has exhibited its strength. However, minimal provisions are made for Indian Games and Athletics. Along with economic and military power, Individual or group skills in art, culture and sport of any country, always add to international reputation in the world. Planning Commission should insist on the Government to provide adequate funds to develop skills in Art, Culture and Sports.

Protection to Environment and afforestation

It has been revealed that environment of the country has been deteriorating very fast. Explosion of population, unplanned urbanization, random industrialization, degradation of forest and cutting of trees of valuable species have done great and irreparable great loss to our environment. To save environment massive afforestation all over the country is unavoidable. It has been proved that trees around the fields or farms add to the production of food grains and other agri-produce. Apiculture could also play a vital role in adding to our agri-produce. More than 60 percent of our people live in rural areas. Our agri-produce could considerably and substantially add to Economic Growth Rate.

Joint Forestry Management (JFM) has been accepted by the Government. It has shown some good results. Without peoples' whole-hearted participation including local "*Adivasis*", it is not possible to protect our forests or to enhance the green cover. 12th Five Year Plan emphasizes on this important aspect.

Cooperatives and Public Distribution System (PDS)

Planning Commission believes

that PDS must be strengthened. Network of PDS will be able to give remunerative price to the producer and also to distribute the essential articles and commodities to a Common Man at reasonable price. In this context, Cooperative Movement could play a vital role. Country cannot forget that India ranks as the "Number One Milk and Sugar producer country" mainly because of cooperative network. To effectively run Cooperatives, well-trained and qualified Executives are essential. Simultaneously training of the staff at the lower level has to be introduced by using Information Technology (IT). National Cooperative Union of India (NCUI) should be strengthened in this regard to fulfill this important task. In the United States of America (USA), apex cooperatives play a significant role in advising the farmers about production required by the country and the world. In Scandinavian countries, nearly 80 percent of the trade is controlled by cooperatives. This approach is far more relevant in India for the success of Inclusive Growth.

There is a demand since years that a separate University for "Cooperatives" should be set up to impart education to all those who are engaged in the Cooperative Sector.

Energy

Energy is an essential element for progress and prosperity of the country. However Tsunami tragedy in Japan has taught us a lesson that in view of the hazardous consequences, proper scrutiny should be held before installation of Atomic Energy Projects. This is equally applicable for installation of "Jaitapur Project" in Maharashtra State. Government should immediately review the situation. Simultaneously India should not rule out non-conventional energy that may be generated from sun,

wind, bio-mass and waves of the oceans along the 7,000 kms of sea-shore of our country. In stead of centralized system of supplying energy, it is advisable to generate energy in every village or in cluster of villages through production of non-conventional energy. This will not only save transitional losses but with new Research & Development, it is possible to generate adequate energy in every village. If centralized grid fails, vast area badly suffers for want of energy. Therefore, to accept decentralized production of energy is far more advisable.

Through sustained research, it has been assessed that India may require ten times more energy than it is being generated today. It is possible to take care of required energy mostly through the usage of non-conventional energy.

Bio-diesel

Our country is dependent on crude oil from foreign countries. Huge expenditure has to be incurred to import crude oil. People suffer because of fluctuations in the crude oil prices. It is high time that India should become self-reliant through other alternative methods. Bio-diesel through various species could be produced in our country. To meet this need to a large extent, massive programme should be launched to plant oil producing species as per local climatic conditions.

Trained Skilled Manpower

Far more trained skilled manpower is required for the development of the country. Planning Commission should insist for Special Vocational (Skill Development) University to develop inherent skills with branches spread all over the country. This could also be a source of earning Foreign Exchange from various countries. □


J&K WINDOW

BOOST TO TOURISM IN THE VALLEY

The year 2011 gave Jammu and Kashmir more than a million reasons to reclaim pride of place on India's tourism map. The number of sightseers to the once trouble-torn state crossed a record 10 lakh and the upswing is because of a massive 60 per cent annual dip in violence in the state. Militancy-related incidents are now at their lowest in 22 years. Around 4.46 lakh travellers flocked to Jammu and Kashmir in 2008 and the corresponding figure for 2009 was 4.75 lakh. In 2010, the state pulled off a late revival with 5.75 lakh tourists despite the ugly violence triggered by stone-pelting protests during the summer.

Home ministry officials claimed the positive trend was evidence that terrorism and security were no longer issues which thwarted tourism in India. Both J& K and the Northeast, that are standard 'avoid travel' zones in advisories issued by countries such as the US, UK, Australia, Canada and New Zealand, witnessed a spurt in tourist arrivals in 2011. A ministry of external affairs report revealed that the visas issued by Indian missions in such foreign countries did not indicate a major drop in the number of tourists because of the advisories.

Gulmarg, Srinagar and Leh remained the biggest draws for sightseers in the year gone by. In Gulmarg, a chairlift built by French firm Pomagalski became a new attraction after Jammu and Kashmir Chief Minister Omar Abdullah inaugurated it earlier just ahead of the winter. The chairlift has 90 seats that can carry four persons each. It can cover a distance of 498 metres vertically and 1.6 km horizontally in 11 minutes.


The existing gondola cable car ride in Gulmarg, which is run by the Jammu and Kashmir Cable Car Corporation, has earned record revenue of over Rs 10 crore in 2011. It offers a 5-km ride to the highest lift served ski-resort in the world and provides panoramic views of the snow-clad Valley. Domestic tourists going to Jammu and Kashmir in 2011 were mostly from West Bengal, Maharashtra and Gujarat, while the majority of the foreign tourists belonged to Southeast Asia and Japan. 

JOB PLAN FOR KASHMIRI YOUTH

Union Minister for Environment and Forests Jairam Ramesh recently announced that over one lakh youths of Kashmir valley would be appointed in leading national and multi national companies since it was recommended by a committee, appointed by the Prime Minister recently. The Union Minister maintained that over the coming few years, one lakh new jobs would be created for the unemployed youths to work outside in national and multi national companies.

He said the youths would be absorbed in various companies located at Chandigarh, New Delhi and Simla and efforts are also on to appoint the youth in Srinagar and Jammu. However, the minister said that state government has to set up appropriate infrastructure where the youths would get appointed. The youths would get employment in leading insurance, hotel, retail business and call centers and it would provide them best possible place to explore.

It is not only that youths are being appointed, we will keep watch on the implementation and success of the scheme so that it would achieve the desired target,' the minister said. That apart from one lakh unemployed youths, a special job package has also been framed for the Kashmiris. Under the new scheme Udan, 4,000 youths would also be appointed outside state. It would be exclusively for the graduates and professionals only. Under this scheme, the educated youths would also get benefit to explore their potential outside.

Jobs given to educated women of the state was a big challenge to the government. The most encouraging is that some parents are allowing their children to work abroad to earn name and fame. But there is still a majority who did not permit their children to work outside. To provide jobs to such a section of the society, necessary infrastructure is needed to be created. 

Indian Handicraft Industry

Vijay Thakur



To address this issue, government has already started a complete census of the handicraft artisans covering 20 percent of the district giving due representation to all major crafts

INDIAN HANDICRAFT sector, one of the largest employment generating sectors in rural and semi-rural India, is passing through a very critical phase for the past four years. Instead of registering any noticeable growth, country's export has come down from Rs 17,288 crore in 2006-07 to the expected export of Rs 10,533 crores for the year 2010-11.

Interestingly, in 2006-07, the sector was projected to cross Rs 30,000 crore by 2010, but today it is lagging behind more than 66 percent from its projected target. Though one of the main reasons for the decline was global meltdown in 2008, experts from the Handicraft sector had not imagined that the situation would turn so worse and would take so long to return to its normal stage.

The sector, which generates employment to about 70 lakh poor artisans from rural India, is apparently losing its sheen in the

International market. It is still struggling to come out of the 2008 global meltdown that has virtually reduced its export revenue to half.

In 2006-07 when country's handicraft export was at its peak (Rs 17,288 crore), government had projected the handicraft sector would touch Rs 30,000 crore in next four years. Today forget the projections, the sector has not been able to meet its 2006-07 export records.

Other than the bleak global scenario, Indian Handicraft Industry is plagued with many factors that are hampering its growth. Government has taken various steps to boost up export, however, it still requires a deep analysis and immediate support to artisans to promote the art of their native areas.

While India's cultural diversity provides for a rich variety of handicraft, it lacks in adequate infrastructure, innovation in product designing, making art wares compatible to world demand,

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and awareness of global trends. All these factors are bringing slow growth in the industry.

Indian Handicraft Industry

Handicraft sector in India is highly labour intensive cottage based industry spread in almost all parts of the country primarily in rural areas. It generates maximum number of employment in rural India after agriculture.

Besides providing the highest number of employment opportunity in rural India after agriculture, the sector has played a significant role in country's economy as handicraft industry requires low capital investment and promises high return.

Because of diversity and cultural richness in India, It has great potential and holds the key for sustaining the rural artisans, a majority of whom belong to backward communities. It also contributes substantially to Exports and earns foreign exchange for the country.

At the time of independence country's export was almost negligible—mere Rs 10 crores in mid-fifties and little heed were paid to the Handicraft exports till eighties. In 1986-87 government established Export Promotion Council for Handicrafts (EPCH) under the EXIM Policy and this was the beginning of exponential growth in the sector.

The EPCH members grew from 35 in 1986-87 to over 3769 in 1990-91 and country's export in the fiscal year 1990-91 crossed Rs 1220 crore.

Thereafter it never looked back. Centre and state government realized the growing opportunity for Indian handicraft in global

market and initiated several steps to promote Indian handicrafts abroad. It continued to grow steadily and touched its peak in Rs 17,288 crore in 2006-07.

India's Share In World Handicraft Industry

Though handicraft sector in India is a more than Rs 10,000 crore industry and provides employment to about 70 million people, its share in the global market is negligible—not even two percent of the world export trade of about USD 230 billion.

The sector is already relying on countries like US, UK, Germany, France, Japan, Saudi Arabia, Canada and Italy—which are the major handicraft export destinations for India. But demands in these countries have either reached a saturation point or it is decreasing.

The required emphasis is not laid to the global emerging markets mainly Latin American, CIS, Australia and African countries that has shown a positive growth rate in the past one decade.

So much so, if one compares India's handicraft exports with small countries like Bangladesh, Pakistan, and Srilanka—the situation is not encouraging. Countries like China, which has far less variety

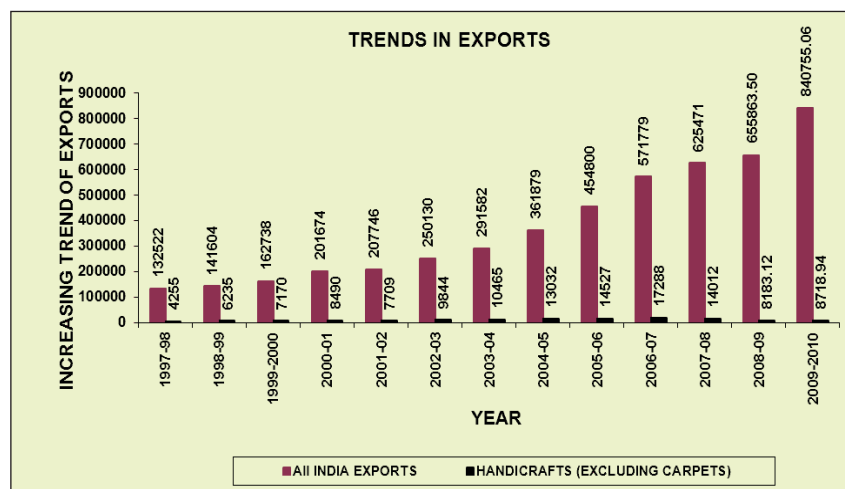
and cultural richness, are exporting more than double of what India is trading in the International market. According to a rough estimate China's share would continue to grow exponentially due to its high production capacity and low labour cost.

If experts of the industry are to be believed, India has tremendous scope and opportunity to become world's leading player in the Handicraft sector. "We have everything which is needed for handicraft.

Low cost labour, cultural heritage, highly skilled craftsman, rich diversity, and a large number of tradition arts—only a part of which is exposed to the world. Need of the hour is to promote the virgin arts, explore new areas and its arts and show it to the world...rest the market would do itself," says Mr Navaratan Samadaria—father of Indian Handicraft Industry who chaired EPCH for more than a decade and was instrumental in starting world's one of the largest handicraft B2B fair in India in ninties.

The Real Challenge

Ever since export of Indian Handicraft industry started, the emphasis was always in certain



areas, and Indian handicraft export mostly remained confined to North Indian states mainly Rajasthan, Gujarat, and Uttar Pradesh. In its report sometimes, the National Council for Applied Economic Research, 29 percent of artisans are from Uttar Pradesh, 13 percent from Gujarat and Rajasthan, and 43 percent are from Eastern India. This means that remaining 15 percent of country's handicraft is coming out from the remaining states.

