Centre for the Study of
Contemporary Societies
Bhubaneswar

April-May, 2018
(Volume 1, Issue 6)

ANWESHA

CSCS NEWSLETTER

EDITOR IN CHIEF:

Dr. Pritish Kumar Sahu

EDITORIAL BOARD:

Dr. Pramod K. Ray
Dr. Birendra Suna
Mr. Biswajeet Mohapatra
Dr. Ranjana Bajpai
Ms. Jyotirmayee Tudu
Dr. Anwesha Chakraborty
Mr. Kishore Kumar Mohanty
Ms. Prajna Jagadev
Ms. ChandanaPattanaik

RCEP Negotiations: India's Trade Prospects

Regional Comprehensive Economic Partnership of Asia and the Pacific (RCEP) is an initiative for creating the world's largest trading bloc with new decisive platform for trade and investment rules. RCEP includes ten members of ASEAN and its six FTA partners-India, Australia, China, Japan, New Zealand and South Korea, which together accounts for over 36% of the global GDP, and about 40% of global trade in goods and services. The concern on the 'behind the border' for the countries in the negotiation, particularly for those not into TPP is a major priority as it includes the issues of market access, investment, technical cooperation, intellectual property rights, competition, and other WTO-plus issues.

India has direct FTAs into effect with majority of the RCEP negotiators, either bilateral or regional, (except with Australia and New Zealand though the negotiation is launched). But the tariff on many product lines are not effectively zero, mainly because of the inclusion of many products in the sensitive list or because of other non-tariff barriers. Hence, for India, issues of tariff is as important as other areas under negotiations. On the other hand, countries common to TPP and RCEP (viz. Australia, Japan, New Zealand, Vietnam, Malaysia, Singapore and Brunei etc.), the tariff cut is not an important issue as it is already lowered or will be lowered once the TPP comes into effect. In addition, countries such as Singapore has zero tariff for almost all products and countries like Malaysia has zero tariff on almost 90% of the products. Given this, the post RCEP will not affect these countries much in terms of increase in their imports. Rather, tariff elimination will offer much to other RCEP participants to access Indian market than what it is likely to get in return.

The likely Cost and Benefit during Post RCEP

World Integrated Trade Solutions (WITS) simulation approach is used to assess the impact of tariff cuts within the RCEP bloc on exports and imports of member countries as well as excluded countries. Assuming that the post RCEP will eliminate the tariff between its signatories (which the RCEP does not do), the simulation gives an assessment of two outcomes. First, the post RCEP will likely to increase India's export by $5.5 billion annually with the highest increase in export to China followed by Vietnam and Thailand. Second, India's import may increase by a whopping $29 billion annually during the post RCEP. Almost two fifth of the increased import will be from China followed by South Korea and Japan. The influx of duty free import from china is likely to threaten the domestic industry and this continues to be a biggest worry for the negotiator.

Overall, a low export compared to import will widen India's trade deficit during the post tariff elimination period, as India is having a trade deficit of over $84 billion in 2016with the present RCEP negotiators. This trade deficit will result in revenue loss of as much as 1.4% of India's gross domestic product, in case all existing tariff is brought down to zero.

India's export may increase more than the estimated $5.5 billion as and when the post RCEP rules are clear. For example, RCEP is likely not to use the 'yarn forward rule' of origin. This would benefit the garment manufacturer to choose thread and fabric etc. from the most suitable places viz., the non-RCEP countries like Taiwan, making them cost competitive vis-à-vis higher export.

Even with overly optimistic assumption of low tariff cuts in sensitive sectors like agriculture, dairy products etc. and does not accedes to the demand of steep tariff cuts, the post RCEP will still experience a higher import than the exports for India. Any tariff cut is likely to increase import from countries such as Australia, New Zealand, Malaysia, Thailand and Indonesia as they have strong comparative advantages in these sectors.

But, it is not clear where India can benefit from the RCEP in a way that can compensate the losses from other chapters of the RCEP. Given India's advantage in service export, a more aggressive push for a greater access in mode 4, i.e. the movements of professionals will benefit India and reduce the trade gap with RCEP partners.