This suggests the hidden potential of other states which is yet to be explored. Though some other states also exporting its art wares, a major part of the arts of these states remained unexposed to the outside world. There are many factors which Central government and respective state governments should focus on. These virgin arts should be selected by the respective government and train its artisans on product pricing, making art contemporary, reducing production timing and enhancing its volume—so as to promote export of these products.

Though government is already exhibiting such arts in international fairs, it has made little impact on the arts and artisans.

Two major reasons for the decline of some craft segments are decline in the demand for traditional articles of consumption and reduced availability of raw materials. These gaps can be filled only through introducing new innovative art wares and using other raw materials.

Here government's role come into picture, authorities concerned should take up the challenge of training and updating the uneducated skilled artisans of the international

trend and importance of innovation in their products.

Availability of skilled artisans is another problem this sector is facing. According to government estimate, employment in this sector in 1997-98 was 52.92 lakhs, which became 58.41 in 2001-2002 and 65.72 lakhs in 2005-06. An NCAER survey of 1995-96 revealed that 47.42 percent of the workforce engaged in the Handicraft industry are women of which 37.11 percent are coming under the backward communities mainly SC/ST and OBCs. Unfortunately, the skilled workforce of artisans are not increasing as per the required demands. Even there are reports that after 2008 global meltdown some skilled artisans are switching to other professions as they were not getting attractive remunerations. This no doubt is a serious cause of concern for the entire industry as skilled hand of the Indian craftsmen is its most important and yet most invisible resource. Once we lose these artisans it would take ages to replace it.

Government Intervention

Although India adapted to liberalization policies in early nineties, the handicrafts sector continued to get state intervention. Handicrafts being a state subject defined in our constitution, the development and promotion of crafts are the responsibility of the respective state governments. The Central government through various development schemes plays the role by supplementing their efforts.

The Development Commissioner, Handicraft, claims that government has already initiated many steps and schemes to revive

the sector. "After the meltdown the sector is recovering at the rate of 20 percent for the past two years. We are looking for new markets mainly Latin American countries, Eastern Europe and Middle Eastern countries which had little impact of recession, and the results are showing up," says Mr S S Gupta, Development Commissioner (Handicraft).

Besides government has also proposed various new schemes in the 12 five year plan. "To development infrastructure, we have proposed Handicraft parks, Handicraft villages and to enhance skilled labour we have proposed Handicrafts schools and Universities and other special schemes to upgrade their skills. We are concentrating on quality and design aspects also, trying to introduce new technology and upgrade the existing skill manpower," Mr Gupta said.

There are already over a dozen existing schemes including Baba Saheb Ambedkar Hastship Vikas Yojana, marketing Support and Service Scheme, Design and Technology Upgradation Scheme, Export Promotion Scheme, Research and Development Scheme, training and Extension scheme, and Bima Yojana for Handicrafts Artisans. However, not all the schemes have percolated down to all artisans. The biggest problem while implementing the development schemes is the lack of proper knowledge on handicraft units and number of artisans. To address this issue, government has already started a complete census of the handicraft artisans covering 20 percent of the district giving due representation to all major crafts, the Development Commission adds. □

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Influence of FDI on Retail Sector

*S Jayadev
Bino Joy
Sijusebastian*



Retail sector has emerged as one of the most appealing investment areas for domestic as well as foreign investors. And this high growth curve owes some credit to a booming economy and liberalized Foreign Direct Investments

LIBERALIZATION OF economy has opened new outlook for the development of FDI in the Indian perspective.

The introduction of foreign capital by the investors has been successful in bridging over the gap between requirement of retailers and retail sector. The merit is that customers of almost all branded categories appear satisfied with the quality of services made available to them. A paramount priority to the changing expectations of customers and an equivalent tailoring of financing inputs in tune with the changing business environment have awfully been helpful in increasing the market share of the investors. A transcendental priority to creativity while developing the financial resources has considerably helped them in sensitizing the impulse of prospects. The present study highlights the role of FDI in the retail sector in India.

Perceptions and policies with regard to the role of foreign capital in the process of industrial and overall growth have changed in India since the beginning of economic planning. The Government, has recently introduced a number of policy measures to attract foreign investment and various organized efforts are being made to convince foreign investors namely individual, institutional and corporate that India is a good investment risk or a good market place and that they would be provided all help, facilities, concessions, incentives if they design to invest in India. In 1990s we saw a rapid and widespread move by governments round the world to involve the private sector in the provision and financing of different ventures. Seeking private funds and managerial expertise to meet rapidly growing demands of the economy at an

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affordable cost is indeed, the need of the hour. Increasing the level of inflow of FDI into the country is one of the main objectives of the Government's economic development strategy. In order to achieve the goal, the Government is also committed to putting in place appropriate institutional arrangements and transparent rules, procedures and guideline for investment promotion and for considering and approving the proposals of FDI.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is the investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.

Rationale of FDI in India

Foreign direct investment can have both positive and negative consequences, but on balance the positive effects outweigh the negatives. Governments in developing countries perceive FDI as a key source of economic development. The growth of FDI in India will boost the economic growth of the country. Rationale of FDI in India have been in terms of –

1. It helps to relax the domestic savings constraints.
2. It helps to overcome the foreign exchange barrier thereby increases capital flow.
3. It provides access to the superior technology, superior managerial skills and bigger markets.
4. It provides risk-sharing capital financing.
5. It furnishes the funds needed for the full utilization of the existing production capacity.
6. It promotes efficiency and productivity through international competition of superior quality products.
7. A remarkable inflow of FDI in various industrial units in India will boost the economic life of our country.

8. It can also ensure a number of employment opportunities by aiding the setting up of industrial units in various corners of India.
9. FDI apparently helps in the outsourcing of knowledge from India especially in the IT sector.

The following table clearly shows the flow of FDI in various years as a result of the keen interest taken by the Government.

From the table it is evident that FDI in Indian soil is on increase at a faster growth rate over the previous period.

Why is FDI engrossed in retail sector?

A retail sector is one that sells the produce to the consumers. In simple words, they form as the intermediates to the producers and consumers. They make profit in the process and maintain the supply and demand in the society. It is defined as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer

Cumulative FDI Inflows (Equity Capital Components Only)

items	1991-2005	2005-2010	2010-2011	Total
Cumulative amount of FDI inflows	136798 Cr	529646Cr	111298 Cr	640944Cr
	US\$33356 million.	US\$86333 million.	US\$59986 million.	US146319\$million

Source: Compiled from the official website of Ministry of Commerce and Industry

is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. With a contribution of 14 percent to the national GDP and employing 9 percent of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

The retail industry is mainly divided into: - 1) Organised and 2) Unorganised Retailing.

Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. E.g.: RPG Group, Tata Group, Reliance Retail Group (RRL), Vishal Group etc.

Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

The Indian retail sector is highly fragmented with 94.5 percent of its business being run by the unorganized retailers. The organized retail however is at a very budding stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 14 percent of India's GDP. The

following table clearly shows the distribution of retail trade in organised sector and unorganized sector in India and Southeast Asian countries.

Retail Trade in India & Southeast Asian Countries

Country	Organised Retail sector (%)	Un organised Retail sector (%)
India	5.5	94.5
South Korea	15	85
China	20	80
Indonesia	25	75
Thailand	40	60
Malaysia	50	50

Source: CRISIL

Organised retail in India is infancy stage, as it is evident from the table. India's figure is low even in comparison with other Asian developing economies like China, Thailand, South Korea and Philippines all of whom have figures hovering around the 20-25 percent mark.

Similarly by considering the employment potentiality of this vital sector, the trend is not heartening. A simple glance at the employment numbers is enough to paint a good picture of the relative sizes of these two forms of trade in India. Organised trade employs roughly 5 lakh people whereas the unorganized retail trade employs nearly 3.95 crores. The following table gives the picture of share of retailing in employment across different countries.

Share of retailing in employment across different countries

Country	Percentage of share in Employment
India	9
China	19
USA	24
Poland	16
Brazil	19

Source: CRISIL

In this context it is inevitable to tap the unutilized resources from the organised retail sector. As a result new dynamics have to be involved in Indian soil with the brawny concern of the Government. This is possible only through the active support from the part of Government and its policy decisions. India's retail sector is now taking new innovative styles, because of its growing peak. Traditional markets are making way for new formats such as departmental stores, hyper markets, super markets and specialty stores. Western style malls have begun appearing in metros and urban cities with the scaffolding of Foreign Direct Investment. FDI is now recognized as an important driver of growth in the country. India is now ushering in second generation reforms aimed at further and faster integration of Indian economy with the global economy. As a result of various policy initiatives taken, India has been rapidly changing from a restrictive version to a liberal one and FDI is encouraged in almost all the economic activities under the automatic route.

From the table it is clear that in all major sectors of our economy the investment in FDI is on

Major Sectors Attracting Highest FDI Inflows in India

Sector	2002-'03 to 2005-'06	2006-'07 to 2009-'10	Cum.Total	Growth Rate
Electronics including computer software	23709 Crore	27597 Crore	51306 Crore	1.16
Telecommunication	14337 Crore	30427 Crore	44764 Crore	2.12
Financial and Non financial sector	12804 Crore	93121 Crore	105925 Crore	7.28
Power and Oil Refinery	10976 Crore	11146 Crore	22122 Crore	1.02
Transportation Industry	13315 Crore	13859 Crore	27174 Crore	1.04

Source: Compiled from the official website of Ministry of Commerce and Industry

increase. The highest growth rate was in financial and non financial sector, followed to this; it is in the telecommunication sector.

India now can be acknowledged as the one of the fastest growing economy in the world and in this current economic status; retail sector has emerged as one of the most appealing investment areas for domestic as well as foreign investors. And this high growth curve owes some credit to a booming economy and liberalized Foreign Direct Investments (FDI) regime in the retail sector. This liberalization act cleared the path for foreign direct investment to meet the demand in the organised retail sector to a great extend. It has also encouraged several large financial firms and private equity

funds to launch exclusive funds in targeting the Indian retail sector. The table depicts the relative share of top investing countries in our soil in tune with FDI inflows.

Retail Trading (except Single Brand product), Atomic Energy Lottery, Business like Gambling and Betting, Business Chit Fund, Nidhi Company, Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. Housing and Real Estate business (except development of townships, construction of residential/ commercial premises, roads or bridges, trading in Transferable Development Rights (TDRs) and Manufacture of cigars, cheroots,

cigarillos and cigarettes of tobacco or of tobacco substitutes.

Arguments in favour and against the FDI in retail sector

Given this backdrop, the recent cry about opening up the retail sector to Foreign Direct Investment (FDI) becomes a very sensitive issue, with arguments to support both sides of the debate. Supporters of FDI in retail trade talk of how ultimately the consumer is benefited by both price reductions and improved selection, brought about by the technology and know-how of foreign players in the market. The argument that the multinationals setting up shop in retail would help creates jobs and modernizes agriculture and marketing in the country and it

Major Share of Top Investing Countries in FDI Inflows

Country	2002-'03 to 2005-'06 (%)	2006-'07 to 2009-'10 (%)	Growth Rate
Mauritius	37.18	43.50	1.17
U.S.A.	15.25	7.57	0.50
Japan ¹	6.59	3.50	0.47
Netherlands	6.27	4.16	0.34
U.K.	6.10	5.27	0.14
Germany	4.81	2.57	0.47
Singapore	3.24	8.96	1.77
France	2.42	1.21	0.50

Source: Compiled from the official website of Ministry of Commerce and Industry

is estimated that in the organised sector there will be an employment opportunity of 10 million jobs. With big retail giants coming to India, it will surely improve our back-end storage and procurement process. Once these multi-chain retailers establish themselves, they will create infrastructure facilities, which will also propel the existing infrastructure. The farmers will benefit from FDI as they will be able to get better prices for their produce. The elimination of the intermediate channels in the procurement process will lead to reduction of prices for consumers. By allowing 51 percent foreign investments in the Indian market, it will teach the local retailers about real competition and help in ensuring that they give better service to Indian consumers.

But those who are against the picture is of the opinion that entry of foreign players now will most definitely disrupt the current balance of the economy, resulted millions of small and marginal retailers jobless by closing the small slit of opportunity available to them. Since proper procurement and distribution system is not yet fixed, how will the rest fall in place when the giant retailers enter our market? Back-end procurement will still remain a big problem. Once these giant foreign retailers have monopoly, they will start exploiting the market and in the long run, it will not benefit the Indian economy.

Challenges in the present scenario of retail management (organized retailing)

100 percent foreign direct investment is not permitted in retailing in India at present. Without the FDI, this sector is deprived of access to foreign technologies that is imperative for faster growth. FDI up to 51 percent, under the government route is now proposed in retail trade of 'single brand' products. This is aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraged increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. FDI up to 51 percent in retail trade of 'single brand' products would be subject to the following conditions :

- Products to be sold should be of a 'single brand' only.
- Product should be sold under the same brand internationally.
- 'Single brand' product retailing would cover only products which are branded during manufacturing.

Action plan to be followed

1. Enactment of foreign investment promotion law incorporating and integrating relevant aspects for promoting FDI.
2. Overhauling the existing FDI strategy by shifting from a broader macro-emphasis to a targeted sector specific approach.

3. Empower Foreign Investment Implementation Authority Board (FIIA) for expediting administrative and policy approach.
4. Urge states to enact a special investment law relating to retail sector for expediting investment in retail sector and removing hurdles to production in retail sector.
5. Empower the Foreign Investment Promotion Board to grant initial Central level registrations and approach whenever possible for speeding up the implementation process.
6. The Special Economic Zones (SEZs) should be developed as internationally competitive destinations for export oriented FDI, by simplifying laws, rules and procedures and reducing bureaucratic rigmarole on the lines of china.
7. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies. Policies that encourage unorganized sector retailers to migrate to the organized sector by investing in space and equipment should be encouraged.
8. A National Commission must be established to study the problems of the retail sector

and to evolve policies that will enable it to cope with FDI— as and when it comes.

9. The proposed National Commission should evolve a clear set of conditionality on giant foreign retailers on the procurement of farm produce from the domestic market to ensure minimum floor price.
10. Entry of foreign players must be gradual and with social safeguards so that the effects of the labour dislocation can be analyzed and policy fine tuned.
11. The government must actively encourage setting up of co-operative stores to procure and stock their consumer goods and commodities from small

farmers and producers, so that small and marginal farmers may have a collective bargaining over their produce.

Conclusion

According to one conjecture, India has a tremendous potential to attract foreign direct investors at much more dramatic levels if it accelerates its reforms process. It has also been argued that certain factors like large size of Indian market, the intrinsic strength of the Indian corporate and India's well established and well functioning banking system are conducive to a substantial inflow of foreign equity. The positive factor such as increase in purchasing power, rise in number of double income families and

demanding customers, due to change in life style and scarcity of time, customers are increasingly looking for convenience. To persuade the customers to store, retailers should create a wide product range, quality and value for money, apart from creating a memorable shopping experience. The retail story in India is just an opening. The expectations are now. Nearly 25 percent of our population is in the age group of less than 30 years, which is ideal for the population of the New Age consumers. They are more cognizant about preference and value for money. So this is the time to shift gears and accelerate the pace of retail development in India. □

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Self Help Groups – Lifeline of the Livelihood Improvement Project

Dinesh Pant



Livelihoods Improvement Project for the Himalayas' (LIPH) aims at helping vulnerable groups in the rugged highlands of the Himalayas to improve their livelihoods and develop alternatives for increasing their incomes

AWAY FROM the entire chaos of the elections, in the foothills of Himalayas, silent efforts are being made to fight the problem and that too by implementing the schemes launched by the government itself. 'Livelihoods Improvement Project for the Himalayas' (LIPH) aims at helping vulnerable groups in the rugged highlands of the Himalayas to improve their livelihoods and develop alternatives for increasing their incomes.

Since independence, efforts of the government to curb poverty and provide employment guarantee have grown. Some succeeded; others taught us lessons with their failure. Thus, new plans inspired from the successes and failures of previous projects were launched. Out of the lot, the projects which endured

the fruition of efforts did not just carve an identity of their own; they also became an example for other development projects. 'Livelihoods Improvement Project for the Himalayas' (LIPH) is one such project which has brought several changes on the ground by empowering the locals.

Launched by the Central Government in the year 2004, this project receives financial support from the International Fund for Agricultural Development (IEFD) – an active organisation devoted to eliminating poverty from the world. The objective is to help vulnerable groups in the rugged highlands of the Himalayas improve their livelihoods and develop alternatives for increasing their incomes. The area of operations includes the most remote and underdeveloped districts in the states of Meghalaya and Uttarakhand.

In Uttarakhand, at the moment, this project is being conducted in five development blocks - Almora, Bageshwar, Chamoli, Tehri Garhwal and Uttarkashi. 959 villages have been included in its fold. In the initial phase, the State Government asked local NGOs to work in the remote settlements and sow the seed of awareness among the villagers. The NGO workers knew that without the people's participation, the project would not be a success. To ensure active participation, the NGOs created 4000 Community Based Organizations and Self Help groups.

Innovative and useful workshops were organised by the NGOs for SHGs which further imparted this knowledge to the villagers. Interesting training programs like SHG module, health module, transaction literacy module and gender modules were created at the village level. Efforts were made to create a sense of belonging amongst the members of the groups and adopt a positive attitude towards self-employment.

Three development blocks of Almora - Dhaula Devi, Lamgara and Bhausiyachana, have hugely benefited under the LIPH. Implemented and monitored by the SHG, Centre for Himalayan Studies, this project operates in 203 villages. The members of the 722 SHGs formed so far, along with the coordinators, are given exposure through trainings, field

visits and awareness camps; and are encouraged to join development and earning activities.

Each group is essentially connected to the bank. Thus, a total of 6 Crore Rupees CCL (loan as per the status of the group) has been made available to 700 groups out of the total 722. 7304 members of these groups are making the most of it, investing in various income generating activities. At a modest level, enterprises like dairy, chicken-farm, shops, vegetable production, etc. have been established in the village; which, in turn, has promoted the income of the poor families by expanding their mutual transactions.

To provide a strong base to these groups, income-generating activities have been enhanced at the macro-level. 10 cooperatives have been formed in the district, which are registered under the 2003 Act of Autonomous Cooperatives of Uttarakhand. These Cooperatives have now started conducting business based activities which helped them to transact business to the tune of Rs. 22 lakhs during 2010-11. According to Prakash Pathak, co-ordinator of Bhanauli (Almora) employment project, "Connecting the cooperatives to business and employment on the basis of a value chain is beneficial. Today, these cooperatives are busy in seed production, broiler chicken farming, dairy development, maps, herbs, tourism, organic farming etc."

The project not only improved the economic status of the villagers but raised their social level by infusing self-assurance in them. Today, with increase in employment opportunities in the area, the migration rate has gone down. People who feared participating in gatherings now lead them with great enthusiasm and fervour. They ask questions, are aware of the situation around them and feel empowered. The encouraging participation of women makes this project an example for others. "The Employment Project is on its way to prove itself as a milestone in the field of local development. The way work is being done under this project will make it an example for all other projects" says Anand Prasad, member, district Panchayat, Bhanauli, Almora.

LIPH will come to an end in 2012. Many fear that the kind of success it has achieved in eradicating poverty and empowering the locals will not only stop but will suffer a huge downfall. This situation demands long term planning as during its life LIPH was able to complete only one phase; it now needs another spurt to bring an end to the problems of the rural and marginalised communities. It requires support from both the government and the locals as neither can independently achieve success in effective implementation of the schemes. It has to be mutual!

Charkha Features

India's Export Performance and Prospects

Sanjay Tiwari



To increase the portion of world trade the Government should come up with policies and budgetary provisions to boost export in potential areas in services, making the SEZs more viable, provide incentives to MSMEs

AS AN emerging economy of the world, India still has a lower percentage contribution in world trade. India ranks 20th in merchandise export and 13th in merchandise import while it stands at seventh rank as far as commercial service export is concerned (WTO statistics, Oct.2011). The annual percentage change in the merchandise export (f.o.b.) and merchandise import (c.i.s) basis is 17 and 18 respectively and surprisingly till date (2010) India's share of world total export is only 1.44 percent while in import it is merely 2.12 percent.

The Draft Twelfth Five Year Plan Document also points out this concern of export-import gap of India's foreign trade in these words "India's balance of trade must be managed too. The growth of the Indian economy is sucking in imports – of energy, as well as a whole range of manufactured goods

(capital goods and manufactured intermediates/components). To balance trade, the country's export basket must include a much larger volume of manufactured goods. The country cannot just increase raw material exports and import finished goods. Nor can India rely on its exports of services alone to bridge the gap, since tradable services such as IT enabled services; though growing very robustly cannot sustain this growth. Therefore, to increase exports as well as provide its internal market with domestically produced manufactured goods that compete with imports, India must manufacture a much larger volume of products at competitive costs and quality".

In the light of observations by the Planning Commission, the following dimensions can be crucial for the enhanced growth in exports:

- Contribution of MSME sector in export promotion

The author is Associate Professor, Department of Management Studies, Central University of Haryana, Mahendergarh.

- Role of manufacturing and engineering goods in export promotion
- New manufacturing policy
- Tapping the potential of services export
- Export performance of SEZs

Contribution of MSME sector in Export Promotion

It is true that Micro, Small & Medium sector collectively known as MSME sector has played a significant role in the export promotion of India.

In the light of Draft Twelfth Five Year Plan for 2012-17, recently announced Manufacturing Policy, deteriorating economic conditions of European countries, relatively stable growth rate of India, democratic movements and change of governments in various parts of the world, proposed policies on FDI in retail and foreign exchange fluctuations, China's dependence on domestic demand, increasing demand of Indian services in BPO,

KPO, IT, ITeS etc. are some of the events which will boost the export potential by these MSME in future.

An Overview of the Export Performance of MSME

The contribution of Small Scale Industries in the industrial sector growth of India has been quite substantial. Now the MSME segment constitutes about 26 million units, contribution of 8 percent in GDP, a share of 45 percent of total industrial output, over 8000 products manufactured, 40 percent of export, employment of 60 million people having a potential of creating 1.3 million jobs every year further ensuring balanced regional and inclusive growth (Report on the Task Force on MSME, 2010). The percentage share of export by MSME to the total export has increased upto 40 percent during the recent years and during the year 2007-08 the export income generated by the MSME went to Rs. 202017 crore which

was 10.67 percent increase over the previous year (Annual Report, Ministry of MSME, 2009-10).

Scope and Prospects of India's Export and Role of MSME

China has emerged as an exporter of low cost and less qualitative goods like small toys, baby garments and cosmetic products. Now, the wages are increasing in China and even the Chinese currency has appreciated, therefore India will definitely get the price competitiveness. Moreover, China is focusing on its huge domestic demand and will not be dependent on labour incentive sector of exports. This is going to give a boost to Indian exporters and manufacturers particularly in MSME sector.

New Manufacturing Policy

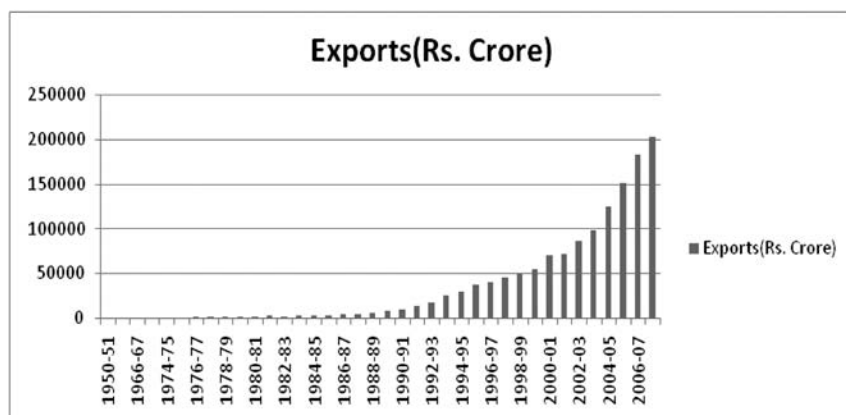
This argument can be further supplemented by the National Manufacturing Policy of the Government which talks of various policy instruments such as; creation of National Investment and Manufacturing Zones

Table 1 showing export contribution by MSME sector

Year	Total Export (Rs. Crore)	Share of MSME export (Rs. Crore)	% age Share of MSME export
1990-91	32,553.34	9664.15	29.7
1991-92	44,041.81	13883.40	31.5
1992-93	53,350.54	17784.82	33.3
1993-94	69,546.97	25307.09	36.4
1994-95	82,674.11	29068.15	35.1
1995-96	106,464.86	36470.22	34.2
1996-97	117,524.98	39248.54	33.4
1997-98	126,286.00	44442.18	35.2
1998-99	141,604.00	48979.00	34.6
1999-2000	159,561.00	54200.00	33.9

Source : Annual Reports, Ministry of MSME, GOI and RBI

Figure 1 showing Export (Rs. Crore) by MSME during different years



Source: Annual Report, MSME 2009-10

(NIMZs), creation of financial and institutional mechanisms for technology development, implementing and fulfilling the skill gap for the training and upgrading measures, simplification of regulatory procedures, providing more incentives to the MSME sector along with the following broad objectives mentioned below:

- i. Increasing the share of manufacturing in GDP to 25 percent by the year 2022
- ii. Creation of 100 million jobs
- iii. Enhancing global competitiveness to Indian exporters by appropriate policy support
- iv. Identifying some focus industries which are labour intensive, those enjoying competitive advantage, MSME etc.