With the RCEP poised to become an overarching RTA in Asia, India needs to examine its possibilities in other areas of the agreement. For example, many countries of the present RCEP signatories use of their domestic products as third country exports, except Cambodia and China to certain extent. A strategic and wise move in the regional supply chain would strengthen India's value chain and grab the most out of the present deal.

Note: All Data used is taken from World Integrated Trade Solution, World Bank

Editor's Pick

TIME FOR AGRICULTURAL STARTUPS

Prof (Dr.) BenudharBhuyan, Advisor, Centre for Agri-Management, UtkalUniuversity

Odisha today is emerging as a major startup hub with the urban sector giddy with new entrepreneurial energy. Unfortunately, the agricultural sector has remained out-of-ideas and out-of mind. The government has already initiated to offer attractive incentives including easy loans, insurance schemes and tax benefits to farmers-cum-entrepreneurs.

Developing entrepreneurs in agriculture can immensely benefit Odisha's economy by

- Reducing the burden on agriculture
- Generating employment opportunities for rural youth
- Reducing the need for migration from rural to urban areas, thereby reducing pressure on urban cities etc.
- Increasing individual and national income
- Utilisation of land based natural resources
- Will double the farmer's income by diversifying farming (integrated farming) and energizing non-agriculture sectors.
- By boosting exports of processed agriculture products.

Sectors where entrepreneurship can help the agribusiness:

a. Food Processing

Agriculture-based industrial products account for half of all exports from developing countries. However, most of them involve exports of raw material as against developed countries whose exports mostly comprise processed goods. By continuing to operate at a low level of value chain, we are losing income and production. An entire food processing industry can be developed in rural areas, augmenting income and employment .Preferably processing can be taken up at micro level with subsidized loan assistance. Perishable products like tomato, potato, onion Etc. can be processed through indigenous technology at farm level to reduce perishability to gain better price.

b. Floriculture

In a number of cases flower farming can be done on small tracts of land. In fact, bulks of flowers are cultivated on 'micro farms'. Farmers can utilize a part of their land to cultivate seasonal flowers alongside regular conventional crops. The roof top gardening has become popular to take up floriculture. The flours like Meri Gold is demanded throughout the year for different festive occasions and becomes an assured source of earning.

But, this needs markets in the vicinity or processing and preservation units. Entrepreneurs having knowledge of flower cultivation and marketing can set up parallel industries in fertile rural lands.

c. Pisciculture and Duckery

Fish farming is practiced by a lot of farmers to augment their incomes. However they do so on amateurish and small scale basis. A conscious business effort to develop small pond fish farms in rural areas can enable pisciculture to become a valuable sector in the rural economy. Fish cultivation on market scale needs some knowledge and boosting entrepreneurship in the sector can make a difference, as done in the western countries. The entrepreneurs van avail the subsidized Govt. loan assistance for investment. Raw materials are not a problem and there is ready made market. To avoid problem of frequent non availability of electricity and its fluctuations subsidized solar energy can be availed. Even fish farming in 0.75% hectare of land can make the entrepreneur to reach the breakeven point.

d. Farm Technology

Dependence on outdated and inefficient technologies lead to poor productivity and low income. While large scale farmers have adopted modern technology on a major scale, most small farmers still rely on age-old farming techniques with mostly manual methods.

Boosting entrepreneurial minds in agriculture can boost productivity by incorporating modern technologies in the farming sector. With increasing awareness and technology the risk of monsoon and the price trends in the markets can be taken care of. Scientific post-harvest technology can be taken up to boost income by 25-30 percent. Timely harvesting, grading, standardization, proper storage and processing and marketing through producer's association will sure enhance the farmer's income.

e.Mushroom Cultivation

The entrepreneurs in rural areas with availability of plenty paddy straw can take up mush room cultivation for which small size open space with straw shedding is not a problem. The seed is also available easily. Due to increase of vegetarian demand for straw is on increase. The cost benefit ratio is highly favourable and the mushroom cultivation can be taken up for 8 months in the year.

f.Organic Farming

The organic farming has become order of the day. Due to health consciousness the demand for organic vegetables is on increase .The entrepreneurs can take advantage of the situation and can go for organic farming and will market the products at a premium price.

g.Honey Cultivation

Entrepreneurs can install apiary units in rural areas availing plenty of flowering plants in and around villages throughout the year. With less gestation period and favourable market the cost benefit ratio is high and huge profit is assured within a short period.

National

Why 15th Finance Commission is in the Eye of a Storm

(Source: Livemint)

The terms of reference of the 15th Finance Commission have drawn protests from many states, especially from the south, over its mandate to use 2011 Census data over the 1971 Census data for resource allocation. Here's a look at the issue.

What does the Finance Commission do?

The Finance Commission is a constitutionally-mandated body established once every five years to devise a formula for distributing net tax proceeds between the centre and the states as well as among states and local bodies. The recommendations of the 15th Finance Commission (FFC) will come into effect from 1 April 2020.

Why is FFC in the News?

The terms of reference of the FFC as decided by the centre have been criticized by various non-BJP ruled states, especially the southern ones, as being against the spirit of fiscal federalism. The centre has mandated to the FFC that population data for determining states' share of tax revenues should be based on the 2011 Census, rather than the earlier practice of using the 1971 Census.

What's the problem with using Census 2011 data?

The southern states, as well as states such as Odisha and Punjab, have succeeded in reducing their population growth rates in recent decades while the growth rates of most northern states including Bihar and Uttar Pradesh have remained high. Southern states allege that if FFC uses the 2011 Census data, more resources will be transferred to the northern states, thus penalizing states that have succeeded in controlling population.

How have the Centre and FFC Reacted?

Prime Minister Narendra Modi said last month that the allegation of favouring northern states over southern ones was “baseless”. Finance minister ArunJaitley has said that although the 14th FC had no specific mandate to use the 2011 census, it had rightly allocated 10% weight to the 2011 Census population data to capture demographic changes since 1971 and make a realistic assessment of the needs of states. FFC chairman N.K. Singh has said that the commission will try to strike a balance between rewarding efficiency and taking care of equity.

Are the Dissenting States Satisfied with the Explanation?

No. These states—Kerala, Karnataka, Andhra Pradesh and the union territory of Puducherry—met in Thiruvananthapuram on 10 April to protest against the terms of reference. West Bengal, Punjab and Delhi joined them at the Vijayawada conclave of finance ministers on 7 May and passed a resolution against the provisions. The states will now present a memorandum to the President seeking an amendment to the terms of reference of the FFC.

Corporate Social Responsibility in India: Examining the Scope for SMEs

(Source: India Briefing)

Companies in India with a net profit of more than US$750,000 (Rs 5crores) in a single financial year are mandated by the government to spend a minimum of two per cent of their average net profits of the last three years (before tax) on social causes in the country.This spending is called the corporate social responsibility (CSR) initiative, and can apply to small and medium-sized (SMEs) companies as well – if they meet the profit-linked criteria.

A company with CSR projects does not receive any additional tax exemptions. Exemptions may be granted for agricultural, health, rural, and skill development projects, among others, but only under the Income-tax Act, 1961.Since SMEs are sensitive to changing market patterns, with sales performances tying into market fluctuations, they can experience variations in their net incomes.

Given this scenario, SMEs must maintain the balance between complying with CSR recommendations while keeping operational costs low.Firms may also choose to employ a CSR consultant to manage their CSR portfolio.

Monitoring CSR Spending

Currently, there is no official mechanism to monitor or regulate CSR spending in India.However, the board of a company must report its CSR expenditure, based on the recommendations of its own CSR committee, on its website and annual report. Any failure to spend the amount allocated must be explained through the same.The unutilized CSR funds in the current year are to be added to the CSR expenditure of the following year. CSR expenditure cannot be claimed as business expenditure.On average, in India, 70 per cent of CSR contributions originate from private companies.

Making the Best use of Limited Resources

SMEs are permitted to collaborate with other SMEs to create an efficient CSR program by pooling their limited resources. They can also outsource their responsibility to an NGO and monitor all activity through periodic impact assessment reports.