Definitely the MSME sector stands better chances to serve the purpose of NMP because of its larger contribution in employment generation, competitive advantage, labour intensive approach, cost effective methods of production etc. but the fruits of its implementation

will be got only when there is a strict control over the quality and efficient supply chain management practices are adopted by the MSME sector.

Role of manufacturing and engineering goods in export promotion

The Economic Survey 2011-12 has highlighted that the engineering industry is the largest segment of the Indian industrial sector which accounts for 3 percent of India's GDP with a 30.5 percent weight in the index of industrial production (IIP); 29.9 percent share of total investment; and 62.8 percent share in foreign collaborations. Engineering exports account for over 20 percent of India's total exports with around 35 percent of the engineering exports contributed by the micro, small, and medium enterprises (MSME) sector. India's export of engineering goods grew at 25.2 percent (CAGR) during 2000-01 to 2007-08. In 2008-09, the growth moderated to 18.7 percent and in 2009-10 it declined by 19.6 percent because of global recession, with its share in total exports falling to 18.2 percent. In the first half of 2010-11, there was

a robust growth of 46.0 percent partially due to base effect and partially due to global recovery following stimulus measures.

The performance of principal categories of engineering items export shows that in 2009-10, all the major categories of engineering goods had negative growth. In the first half of 2010-11, all the major categories like machinery, iron and steel, and other engineering goods registered high growth with the major sub-categories like transport equipment, primary and semi-finished iron and steel, non-ferrous metals and manufactures of metals registering whopping growths of 61.8 percent, 65.0 percent, 61.5 percent, and 40.3 percent respectively. Only one major sub-category, i.e. machinery and instruments registered moderate growth of 10.5 percent (Economic Survey).

Tapping the potential of Service Exports

Last one and half decade has been service led economic growth where more than sixty percent of share in GDP was due to service thanks to the liberalisation and globalization policy of the Government. With an annual growth rate of 10 percent service sector has tremendous potential for export income. The data shown in Economic Survey 2011-2012 reveal that the CAGR of total service export during the period 2000-01 to 2007-08 has been 27.8 percent with software service as 30.2 percent, insurance services as 29.4 percent and transportation as 25.5 percent during the same period. Interestingly, among the non software category, business services accounts for 75 percent

Table 2 showing export performance of SEZs

Year	Exports from SEZs		Exports from India		Share of SEZs export in total exports
	Value (Rs. Crore)	Growth (%)	Value (Rs. Crore)	Growth (%)	
2003-04	13854	39.0	293367	-	4.7
2004-05	18314	32.2	375340	27.9	4.9
2005-06	22840	24.7	456418	21.6	5.0
2006-07	34615	51.6	571779	25.3	6.1
2007-08	66638	92.5	655863	14.7	10.2
2008-09	99689	49.6	840755	28.2	11.9
2009-10	220711	121.4	845534	0.6	26.1
2010-11(Apr-Dec)	223132	-	751633	23.4	29.7

Source: Economic Survey, GOI (2011-12)

and financial services accounts for 37.5 percent CAGR. The role of MSME sector in promotion of this potential export in services can be more beneficial in future. In addition to the above services the following areas are also potential booster of exports:

- Export of educational, legal and consultancy services
- Export of personal care services
- Export of communication, BPO and KPO related services
- Export of vegetables, fruits, packaged food, agro products, handicrafts, manufactured jewellery, auto and auto parts etc.

Performance of Special Economic Zones in terms of Export growth

Special Economic Zones were set up by the Government in the year 2000 and till now there has been a tremendous progress of export through these zones which provide infrastructure, financial and duty free facilities for the export.

According to Economic Survey 2011-12, a total of 130 SEZs are already exporting. Out of this 75 are information technology (IT)/ IT enabled services (ITES), 16 multi-product and 39 other sector specific SEZs. The total number of units in these SEZs is 3139. The physical exports from the SEZs have increased by 121 percent to Rs. 2,20,711 crore in 2009- 10 with a CAGR of 58.6 percent during 2003-04 to 2009-10 compared to the CAGR of 19.3 percent for total merchandise exports of the country for the same period. When the whole world including India was reeling under the effects of the global recession, growth in exports from SEZs was 121 percent in 2009-10 compared to a paltry 0.6 percent growth in total exports from India. Exports during the first three quarters of the current year have been to the tune of Rs. 2,23,132 crore. The share of SEZs in India's total exports has increased consistently from 4.7 percent in 2003-04 to 26.1 per cent in 2009-10 and 29.7 percent in the first three quarters of 2010-11. Table-2 shows

the actual performance of exports by these SEZs.

Conclusion

To increase the portion of world trade the Government should come up with policies and budgetary provisions to boost export in potential areas in services, making the SEZs more viable, provide incentives to MSME with better training and skills imparted to them by way of providing R & D to make the products globally competitive. Thrust should be on establishing linkage and coordination among the SEZs and National Investment and Manufacturing Zones (NIMZs) to be created under NMP, capacity building through skills development in Universities and educational institutes by starting programmes related to international business and linking them with the entrepreneurial skills to attract more educated and trained youth join the export related trade and commerce and tapping the new markets for exports in potential areas mentioned above. □

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India and World Trade Organization

R C Rajamani



India is open to considering new issues within the mandates of the regular WTO organs as long as these are discussed in inclusive and transparent manner

THE WORLD Trade Organisation(WTO) signifies the reality of the globalization of the economy. In an inter-play of trade and commerce in a global village WTO may be said to be the referee. Economies, small, medium and big, all have a role to play, each important in its own way, in shaping the global economy for the prosperity of all nations. It was created for the liberalization of international trade. It came into existence on January 1, 1995 as the successor to General Agreement on Trade and Tariffs (GATT). WTO deals with the rules of trade between nations at a global level. It is responsible for implementing new trade agreements. All the member countries have to follow the trade agreement as decided by the WTO.

Benefits Of WTO

- It helps promote peace and prosperity across the globe.
- Disputes are settled amicably.
- Rules bring about greater discipline in trade negotiations, thereby reducing inequalities to a large extent.

- Free trade reduces the cost of living and increases household income.
- Companies have greater access to markets and consumers have wider range of products to choose from.
- Good governance accelerates economic growth

India is one of the founding members of WTO along with more than 130 other countries. Economists believe that India's participation in an increasingly rule based system in governance of International trade would eventually lead to better prosperity for the nation. Various trade disputes of India with other nations have been settled through WTO. India has also played an important part in the effective formulation of major trade policies. By being a member of WTO several countries are now trading with India, thus giving a boost to production, employment, standard of living and an opportunity to maximize the use of the world resources.

Only in mid December last year the Eighth Ministerial Conference of World Trade Organization was held in Geneva, Switzerland.

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India was represented at the meeting by the Union Minister for Commerce, Industry & Textiles Mr Anand Sharma. The conference deliberated on key trade issues on the following themes: "Importance of the Multilateral Trading System and the WTO", "Trade and Development" and "Doha Development Agenda".

Prior to the WTO meet, Ministers of BRICS met to discuss issues concerning trade and development among themselves. Significantly, the BRICS group (Brazil, India, China and South Africa) is increasingly being recognized as being pivotal in furthering progress in the stalled Doha Round.

At the WTO Conference, India emphasised the key role of the world trade body in keeping protectionist forces at bay. It also told the conference that international trade will play an even more critical role in stimulating economic growth and development during the current global slowdown. In his speech, Mr Sharma highlighted WTO's its central role in monitoring the implementation of multilateral trade disciplines.

To the BRICS members, he pointed out that the four-nation grouping is uniquely positioned at the cusp of the developing and the developed world. "On the one hand, for historical reasons, we are home to a large population of the poor in the world, on the other hand, our people have demonstrated resilience in responding to the demands of the changing times." As he rightly said, BRICS would be both a rallying point and a bridge between developed and developing world.

No doubt, there is concern at the existing impasse in the Doha Development Round. But BRICS is committed to remaining fully engaged in negotiations with a view to concluding the single undertaking within the shortest possible time frame. India, for its part, is keen that negotiations must be based on the multilaterally

agreed mandates and on the delicate balance of trade-offs achieved over the last 10 years.

No wonder, India appealed to all WTO Members not to allow the development dimension of special treatment to LDCs to be sidelined and pledge to work together to resist the moves to change the agenda and the discourse at the WTO.

At the WTO meet, India clearly spelt out its position on some of the new ideas that have been proposed in the Geneva WTO round as a possible way forward. Ruling out any freezing of the custom duties at the current levels (Tariff standstill) India pointed out that this amounted to the developing countries ceding their policy space and being denied any recognition for their autonomous liberalization. Besides unhinging the negotiated formula on tariff reductions it would force the developing countries to take on commitments going much beyond what was envisaged for at the end of the Doha Round. Similarly on the issue of export restrictions on agricultural products, any dilution of the flexibilities available under the WTO regime for imposing export restrictions and taxes was unacceptable. It was imperative that the WTO while taking up all manner of the new challenges does not forget the traditional challenge of development.

India called for continued solidarity and reinvigorated engagement so that the current impasse in the Doha negotiations are broken and the attempts to replace the development centric agenda are thwarted. It cautioned against the possibility of losing the progress and the balance achieved so painstakingly over the last decade, particularly on the reforms of the agricultural trading system. The global community should not allow this opportunity to slip away or allow a dilution of the Doha mandate.

It is the responsibility of both Developing and Developed countries to evolve a common

position on the way forward on the Doha Development Agenda. India views WTO as an institution which ensures a level playing field in global trade flows and creates a paradigm of equitable and inclusive growth. India is emphatic that urgent steps should be taken to usher in much delayed changes in the current agricultural trading regime which negatively impact the livelihood concerns of billions of subsistence farmers in the developing world.

The WTO ministers coordinated their positions on the important aspects of agricultural trade, including the large trade distorting subsidies doled out by the developed countries, and agreed on preserving the centrality of development as the core agenda. While unequivocally expressing its desire to bring this Round to a balanced conclusion, India underlined the need to keep the negotiating process transparent and inclusive.

The meet articulated India's strong commitment to the issues affecting the Least Developed countries, and the small and vulnerable economies, that have hitherto remained marginalized from the global trading regime. India is of the view that the smaller and poorer nations cannot be left behind and thus it was incumbent upon all member states to accord highest priority to the concerns of the Least Developed countries.

It must be recalled that India has already shown the way with its unilateral grant of duty free market access to a large number of products from the least developed countries as early as in 2008. To be sure, India urged the WTO members, particularly the developed ones, to follow suit and redeem the promise made to the poorest members of the global community six years ago at Hong Kong. This obligation needs to be fulfilled without any further delay.

In this context, the role of the G33 group of Ministers must be acknowledged for protecting the

development dimension of the Round through its efforts to obtain satisfactory outcomes on certain critical elements of Agriculture negotiations that provide for Special and Differential treatment for the developing countries. These special and differential provisions balance out the commercial interests of the developed countries, and are essential to protect the livelihood interests of the small and marginal farmers in the developing world for whom agriculture is not an issue of trade but of livelihood and existence.

The Minister also addressed a gathering of over 100 country delegates of the G90 developing countries. The unique grouping of over 100 countries called the "Friends of development" reaffirmed their commitment to the centrality of development in Doha round and the need to keep negotiations transparent and inclusive. An overwhelming majority of WTO membership present in this meeting have sent out a message with clarity to take forward the Doha development agenda without deviating or diluting the core of the round. India at this meeting rightly expressed concern that "new approaches" were being suggested, risking the multilateral tradition of WTO. India is again firm that the round must ensure "a just and equitable regime which corrects the distortions of history".

In this context, it came as no surprise that at the inaugural plenary of the Ministerial Conference, India made a strong pitch against protectionism. India was of the view that in the backdrop of the global economic downturn, all countries must eschew protectionism which can only be counterproductive as it will deepen the recession and delay recovery.

There was a need to respect the mandate and build on the progress already achieved. India expressed strong reservation about recent suggestions for negotiating agreements among a critical mass of members, and cautioned that this path was fraught with risk as

they lacked the in-built checks and balances of multilateral agreements.

India also stressed the importance of strengthening the WTO especially in light of the new forms of protectionism that adversely affected developing countries. It urged members to get a multilateral trade deal done, not only for the trade liberalization and rule building but also for the credibility of the multilateral trading system. Plurilateral trading arrangements, among a few, cannot substitute the multilateral system and are also against the spirit of the fundamental WTO principles of transparency and inclusiveness.

In a reference to the gradual shift away from the development agenda, India pointed out that "Trade cannot flourish if the interests of over three-fourths of the world's population are held hostage to the commercial interests of the few that already command global trade."

Significantly, India has invited key interlocutors of developed and developing countries for an informal discussion on the way forward. India conveyed strong reservations on proposals, which seek to get global trade agreements involving only a small number of WTO members. Plurilateral agreements are a throwback to the days when decisions taken by a few determined the future of the rest.