However, several SMEs, with limited and fluctuating profits, avoid collaborating with other companies to circumvent potential management issues. They may simply choose to make financial contributions to any federal or state fund, like the Prime Minister's National Relief Fund. This allows the SME to avoid diverting valuable human resources in maintaining extensive records of CSR initiatives.Sarfaraz Syed, Advisor, CSR and Sustainability, acknowledges these sensitivities, and states that companies must converge on their core competencies when setting up CSR programs. Syed says, “CSR programs addressing social challenges are slow, tedious, and complex. So, companies need to build in-house capacities and make suitable long-term commitments. The process is more to do with internal preparedness than finding external vehicles for delivery of CSR”.He adds, “The motivation to initiate CSR programs for SMEs can range from enhancing business benefits, improving stakeholder engagement or merely complying with legal obligations. However, strategic CSR will only pay off if it is mainstreamed with the business. SMEs possess the advantage of quick decision making, and can pool resources with like-minded companies to address local social issues of common interest as against big corporations and multinationals”.For instance, companies may align their CSR investments along resource and energy efficiency strategies, for example, along the lines of the United Nations' sustainable development goals. These programs require limited funding, provide companies with the space to adopt green practices themselves, and present the company with a clear marketing strategy within the local community.

REGIONAL

Job Generation: Odisha in Bottom 10

Creating job for the growing population is a biggest worry in India. Every state in the country is passing through this and for some its worsening. It is a fact that it is difficult for a government to create formal jobs for over 6-7 million joining the country's workforce annually. While different political party has different notion of calculating the job creation in the state but the government agencies showing altogether a different figure. The recent data released by the Employment Provident Fund Organisation (EPFO), not a survey based rather based on headcount data like the Census shows theacute unemployment scenario is in Odisha.

The data released reveals very unquiet numbers for Odisha as the State in March 2018 could see new jobs that were mere 0.89 per cent of total new jobs generated in the country. The result is Odisha languished at distant 14th among 22 major States and Uts.

As per EPFO net payroll data for 18-25 years, when the country sees new jobs counting to a high of over 3.49lakh in the month of March 2018 alone; Odisha could see new jobs totalling to a mere 3,110 only. Similarly, during the period from January to March 2018, the State saw new jobs numbering around 9,592 vis-a-vis a whopping of 10.32lakh nationally. Similarly, The EPFO, further shows that, during the period from September 2017 to March 2018 reveals that Odisha created a mere 12, 574 only vis-a-vis a whopping of around 23 lakh new jobs nationally. The live registry maintained by the State

Employment Exchange shows that a whopping around 20 lakhs have registered to find a suitable job in Odisha.

The top-10 major new jobs generators in country respectively are: Maharashtra, Tamil Nadu, Karnataka, Gujarat, Haryana, Delhi, Andhra Pradesh, Uttar Pradesh, West Bengal and Rajasthan. This statistic shows the pathetic joblessness scenario in State as when over 2.6lakh fervently searched for jobs, the job-offer here counts to mere thousands. If backlogs are to be taken into account then, according to CMIE, the total active jobseekers in Odisha swell to a whopping 85 lakh.

The report says that since expert services like banking, finance, insurance and stocks etc. are the major new job generators in the country, the lack of such diversified service sector in Odisha is proving a handicap for new jobs generation in State. Other major job churners in country, as per EPFO data, are trading – commercial establishments, electrical, mechanical or general engineering products. Significantly, the engineering goods sectors in Odisha have very poor footprints.

Why the EPFO net payroll data is significant to assess creation of new jobs in India? According to the Centre for Statistics Organisation (CSO), the EPFO net payroll data measures new job creations in the formal or organised sector.

Despite these figures, the Odisha government in May this year declared that 1.97 lakh Micro, Small and Medium Enterprises (MSMEs) units have been established in the state, creating 5.96 lakh jobs in the last four years. The justification of these numbers of job creations may not be truly verified by the government itself. However, putting the blame games aside, it is the duty of the state to create adequate employment opportunities given the fact that there is a huge addition to the labour force in the country every year.

Source: Inputs taken from Pioneer.

Centre for the Study of Contemporary Societies (CSCS)
(A Unit of Samarth Jeevan Trust)
Hig-93, Lumbini Vihar, Chandrasekharpur, Bhubaneswar-751021, Odisha
Visit us at htpp://www.cscsindia.org
Mob: 8457846684
Email : contactus@cscsindia.org