As the Doha round talks continues to linger for almost ten years now, suggestions are being made by rich countries like the U.S. that the key members of developed and developing groupings can sit in smaller groups and work out deals, a move being vehemently opposed by India.

India was open to considering new issues within the mandates of the regular WTO organs as long as these are discussed in inclusive and transparent manner. India said the countries, which were once harbingers of free trade, had themselves started looking inwards. "Protectionist measures must be resisted by all WTO members

and the multilateral institutions must be strengthened. In the challenging backdrop of global economic downturn, all countries must eschew protectionism which can only be counter-productive as it will deepen the recession and delay recovery."

The need of the hour was enhanced economic engagement and free flow of trade. The global community must maintain the spirit of multilateralism and the WTO has stood as a bulwark against a rising tide of protectionism.

India also rejected proposals of some developed nations to freeze customs duties at current levels (tariff standstill) and taking away rights to ban farm exports as a possible way forward on WTO talks, saying that if accepted it would tantamount to ceding sovereign rights. Any dilution of the flexibilities available under the WTO regime for imposing export restrictions on agricultural items and taxes was "unacceptable". The WTO negotiations have been stalled due to differences between rich and developing nations on tariff liberalisation and level of market opening. Agreeing to tariff standstill means a drastic reduction in duties by developing countries like India, as the country's applied customs duties is below bound ceiling levels. To augment domestic supplies, India has banned exports of pulses and also imposed quantitative restrictions on outward shipments of commodities like rice and sugar. Besides, India is planning to bring a food security law under which nearly 64 percent of its population will have legal entitlement on subsidised food grains.

India is open to considering new issues within the mandates of the regular WTO organs as long as these are discussed in inclusive and transparent manner. India's firm view is: "The world is not static. Nor are the challenges and issues that affect global trade." □

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Foreign Trade Policy

R Muthuraj



The short term objective of the policy is to arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world

FOREIGN TRADE plays an important role in the economy of the country and creates approximately 14 million jobs directly or indirectly. The short term objective of the policy is to arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world. Other policy measures include fiscal incentives, institutional changes, Procedural rationalization, and enhanced market access across the world and diversification of export markets. The present foreign trade policy is for the period of five years i.e from 2009 to 2014.

Objectives of The Policy

- To achieve an annual growth of 15% for the first 2 years till March 2011 with an annual export target of US\$ 200 billion.
- To achieve an annual growth of 25% during the remaining period of the policy 3 Years.
- By 2014 to double India's export of goods and services

from the present level of 1.64%

Importer-Exporter Code Number

To carry out export and import business the person should have an IEC Number for which he has to apply to the Regional authorities of DGFT.

The Foreign Trade Policy has various schemes for promotion of exports and developing new markets. Some of the policies are enumerated below:

Reward/Incentive Schemes

1. Focus product Scheme

The Objective of the scheme is to incentivize 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.

The Export product notified in appendix 37 D of Hand Book of Procedures shall be entitled for Duty Credit scrip equivalent to 2 % of FOB value of exports (in free foreign exchange).

However, Special Focus Product(s)/sector(s), covered under Table 2 and Table 5 of Appendix 37D, (Toys & sports goods, hand made carpets & handicraft products) shall be granted Duty Credit Scrip equivalent to 5 % of FOB value of exports (in free foreign exchange.)

2. Focus Market Scheme

The objective of the scheme is to offset high freight cost and other externalities to select international markets with a view to enhance India's export competitiveness in these Countries. This policy focuses on diversification of Indian exports to other markets, specially those located in Latin America, Africa, parts of Asia and Oceania.

Exporters of all products to notified countries (as in Appendix 3 7C of HBPv1 as available in website: <http://dgft.delhi.nic.in>) shall be entitled for Duty Credit Scrip equivalent to 3 %/4% of FOB value of exports (in free foreign exchange).

Duty credit scrip and items imported against it would be freely transferable. Duty Credit scrip may be used for import of inputs or goods, provided same is freely importable and /or restricted under ITC(HS)

3. Market Linked Focus Products Scrip (MLFPS)

Export of Products/Sectors of high export intensity/ employment potential (which are not covered under present FPS List) would be incentivized at 2 % of FOB value of exports (in free foreign exchange) under FPS when exported to the Linked Markets (countries).

4. Vishesh krishi and gram udyog yojana

The Scheme is to promote exports of

- Agricultural Produce and their value added products;
- Minor Forest Produce and their value added variants;

- Gram Udyog Products;
- Forest Based Products

Exporters, of products notified in Appendix 37A of HBPv1, shall be entitled for Duty Credit Scrip equivalent to 5 % of FOB value of exports (in free foreign exchange).

5. Export and trading houses

Merchant as well as Manufacturer Exporters, Service Providers, Export Oriented Units (EOUs) and Units Status located in Special Economic Zones (SEZs), Agri Export Zones (AEZs), Electronic Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs) shall be eligible for status.

- Exporters in Small Scale Industry (SSI) / Tiny Sector / Cottage Sector, Units registered with KVICs shall be given double weight age

Applicant shall be categorized depending on his total FOB (FOR -for deemed exports) export performance during current plus previous three years (taken together) upon exceeding limit below. For Export House (EH) Status, export performance is necessary in at least two out of four years (i.e., current plus previous three years).

Status Category	Export performance FOB/ FOE (Rupees in Crores)
Export House	20
Star Export House (SEH)	100
Trading House (TH)	500
Star Trading House (STH)	2500
Premier Trading House (PTH)	7500

Benefits for Status Holders

- Authorization and Customs Clearances for both imports and exports on self-declaration basis;

- Fixation of Input-Output norms on priority within 60 days;
- Exemption from compulsory negotiation of documents through banks. Remittance / Receipts, however, would be received through banking channels;
- 100% retention of foreign exchange in EEFC account;
- Exemption from furnishing of BG in Schemes under FTP;
- SEHs and above shall be permitted to establish Export Warehouses, as per DoR guidelines.
- For status holders, a decision on conferring of ACP Status shall be communicated by Customs within 30 days from receipt of application with Customs.
- As an option, for Premier Trading House (PTH), the average level of exports under EPCG Scheme shall be the arithmetic mean of export performance in last 5 years, instead of 3 years.

6. Status holders incentive scrip

With an objective to promote investment in up gradation of technology of some specified sectors, Status Holders shall be entitled to incentive scrip @1% of FOB value of exports made during 2009- 10 and during 2010-11, of these specified sectors, in the form of duty credit. This shall be over and above any duty credit scrip claimed/availed. Status Holders availing Technology Up gradation Fund Scheme (TUFS) benefits (under Ministry of Textiles) during a particular year shall not be eligible for Status Holders Incentive Scrip for exports of that year. The Status Holders Incentive Scrip shall be with Actual User Condition and shall be used for imports of capital goods (as defined in FTP) relating to the sectors specified in Para below. The Status Holders of the following Sectors shall be eligible for this Status Holders Incentive Scrip:

1. Leather Sector (excluding finished leather);
2. Textiles and Jute Sector;
3. Handicrafts;
4. Engineering Sector (excluding Iron & Steel, Nonferrous Metals in primary or intermediate forms) Automobiles & two wheelers, nuclear reactors & parts and Ships, Boats and Floating Structures;
5. Plastics; and
6. Basic chemicals (excluding pharma products)

7. Served from India Scheme

- The Scheme is to accelerate growth in export of services so as to create a powerful and unique 'Served from India' brand, instantly recognized and respected world over.
- Services include all 161 tradable services covered under General Agreement on Trade in Services (GATS) where payment for such services is received in free foreign exchange. A list of services is given in Appendix 10 of HBPv1. (website <http://dgft.delhi.nic.in>)
- Indian Service Providers, of services listed in Appendix 10 of HBPv1, who have free foreign exchange earning of at least Rs. 10 Lakhs in current financial year / current financial year shall qualify for Duty Credit Scrip.
- All Service Providers shall be entitled to Duty Credit Scrip equivalent to 10% of free foreign exchange earned during current financial year.
- Duty Credit scrip may be used for import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables; that are otherwise freely importable and / or restricted under ITC (HS). Imports shall relate to

any service sector business of applicant.

Technological upgradation & modernisation

1. Zero duty EPCG scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at zero Customs duty, subject to an export obligation equivalent to 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorization issue-date. The scheme will be available for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products.
2. Concessional 3 % duty EPCG scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 3 % Customs duty, subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorization issue date.
3. For SSI units, import of capital goods at 3 % Customs duty shall be allowed, subject to fulfillment of export obligation equivalent to 6 times of duty saved on capital goods, in 8 years from Authorization issue-date, provided the landed cif value of such imported capital goods under the scheme does not exceed Rs. 50 lakhs and total investment in plant and machinery after such imports does not exceed SSI limit.

Duty exemption and remission schemes

Duty exemption schemes enable

duty free import of inputs required for export production. Duty Exemption Schemes consist of (a) Advance Authorisation scheme and (b) Duty Free Import Authorisation (DFIA) scheme. A Duty Remission Scheme enables post export replenishment / remission of duty on inputs used in export product. Duty Remission Schemes consist of Duty Drawback (DBK) Scheme.

1. Advance authorisation scheme

An Advance Authorisation is issued to allow duty free import of inputs, which are physically incorporated in export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts which are consumed/ utilised to obtain export product, may also be allowed. DGFT, by means of Public Notice, may exclude any product(s) from purview of Advance Authorisation. Advance Authorisation can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s) for:

- i) Physical exports (including exports to SEZ); and/ or
- ii) Intermediate supplies; and /or
- iii) Deemed Exports
- (iv) Supply of 'stores' on board of foreign going vessel/ aircraft subject to condition that there is specific SION in respect of item(s) supplied.

Advance Authorisations necessitate exports with a minimum value addition of 15 %. The Export Obligation shall be fulfilled within the period of 36 months.

2. Duty free import authorisation scheme

DFIA is issued to allow duty free import of inputs, fuel, oil, energy sources, catalyst which are required for production of export product. DGFT, by means of Public Notice, may exclude any product(s) from purview of DFIA. This scheme is in force from 1st May, 2006. The Value addition in the scheme should be 20% and Transferability

**Performance of Exports, Imports and Balance of Trade in Rupees during 2004-05 to 2010-11
(April-Dec) is given in the Table below (Value in Rs. Crores)**

S. No	Year	Exports	%Growth	Imports	%Growth	Trade Balance
1.	2004-2005	375,340	27.94	501,065	39.53	-125,725
2.	2005-2006	456,418	21.60	660,409	31.80	-203,991
3.	2006-2007	571,779	25.28	840,506	27.27	-268,727
4.	2007-2008	655,864	14.71	1,012,312	20.44	-356,448
5.	2008-2009	840,755	28.19	1,374,436	35.77	-533,680
6.	2009-2010	845,534	0.57	1,363,736	-0.78	-518,202
7.	2009-10 (Apr-Dec)	608,882		991,605		-382,723
8.	2010-11 (Apr-Dec)	751,633	23.44	1,126,513	13.61	-374,880

India's exports has not been affected to the same extent as other economies of the world during the phase of global slowdown, yet exports which had suffered a decline since October, 2008 continued for first seven consecutive months in 2009-10 as well. However, the declining trend became less steep from 2005 onwards and turned the positive phase from the month of November, 2009 reversing the earlier trend.

To sum up, India's merchandise exports have shown tremendous resilience in spite of challenging situations in the world demand for our exports. India's foreign trade, however, has to be seen in the context of current global uncertainties. Our ability to go ahead in spite of the global volatility will depend upon the adaptive efficiency of our exports.

allowed after fulfillment of Export obligation.

Deemed Exports

Deemed Exports" refer to those transactions in which goods supplied do not leave country, and payment for such supplies is received either in Indian rupees or in free foreign exchange. Following categories of supply of goods by main / subcontractor shall be regarded as "Deemed Exports" under FTP, provided goods are manufactured in India:

(a) Supply of goods against Advance Authorisation / Advance Authorisation for annual requirement / DFIA; (b) Supply of goods to EOU / STP / EHTP / BTP;

(c) Supply of capital goods to EPCG Authorisation holders; (d) Supply of goods to projects financed by multilateral or bilateral Agencies / Funds as notified by Department of Economic Affairs (DEA), MoF under International Competitive Bidding (ICB) in accordance with procedures of those Agencies / Funds, where legal agreements provide for tender evaluation without including customs duty.

Benefits for deemed exports

(a) Advance Authorisation/ Advance Authorisation for annual requirement/DFIA.

(b) Deemed Export Drawback.

(c) Exemption from terminal excise duty where supplies are made against ICB. In other cases, refund of terminal excise duty will be given. Exemption from TED shall also be available for supplies made by an Advance Authorisation holder to a manufacturer holding another Advance Authorization if such manufacturer, in turn, supplies the product(s) to an ultimate exporter.

Exports

India's exports for the month of April- December 2011 have registered a growth of 25.8%, at US \$ 217.6 billion. During the period April—December 2011, the imports were US \$ 350.9 billion with a growth of 30.4% and a Balance of Trade stood at US \$ (-)133.3 billion, during the same period. India's exports in December 2011 were US \$ 25 billion and imports stood at US \$ 37.8 bn Balance of trade for the month of December 2011 stood at (-) 12.8 billion US \$.

During April-December 2011, the following sectors have done well viz., engineering, (US \$ 45.3 billion) which registered the growth of 21.6%; petroleum & oil products, 55% (US \$ 43.9 billion); Gems & Jewellery registered the growth of 38.5% (US \$ 33.5 billion); Drugs and pharmaceuticals 21.5% (US

\$ 9.1 billion US \$);leather 25.8% (US \$ 3.4 billion) Cotton yarn and fabric made-up 13% (US \$ 5.1 billion) ; electronics, 21.1% (US \$ 6.7 billion); Readymade garments, 23.7% (US \$ 9.6 billion).

As regards to imports during April-December 2011, the growth estimates on the following sectors are: POL, 40.4% (US \$ 105.6 billion); Gold and silver 53.8% (US \$ 45.5 billion);, machinery, 27.7% (US \$ 25.8 billion), electronics, 24% (US \$ 25.2 billion), fertilizers 35% (US \$ 8.2 billion) and coal 62% (US \$ 12.5 billion US \$).

Directions of Export

Out of five major regions of exports markets, Asia and Asean with a share of (53.5%) has emerged as the major exports market for India's trade followed by Europe (202%),America (16.5%) Africa(6.7%) and CIS and Baltic (1.1%)

Trade Balance

During 2009-10 trade deficit declined marginally as there was a mild recovery in exports and a marginal decline in imports.

The trade deficit in 2009-10 was US\$ 109.6 billion which was lower than the deficit of US\$ 118.4 billion during 2008-09. □

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Challenges in India's Foreign Trade

H R Uma



South South trade has now accounted for around 22 percent of global trade and almost 50 percent of developing countries total merchandise trade. Among developing countries, India has today emerged as a vibrant economy

INTERNATIONAL TRADE as an engine of economic growth has gained increasing significance particularly during the last few years. This has been most so in the case of developing countries that have now become more integrated into the world economy and emerged as important drivers of growth.

The growing importance of the developing countries in global trade can be gauged from the fact that the share of south in global merchandise exports has increased from 20 percent during mid-1980s to 45 percent in 2007, an all time record level. Robust growth from developing countries which increased at an impressive annual average of around 19 percent as compared to 11.7 percent for industrial countries during the period 2001-2007, has underlined this trend. Developing countries in fact accounted for 52 percent of the rise in global merchandise. At the same time, the increasing share

of the south in global GDP, which has increased from 21 percent in 2001 to 28 percent in 2007, is also testimony to the emergence of the developing south in the global arena.

One of the most important phenomena in post war economic history has been the enormous expansion of world trade. Indian trade grew poorly from 1950 to 1980 as compared with the world. However from 1980 onwards, Indian exports have been rising at one and a half times the pace of growth in world exports. In 1993, India ranked 33rd in top exporting countries and 32nd in top importing countries.

The focus of the government in 1994-95 continued to be on creating a free environment for trade, streamlining and simplifying the procedures, increasing export production, focusing on quality and technological up gradation. But India with its export being just 0.65 percent in 94-95, is still not able to improve its international

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status. Exports are the major focus of India's trade policy. The export sector is a core sector in the economic growth of the country and is important for addressing macro-economic concerns. The incentives offered by the export promotion package are comparable to that of any other country. The focus remains on inducing the foreign investors to set up export oriented units in India. India offers a production base for foreign markets around the world for sourcing components and products manufactured at a low cost.

Export growth has shown a downward trend since the year 1996. Export growth during April-February 1997-98 is placed at 2.63 percent in dollar terms over that of the corresponding period in 1996-97. The 1997 figures stand at only 4 percent.

India's trade growth (in US dollar terms) has been robust at 20 per cent plus since 2002-03. While India's trade growth has a strong correlation with world trade growth, it has been significantly higher than world trade growth particularly in two time periods, first just following the 1990 reforms and second after 2003.

Export composition

The export basket has seen major compositional changes in this decade with a 10 percentage point

fall in shares of manufactures, a 12.6 percentage point gain in shares of petroleum crude and products, and a 3.3 percentage point fall in shares of primary products. This trend continued during the last two years, i.e. from 2008-09 to the first half of 2010-11, with the share of the major category, i.e manufactures, stagnating at 68.9 percent and even falling in 2009-10; share of primary products falling to 12.7 percent in the first half of 2010-11 after increasing in 2009-10; and share of petroleum crude and products increasing continuously both in 2009-10 and the first half of 2010-11 to reach 16.9 per cent. Within manufactures, there has been no major compositional change in the last two years. However, compared to 2000-01 the share of engineering goods has increased substantially while that of textiles including readymade garments (RMG) has fallen heavily from 23.6 percent in 2000-01 to 9.5 per cent in the first half of 2010-11. (Economic Survey 2010-11) The chemicals and related products category has made some gains in share, while leather and leather manufacture and handicrafts have lost shares.

Import composition

The composition of imports also underwent changes in this decade. The share of food and allied products imports which fell to 2.1 percent in 2008-09 from 3.3 percent

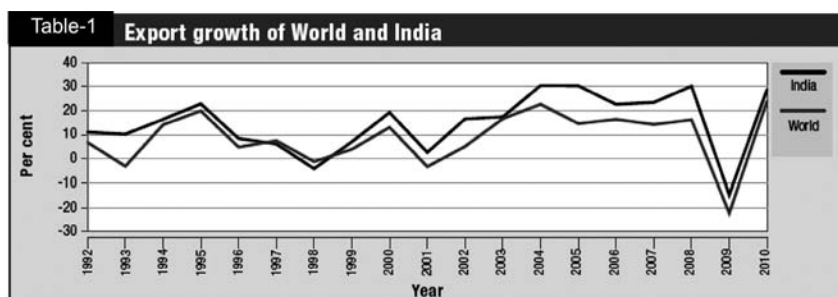
in 2000-01, increased to 3.7 percent in 2009-10 and fell to 3.2 percent in the first half of 2010-11 with slight fall in import shares of edible oils and pulses (Table 7.8). The share of fuel imports, however, remained at around 33 percent. The most notable change is the sudden rise in share of capital goods imports from 10.5 per cent in 2000-01 to 15.0 percent in 2009-10 and again a fall to 13.1 percent in the first half of 2010-11 due to the see-saw movement in shares of imports of transport equipment. The share of gold and silver and electronic goods in the import basket decreased in the first half of 2010-11 compared to 2008-09 and 2009-10. The share of pearls, precious, and semi-precious stones saw a see-saw movement with negative trend.

Table 2 is taken from Economic Survey which gives a bird view about the Indian Foreign Trade Partners as well as its share from 2007 to 2011.

Opportunities

India's strategic location, between Middle East and South East Asia, presents itself as a country with immense business opportunities. Its neighbours include Pakistan, China, Nepal, Sri Lanka and Bangladesh. The country's labour advantage adds to this. India has vast reserves of technical and scientific manpower, backed by engineering and management institutes of excellence. India's skilled labour is in great demand in the world's premier organizations. Both skilled and unskilled labour is easy to find and wage rate is highly competitive. The professional work force is conversant in English and the main transactions and procedures are done in the same language. The government also

India's Trade Composition



Source: IMF & WTO

Note: Data for 2010 is only for three quarters

provides a number of incentives and facilities for exporters. India's rich resource and production base provides significant opportunities for investors to establish export units.

The engineering industry is the largest segment of the Indian industrial sector. It accounts for 3 percent of India's GDP with a 30.5 percent weight in the index of industrial production (IIP); 29.9 percent share of total investment; and 62.8 per cent share in foreign collaborations. Current low share of world engineering exports and the significant scope for improvement in competitiveness, there is potential for achieving higher growth in this major sector of world trade.

Unlike many other countries, the global recession only slightly jolted the continued upward growth in India's export sector with exports rising at a reasonable rate of 13.6 percent in 2008-09. The compound annual growth rate (CAGR) for India's merchandise exports for the five-year period 2004-05 to 2008-09 increased to 22 percent from the 14 percent of the preceding five-year period. However, in 2009-10 export growth was negative at (-)3.5 percent, partly reflecting the effect of global recession and

partly the higher base effect due to lagged export data of 2008-09. Despite this negative growth, India's ranking in the leading exporters in merchandise trade which slipped marginally from 26th in 2007 to 27th in 2008 improved to 21st in 2009.

Challenges

India's foreign trade is in tough times, indicates the economic survey that has cited the global slowdown in 2008 as a crucial hindrance for exports and imports in the coming months. Referring to the downward revision of the US growth to just about 1.5 percent and that of the advanced economies overall to 1.8 percent, the survey says "this slowdown will impact the demand for India's exports and the value of imports".

The survey also said that the India's slower economic growth in 2007-08 as against the previous two fiscal years, might have a temporary dampening effect on capital flows. In April-Dec 2007, grew by 21.6 percent to 111 billion. However, in rupees term, the growth was just 7.7 percent. Due to the global slowdown, it was unable to reach the \$160 billion target for 2007-08.

Rupee has appreciated against the US Dollar affecting the export sector competitiveness.

The share of the US, which is among the India's largest trading partners, declined by 2.5 percent points to 9.8 percent in 2006-07, while that of the UK and Belgium declined by 1.9 percent and 2 percent respectively. However India's export to China, in US Dollar terms, grew by 22.7 percent in 2006-07.

As Mr. Ajay Sahai, DG, FIEO comments, we need to make our presence in African countries and other emerging market economies where there are opportunities for real growth.

The dawn of the 21st century was heralded with rapid globalization and unprecedented global integration. Integral to this trade expansion has been the rise of the dynamic south and a rapid expansion in trade among developing countries.

Recent years have witnessed the increasing importance of intra south trade, which has increased more than three folds from US\$ 915 billion in 2001 to surpass US\$ 3 trillion in 2007. South South trade has now accounted for around 22 percent of global trade and almost 50 percent of developing countries total merchandise trade. Among developing countries. India has today emerged as a vibrant economy fuelled by robust growth in the international trade and investments.

The South's impressive growth would provide a new impetus to a sustained growth of the global economy and contribute to the achievement of the Millennium Development Goals. □

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	Share in total trade					Export/Import ratio*				
	2007-08	2008-09	2009-10	2009-10 (Apr-Sept)	2010-11 (Apr-Sept)	2007-08	2008-09	2009-10	2009-10 (Apr-Sept)	2010-11 (Apr-Sept)
1 UAE	7.0	9.9	9.3	8.8	9.9	1.2	1.0	1.2	1.5	1.2
2 China	9.2	8.6	9.1	9.1	9.3	0.4	0.3	0.4	0.3	0.3
3 USA	10.1	8.1	7.8	8.6	7.6	1.0	1.1	1.2	1.0	1.4
4 Saudi Arabia	5.6	5.1	4.5	4.4	4.5	0.2	0.3	0.2	0.3	0.2
5 Germany	3.6	3.8	3.4	3.6	3.0	0.5	0.5	0.5	0.5	0.5
6 Switzerland	2.5	2.6	3.3	2.7	3.2	0.1	0.1	0.0	0.0	0.0
7 Singapore	3.7	3.3	3.0	3.2	3.0	0.9	1.1	1.2	1.2	1.3
8 Australia	2.2	2.6	3.0	2.9	2.4	0.1	0.1	0.1	0.1	0.1
9 Iran	3.1	3.0	2.9	3.2	2.2	0.2	0.2	0.2	0.2	0.2
10 Hong Kong	2.2	2.7	2.7	2.6	3.0	2.3	1.0	1.7	2.3	1.4
11 Korea RP	2.1	2.6	2.6	2.4	2.4	0.5	0.5	0.4	0.4	0.3
12 Indonesia	1.7	1.9	2.5	2.7	2.5	0.4	0.4	0.4	0.4	0.5
13 UK	2.8	2.6	2.3	2.4	2.1	1.4	1.1	1.4	1.4	1.5
14 Japan	2.5	2.2	2.2	2.2	2.4	0.6	0.4	0.5	0.5	0.7
15 Belgium	2.1	2.1	2.1	2.0	2.4	1.0	0.8	0.6	0.6	0.6
Total (1 to 15)	60.3	61.0	60.5	60.9	59.8	0.6	0.6	0.6	0.6	0.6
Total Trade	100.0	100.0	100.0	100.0	100.0	0.6	0.6	0.6	0.6	0.7

Source: Computed from DGCI&S data.

Note: *A coefficient of export and import ratio between 0 and 1 implies that India's imports are greater than exports and if the coefficient is greater than one, India exports more than what it imports.

Balance of Payments in India

Jomon Mathew



***BoP management
still remains a
tightrope walk for
policy makers, as
now we are exposed
to each and every
change in the
global economic
scenario***

BALANCE OF payments (BoP) accounts are the accounting record of all monetary transactions between a country and the rest of the world.

In other words, it is a record of all transactions made between one particular country and all other countries during a specified period of time. If a country has received money, this is known as a credit.

Similarly, if a country has paid or given money, the transaction is counted as a debit. Theoretically saying the BoP should always be zero, meaning that assets or credits and liabilities or debits should balance. But in practice this is rarely the case and, therefore, the BoP of a country usually has a deficit or a surplus. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

Indian economy which is the ninth largest in the world in terms of

nominal GDP and the fourth largest in terms of purchasing power parity was having very strong balance of payment figures during the early 2000s and the global financial crisis adversely affected the smooth growing of the overall BoP balance. The international BoP of a country reflects its economic strengths and weaknesses. A typical problem of the developing countries is of chronic deficit, India being no exception. It is therefore necessary to have a look at the overall BoP position of Indian economy which is adversely affected by the global financial crisis and the recent global economic developments.

Understanding Balance of Payments accounts: The large number of international transactions can be summarized into three categories such as Current Account transactions, Capital Account transactions and Official Settlements Balance transactions.

The Current Account tracks transactions that involve current

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income and expenditure, usually transactions in goods and services.

The current account mainly consists of four types of transactions such as those given below.

- Exports and imports of goods
- Exports and imports of services
- Interest payments on international investments.
- Unilateral transfers

The Capital Account primarily tracks transactions involving buying and selling of assets. The capital account consists primarily of the following three types of transactions.

Purchase and sale of assets;
Making and repaying loans;
Changes in holdings of currency.

An Official Settlements Balance transaction tracks transactions between official government authorities. It is used to make BoP in balance.

Trends in Balance of Payment account

The overall balance of payments account of India during the last decade is given in Table 1. It can be found that the overall balance of country's transaction with the rest of the world has been improving during the first three years of the decade. This positive progress can be attributed to the current as well as capital account surplus. From 2004-05 onwards the country witnessed increasing deficit in its current account signifying our imports (expenditure) larger than our exports (receipts). Despite a huge deficit in current account, the country could make improvements in its capital account until 2007-08. The capital account surplus resulted in decade's highest BOP balance i.e., Rs. 369689 crores during 2007-08. However, India's BoP balance turned negative for the first time during the decade in 2008-09 (i.e., a huge deficit in overall BoP balance of Rs 97115 crores, the largest figure in the history). Though there

could be seen a slight improvement in the overall balance during the last two financial years, the surplus still remains low almost equitant to that of 2001-02.

According to the statistics given by the Department of Commerce the share of Asia and the ASEAN region comprising South Asia, East Asia, Mid-Eastern and Gulf countries accounted for 53.5 percent of India's total exports. The share of Europe and America in India's exports stood at 20.2 percent and 16.5 percent respectively of which EU countries comprises 18.6 percent. Similarly, Asia and ASEAN accounted for 61.5 percent of India's total imports during the period followed by European Union (17.3 percent) and America (10.2 percent). India's major export items include gems and jewellery, petroleum products, cotton, machinery and instruments, drugs and pharmaceuticals etc. The import basket contains petroleum (crude and products), electronic goods, gold, machinery, organic chemicals, iron and steel etc. It is clear from the statistics that the European Union and US economy are significant partners of India's foreign trade. Due to the same reason, the recent aggravating financial crisis in those developed economies and the crisis affected ASEAN economies adversely affected our international trade balance. As a result, the current account balance worsened and capital account surplus narrowed down, particularly during the last three financial years.

Crude Oil speculators also have created havoc in emerging countries like India. Being the 10th largest oil importing nation in the world (oil

Table 1: Annual Balance of Payment account of India

(Rs. in crores)

Year	Current account	Capital account	Overall BoP balance
2001-02	16426	41080	56593
2002-03	30660	52366	82037
2003-04	63983	77227	143993
2004-05	12174	125367	115907
2005-06	43737	111965	65896
2006-07	44383	203673	163634
2007-08	63479	427926	369689
2008-09	127631	26018	97115
2009-10	180626	252132	64237
2010-11	202532	273133	59449

Source: Reserve Bank of India.

imports are close to 70 percent of India's crude oil requirements), a continued uptrend in prices is likely to have repercussions on India's Balance of Payments. It has been estimated that with every US \$1 bbl increase in oil prices is likely to increase our import bill by US \$ 700mn. This would lead to a drawdown in reserves, current account deficits and much further currency weakening.

Rupee Depreciation Effect

The continuous depreciation of Indian rupee is emerging to be another major challenge so far as country's internal and external sectors are concerned. Rupee has been depreciating against the dollar for the past four months and many analysts are predicting it that it will depreciate further. Rupee depreciation means that India's currency has lost its value in comparison to US dollar. The main driver of rupee depreciation in the last three months has been the withdrawal of funds by foreign institutional investors (FIIs) from domestic economy. The rather pessimistic view of FIIs is being governed by ongoing global

developments. Other causes of depreciation can be attributed to strengthening of dollar, widening current account deficit, decline in other capital flows etc. Now the question is what will be the impact of rupee depreciation on the foreign sector of the country and its Balance of Payments position.

A depreciation of the local currency naturally manifests in higher import costs for the domestic economy. The unavoidable import expense of petroleum products and the possible hike in domestic subsidy may cause fiscal slippage during the financial years to come. Indian corporate sector which imports raw materials from abroad will also be hit hard as they have to pay more for imports and therefore their profit margin will be narrowed. Small importers will also be in pain as they too have to pay more for dollar, which in turn would make some smaller importers to go out of business or may even lead to bankruptcy.

It can be expected that exports would get a boost in case the

domestic currency depreciates because exports become cheaper in international markets. However, given sluggish global conditions, only some sectors would tend to gain where our competitiveness will increase such as textiles, leather goods processed food products and gems and jewellery. In case imported raw material is used in these industries they would be adversely affected. Therefore, exports may not be able to leverage fully. Similarly, with the depreciating rupee, borrowing from abroad will also become less attractive.

Rupee depreciation has more disadvantages than advantages and if this fall is not controlled in time it can have serious effects on the Indian growth story and also it can lead to downgrading of Indian economy by rating agencies all over the world. It will further worsen the already crisis affected BOP balance of the country. Therefore, BoP management still remains a tightrope walk for policy makers, as now we are exposed to each and every change in the global economic scenario. □

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Solar Laminator



The machine can also be used as a conventional electrical lamination machine in absence of solar energy by switching on the bulbs fitted inside

A MANDEEP (21), NOW a student in first year of graduation, made a laminating machine run on solar energy when he was in 12th standard.

This machine gives almost the same output as that of an electricity-operated laminator when the sun is hot. Now there is no need to worry about the frequent power losses.

He was born in Ganeshgarh village, Ganganagar district of Rajasthan, at his maternal grandparent's house. After a year, he along with family moved to Maloth in Punjab and stayed with his paternal grandparents. He studied till class three there and then came to Sangaria along with his parents. He was interested in studies till class six but thereafter joined Bharat Scouts and Guides and started losing interest in studies. He concentrated more on the scout course then and won a Presidential outstanding scout award in the year 2000. His father is a Registered Medical Practitioner and a Life Insurance Corporation agent. His

mother is a homemaker and his younger brother is doing graduation in pharmacy.

Genesis

In 2000, when he was in class 10th he copied a preexisting project and submitted it during a science fair in school. But when he saw many new projects made by the students themselves, he felt guilty for submitting something that was not original. He decided that next time he would develop an original idea. One day, he went to a Photostat shop with a friend to get an important document laminated but since there was no power the work could not be done. This triggered the thought that if they had a solarbased laminator they might have got their lamination done on time. In 2002, when he was in class 12th, he participated in a district level science fair where he got this chance to convert his idea into reality and built the prototype. He first examined solar cookers and laminators to understand their individual working.

Upon seeing the heating filament inside the laminator, he thought if he could replace it with a black box and surround it with mirrors, his purpose of using solar light for lamination could be achieved. To verify this, he took a small box and kept a black box inside it, focused mirrors over it and kept it in sunlight. After some time he noted the temperature and as he had expected, it had increased up to 40° C, which was higher than the surrounding temperature.

This gave him a boost and he built a few electric powered laminators using 100W bulbs, rollers and small mirrors. Then he developed the solar powered laminator, which he demonstrated to the then Chief Minister of Rajasthan and won the first prize. Based on this, he was selected for the Jawahar Lal Nehru Rashtriya Vigyan Pradarshani held in November 2003 at Dehradun and was one of the 30 participants who received appreciation from the President of India. In December 2003, he participated in Intel Science Talent Discovery Fair at Hyderabad and cleared the first

two rounds before bowing out of the competition.

US patent 6786265 (Sept. 7, 2004), 5,853,531 (Sept. 24, 1997) and 5421947 (June 6, 1995) describe various laminators working on electrical energy for improving quality of lamination (by having a protecting edge and applying proper tension) and the last one discloses laminating machine for photographs. There are not many who have ever used solar energy for lamination. The device consists of a wooden box, four rollers, a mirror, a mirror stand, a handle, glass and a couple of two mm thick iron sheets. The mirror has been fitted on the wooden box, so that it focuses solar radiation on metallic plates. The paper to be laminated is placed between two lamination sheets, slipped in with the help of a roller, and passed through the heated metallic plates. The laminated item comes out smoothly without any wrinkles. The machine laminates both sides of the sheet in one pass.

The machine can also be used as a conventional electrical

lamination machine in absence of solar energy by switching on the bulbs fitted inside. On a sunny day, it can laminate the document of A4 size in 15 minutes. Most hard paper documents get damaged over time with the effect of sunlight, moisture and elements present in the environment. Lamination helps in preservation of important hard documents such as property deeds, educational certificates, birth and death certificates, ration, voters ID and PAN cards, etc., to keep them intact for a long time. This is a good product for areas where electricity supply is erratic or not present at all. This solar laminator might facilitate the process of preserving documents in rural India where lack of properly preserved documents often creates confusion and conflicts. Amandeep has been provided financial support for developing and improving his laminator from NIF's Value Addition and Research and Development (VARD) fund through GIAN North, Jaipur. □

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100 percent FDI in single brand retail

The government recently notified 100 percent FDI (foreign direct investment) in single-brand retail, paving way for global chains to have full ownership of their India operations. The Department of Industrial Policy and Promotion (DIPP) has said that foreign direct investment, up to 100 percent, under the government approval route, would be permitted in single brand product retail trading.

However, in respect of proposals involving FDI beyond 51 percent, the mandatory sourcing of at least 30 percent would have to be done from the domestic small and cottage industries which have a maximum investment in plant and machinery of \$1 million (about Rs 5 crore).

FDI in single brand has led to emergence of some global majors in Indian market. This will provide stimulus to domestic manufacturing value addition and help in technical upgradation of our small industry. At present, for single-brand retailers, 51 percent FDI is permitted. Removal of investment cap would help global fashion brands especially from Italy and France to strengthen their interest in the growing Indian market.

The government said the move which comes into effect immediately would enhance competitiveness of Indian enterprises through access to global design, technologies and management practices.

Towards Social Justice

Raju Narayana Swamy



The decentralized governance can be the agenda for achieving success in implementing a new Tribal sub-plan. In this way, social justice can be done through a mutual effort of Gram and Block Panchayats with local CSOs

SOCIAL JUSTICE is essentially concomitant with sustainable development. The World Commission on Environment and Development outlined in 'Our Common Future' (1987) that social justice constitutes an inherent part of the concept of sustainable development. The aim of the Commission was to resolve physical sustainability, need satisfaction and equal opportunities, within and between generations. Thus realization of sustainable development is manifest on local and global scales, when all people are assured a minimal quality of life through the meeting of their basic needs, increased exposure to their mere ecology and access to economic opportunity.

In probing the idea of social justice, Amartya Sen argues it is important to distinguish between an arrangement-focused view of justice and a realisation-focused understanding

of justice. Sometimes justice is conceptualised in terms of certain organisational arrangements: some institutions, some regulations, some behavioural rules-the active presence of which indicates that justice is being done." Further he says in contrast "a realization-focused understanding of justice broadens the evaluation of justice to the assessment of the actual world that emerges, which includes-most importantly, the lives that the people involved are able to lead. (Amartya Sen speaks on social justice', 2011)

The duty to act justly by providing social justice keeps a promise to government for respecting human dignity. Human rights and social justice are necessary to society and our ideas on them arise from needs on issues like lack of education and healthcare facilities for the poor sections of the Indian society, like the Scheduled Tribes(ST). Understanding the humanness of Scheduled Tribes is crucial in

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helping them to attain progress besides helping them to protect and endorse their human rights.

Tribes in India

With 573 Scheduled Tribes living in different parts of India speaking more than 270 languages and maintaining exclusive identities the problem is more complex. The 67.7 million people belonging to 'Scheduled Tribe' in India are generally considered to be '*Adivasi*', literally meaning 'Indigenous People' or original inhabitants, though the term 'Schedule coterminous with the term '*Adivasi*'. Scheduled Tribe is an administrative term used for the purpose of 'administering' certain specific constitutional privileges, protection and benefits for specific section of peoples historically considered disadvantaged and 'backward'. However, this administrative term does not exactly match all the peoples called '*Adivasi*'.

According to 2001 census STs accounted for 84.32 million equivalent to 8.2 percent of the country's total population. Majority of the ST population live in rural areas and their population is 10.4 percent of the total population of the country. Madhya Pradesh, Maharashtra, Orissa, Gujarat, Rajasthan, Jharkand, Chhatisgarh, Andhra Pradesh, West Bengal and Karnataka are the states having the largest number of Scheduled Tribes. Lakshadweep, Mizoram, Nagaland, Meghalaya, Arunachal, Dadra & Nagar Haveli are predominantly Tribal States/ UTs. Here STs constitute more than 60 percent of their total population. No STs are notified in Punjab, Haryana,

Chandigarh, Delhi and Pondicherry. Taking village wise, one lakh five thousand two hundred and ninety five villages have more than 50 percent ST population in the country while 3.23 lakh do not have any ST population.

Tribal development in post-independence India

The Indian Constitution has bestowed upon the States responsibility of undertaking tribal welfare programmes in the country. Article 275 of the Constitution focuses on tribal area and their development, while Article 244 and Fifth Schedule encompass administration of Scheduled Areas and Tribal Areas. Tribal development in India is based on twin approach namely protection of their interests through legislative and administrative support and promotion of developmental efforts through plan schemes. The Nehru era laid the foundation of the tribal policy which was pivoted around what is often regarded as the *Panchsheel*. This emerged as the guiding principle of tribal policy towards the close of the 1950s. The five fundamental principles are:

1. People should develop along the lines of their own genius and we should avoid imposing anything on them. We should try to encourage in every way their own art and craft.
2. Tribal right in land and forest should be respected.
3. We should try to train and build up a team of their own people to do the work of administration and development. Some technical personnel from outside will, no

doubt, be needed, especially in the beginning. But we should avoid introducing too many outsiders into tribal territory.

4. We should not over-administer these areas or overwhelm them with a multiplicity of schemes. We should rather work through and not in rivalry to, their own social and cultural institutions.
5. We should judge results, not by statistics or the amount of money spent, but by the quality of human character that is evolved.

Policy formulations and policy support have better responsibility in the stipulation of social justice and sustainable livelihood. The policies of India, which emerged after independence placed profound accountability on the Central and State governments with regard to protection and progression of the Scheduled Tribes. Several programmes were implemented through the successive Five Year Plans for uplifting them and to bring them on par with the rest of the population of the country. Special programmes for their welfare include support of educational and economic interests and protection from injustices and all forms of exploitation. The various programmes and schemes adopted by the government for their welfare can be categorised as: Socio-cultural and political aspects, housing and communication, health and sanitation, education and economic development. At the state level, special Tribal Development Blocks have been created by the government to supervise tribal programmes and policies. A special minister is also made responsible

for implementing different special schemes for tribal areas.

Tribal Development and Five Year Plans

With the aim to adopt planned economic development to strengthen its strategy of mixed economy, the government formulated Five Year Plans. On the basis of Five Year Plans the state moulded tribal development programmes also. The financial needs of tribal areas were incorporated into India's various Five Year Plans.

Tribal development programmes can be reviewed by the general development programmes introduced in India. The first Five Year Plan was started in 1951. A detailed plan-wise development programmes are given in the table below:

Five Year Plans and persistent issues

Planning Commission in its 10th Five Year Plan Report has noted that tribal communities continue to be vulnerable even today. The requirements of planned development brought with them the dams, mines, industries and roads, all located on tribal lands. With this development came the concomitant processes of displacement followed by a conflict between development and protection of tribal rights and interests. Despite the programme of Universalization of primary education, the literacy rate of STs remained as low as 47.10 percent, while the general literacy ratio has reached 64.84 percent in 2001. The gap between the literacy rates of STs and of the general population continued between 1961 and 2001 almost at the same level of 17.70 per

cent with only marginal variations. The educational gaps may be viewed as due to the differences in the provisions of educational facilities, socio-economic status of the parents, lack of inspiration for education, geographical isolation, lack of communication and social distance.

Tribal health is one of the important areas for action in the health sector. The major contributions to the increased disease risk amongst tribal communities include poverty and

consequent under-nutrition, poor sanitation, poor hygiene and lack of safe drinking water leading to increased morbidity from water and vector-borne infections etc. Lack of proper irrigation facilities, decline in soil fertility and risks and uncertainties involving damages caused by the wild animals, pests, cyclones, droughts etc have further deteriorated the agricultural yield (Planning Commission). The growing tribal population, the increased dependency on agriculture for livelihood, agricultural crisis, risks and uncertainties involving

Table 1	
Plan Period	Tribal Development Programmes
1st Five Year Plan (1951-56)	Community Development Approach (Tribal Development projects)
2nd Five Year Plan (1956-61)	Special Multipurpose projects for tribal people (creation of TD Blocks)
3rd Five Year Plan (1961-66)	Improvement of the general CD approach (improvement of TD Blocks)
4th Five Year Plan (1969-74)	Administrative Frame programme implementation and protective measures (Tribal Development Agencies)
5th Five Year Plan (1974-79)	Total and Comprehensive view of the tribal problems and coordination of sectoral programmes (Tribal sub-plan and creation of LAMPS)
6th Five Year Plan (1980-85)	Integrated approach and large financial allocation (expansion Plan of TSP)
7th Five Year Plan (1985-90)	Mix-up of beneficiary oriented programme and infrastructural development (Intensive Tribal Development)
8th Five Year Plan (1992-97)	Plan Considering the need of the people and participation (District/ Regional Planning and Participation of voluntary organisation)
9th Five Year Plan (1996-2000)	Ensuring development by providing quality of education through Ekalavya School project
10th Five Year Plan (2002-2007)	National Policy for empowering tribals through their integrated development, which will lay down the responsibilities of the different wings of Government with appropriate accountability.
11th Five Year Plan (2007-2012)	The TSP focus on "securing budgetary allocations for tribal development, at least proportionate to their populations, in order to bring them at par with other sections of society and to protect them from exploitation.

Source: Figures compiled from different Five Year Plan documents, Government of India from 1951 to 2011.

damages caused by wild animals, pests, cyclones, droughts etc also have affected their livelihood.

Draft Twelfth Five Year Plan

The Planning Commission's draft Twelfth Five Year Plan highlights the progress towards inclusiveness. It quotes "Inclusive growth should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Chapter eleven of the draft titled 'Social and Regional Equity' discusses about the socially disadvantaged groups like SCs and STs. On the preview of 'inclusive growth' let us analyse the welfare measures discussed in the draft for STs.

Chapter eleven highlights that over several years many steps have been taken to bridge the gap between ST and general population. But gaps still persist and further efforts are needed. The tribal sub-plan strategy is initiated to direct plan resources towards meeting their needs. The tribal sub-plan's implementation, however, has been deficient both in the states and the Centre. However a new system has not been devised in the Twelfth Plan to overcome the difficulties experienced in the failure of sub-plans. 11.5 highlights for improving employment in the private sector for the STs. It stresses entrepreneurship to

be promoted in rapidly growing sectors such as retail, tourism etc. 11.6 stresses the need for suitable developmental programmes for nomadic and semi-nomadic tribal communities. 11.7 gives special and immediate attention to 75 partially vulnerable tribal groups (Draft 'Faster Sustainable and More Inclusive Growth: An Approach to the Twelfth Five Year Plan, 2011).

The TSP aims at improving the situation of Scheduled Tribes. It is formulated by the Tribal Development Department (TDD). Planning Department communicates fixed outlay to the TDD for formulation of TSP. But the draft has not devised a new system for the TSP. It is significant that while development plans helps, how it is worked out and what it is used for are enormously important. In many cases funds allocated for developmental plans hardly reaches its intended recipients. The decentralized governance can be the agenda for achieving success in implementing a new Tribal sub-plan. In this way, social justice can be done through a mutual effort of Gram and Block Panchayats with local CSOs.

Health sector of ST is poorly affected. But the new draft is silent about health sector among the tribes. There is need for introducing public-funded provision and investment in preventive and curative spheres in the health sector. PESA should be restructured and implemented as an instrument in addressing challenges in social justice for the tribes. The land rights issues of STs remain silent in the draft. The draft should incorporate land

issue of the Scheduled Tribes, especially in the conflict areas. Implementing of the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act 2006 in the right spirit would greatly help in improving the livelihood of Tribes and building social justice and equity. The educational capacity of the STs could be improved. For this Social Empowerment Committees need to be formed and activated to ensure social justice. All these aspects which need urgent and special attention remained silent in the draft policy.

Conclusion

A social justice approach to policy making should concede the correlation in planning and delivery of social services to the poor. This would reflect the goals of empowerment. The 12th Plan approach takes note of the commitment to eradicate manual scavenging by the 11th Plan and promises to fulfil it on priority in the 12th Plan. Similar commitments have been made many times in the past also (P.S.Krishnan, 2011). For effective implementation, we also need to consider all the tribal-specific issues viz., health and nutritional deficiencies, illiteracy, lack of income generation opportunities, lack of amenities like housing, sanitation, drinking water, land alienation, indebtedness, social exploitation, displacement etc. The new Plan must achieve sector-wise action points along with allocations required, agencies responsible and time-frame mechanisms for implementing and monitoring. □

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NORTH EAST DIARY

INCREASE IN FOREST COVER IN NORTH EAST

Forest Survey of India (FSI) Report 2009 has indicated a steady increase of forest cover in northeastern India. The report came in the wake of allegation of deforestation due to developmental activities coupled with increase of population and continuous practice of Jhumming (slash and burn method of agriculture) by the indigenous population in northeastern India.

According to the report, based on the biennial assessment the total forest cover of northeast has increased by 598 sqkm between 2005 and 2007 while the forest cover in the region has recorded at 170423 sqkm in 2007 with an annual growth of 299 sqkm. It also underlined the ratio of forest cover of northeast which was only 5.17 percent of the total geography of the country that contributed the 1.8 percent to the country's GDP.

The Ministry of Environment and Forest (MoEF) had been supporting with special package the implementation of afforestation programme, forest protection, survey and demarcation of forest land, forest fire control, infrastructure development for forestry personnel, improving communications, modernising forestry administration, training and capacity building of the foresters.

In order to regenerate the forest cover and degraded forests in the northeastern region, MoEF had approved as many as 141 projects in the northeastern states till last year under National Afforestation Programme (NAP) since its inception. The report, however, pointed out that as per the assessment, the forest cover in Tripura had been recorded at 76.9 percent in 2009 against the record of 56.7 percent in 1987 followed by Arunachal Pradesh at 80.4 percent against 76.6 percent and Meghalaya at 77.2 percent against 73.4 per cent.

Meanwhile, Nagaland and Manipur had recorded reduction in forest cover during the period and it was recorded at 81.2 percent in 2009 against 86.8 percent in 2007 and 77.4 percent against 78.3 percent respectively.

Mizoram had recorded 91.3 percent against 90.5 percent and 35.3 percent was recorded against 32.1 percent in Assam over the period, the FSI report said, adding under NAP, an amount of 345.62 crore was released for treating 1.73 lakh hectares in 2008-09 but the fund was reduced to Rs 318.17 crore for treatment of an area of 1.03 lakh hectares. □

TRADE THROUGH PANGSAU PASS

The Centre is exploring all possibilities to improve the existing border trade between India and Myanmar through Pangsau Pass in Arunachal Pradesh. The Centre is exploring ways to improve the trade through Pangsau Pass and would also help in infrastructure development of the area, Additional Director General of Foreign Trade V K Gupta has said recently.

In 2006 a border centre was set up at Pangsau Pass for collecting first hand knowledge to promote border trade between Myanmar and India. Pangsau Town Peace and Development Committee has requested for repair of rest 3-km historic Stillwell Road from Indo-Myanmar border point to Pangsau town for smooth traffic movement and proposed that Myanmar could export gold dust, jade, timber, mustard seed, ginger, poultry birds, goat, pig and cardamom. The Committee has demanded that all types of construction materials, edible items, electronic items, sport items, stationeries, petroleum products like petrol, diesel beside medicine and utensil should be allowed to be traded through the border.

At present, the informal trade is organised thrice in a month—on every 10th, 20th and 30th—by organising melas or bazaar under the supervision of District administration and the para-military forces. □