

**BRINGING THE POOR IN THE EXPORT PROCESS:
IS LINKING SMALL PRODUCERS AND BIG EXPORTERS - A
SOLUTION**

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Preamble

In the existing more integrated, globalized and homogenized world, the exports are expected to play a vital role in the economic development. It is widely believed that "International trade can make a significant contribution in the fight against poverty by providing jobs and driving economic growth for a developing country. The countries which have entered export markets through trade and have strengthened their links with the global economy tend to grow faster than those that have not. **World Bank President Paul Wolfowitz** at the National Press Club in Washington DC on December 7, 2005 had said that "Trade is the missing link to jobs and opportunity. Unless the people of Africa and other poor countries have access to markets where they can sell their products, they will not escape poverty or be able to give their children a better future."

It is well known that a third of the world's population, about 2 billion people live on the income of \$2 or less per day. The countries which have followed export led growth in the world have done wonders in raising their economic growth and living standard and might also be true for other countries following this strategy. However, there cannot be any assurance that such a policy will help in poverty reduction unless the national export strategy is integrated with national economic plans and implementation is so devised.

Economic Development is normally considered as synonymous to industrialization which is considered as a panacea to solve the twin problems of poverty and unemployment particularly in the developing countries. However, it involves application of multitude of capital goods, equipments, technical know and other resources which can only be acquired from the developed world by augmenting their foreign exchange resources through exports. The significant expansion in world's economic growth from 2.8% in 1998 to 4.8% during 2005 and the same level of expectation during 2006 and 2007 despite a slight decline in the growth rate in developed world including USA and EU shows the impact of liberalized economic regime and its percolation to the developing countries. Further, the robust economic growth rising from 4.3% in 1998 to 8.6% during 2005 in Asia, expansion in volume of trade from 4.6% to over 8% during the same period and robust economic and export growth in the countries like China and India amply justifies that international trade has truly emerged as the engine of economic growth. However, it can still be debated whether export sector can be considered as a panacea for poverty reduction as it might be dependent on several other factors in addition to economic and export growth.

Indian Context

India has been observing a robust economic growth of over 8 per cent during recent years spearheaded mainly by its service sector and exports. The volume of India's external trade including merchandising and service exports has grown at the rate of 41.5% during 2005-06. The services today account for nearly 35% of India's external sector and has been growing at a much faster rate than her merchant trade. The merchandising exports have also noticed an average growth of 20 per cent since 2002-03 and have crossed the level of US \$ 100 billion during 2005-06. Against this, the service exports have grown at the rate of over 70 per cent. The service exports today stands at the level US \$ 35 billion. India's share in the world market for IT software and services (including BPO) have increased from around 1.7 per cent in 2003-04 to 2.3 per cent in 2004-05 and an estimated 2.8 per cent in 2005-06.

The exports as percentage of Gross National Product has increased significantly from 6.6% in 1950-51 to 7.6 % during 2004-05 establishing a strong relationship between country's economic growth and exports which is further authenticated by India's rising share in the world exports. India's share has gone up from 0.6 per cent during 70's to 0.8% now despite a high growth in world trade volume of 10 per cent during 2004. It is also however true that India's export basket has not observed any visible diversification. The major contributors to the growth in exports remains to be engineering goods, gems and jewellery, handicrafts, textiles, chemicals and related products in addition to her traditional export items such as cashews, spices, tea, rice and pulses etc. Unfortunately, the export performance of textiles which should have grown significantly as a result of dismantling of quotas has remained far below expectations.

Despite a robust economic growth and rising importance of country's external sector, INDIA has been facing a challenging task of creating employment opportunities for the large unemployed youth

particularly for the semiskilled and unskilled work force. It is true that India has got full admiration in the world for its modern service industry mainly due to its IT industry. However, the entire IT/BPO industry in India employs only about 1.3 million people out of total work force of over 400 million. This as per NASSCOM/McKinsey projection might increase to 2.3 million working on exports alone by 2010. But even allowing for the number of "indirect" jobs in shops, transport, household services and so on, this would be like a drop in the ocean. India's leading industrialist, Late Mr. S.L. Kirloskar had once commented "whether India will be leading player in the coming century will depend on how fast we increase the scope of our industrial activities and sell quality goods abroad." He further mentioned, "Charity never gave anyone self respect, jobs do. And industry can create them on mass scale."

India, in fact, requires emerging as a manufacturing hub to supplement the booming service industry to meet the challenge of employment generation and poverty reduction. Some of the countries in the world including China, Malaysia and Thailand have been able to strengthen the export oriented manufacturing base for creating millions of jobs besides expanding output and foreign exchange. The cross-country evidence about the labour absorption in the export-oriented industries is constrained by the scarcity of data. However, export sector has definitely benefited the country in her efforts for employment generation and poverty reduction.

Ample Scope

There may not be well established and proven direct links between exports and poverty reduction as export benefits normally do not trickle down to the poor people automatically. However, there are several sectors with high export and employment potential particularly in the developing countries which can help immensely in the poverty reduction programme of the country. It can only be possible by creating strong linkages between poor communities and high performing export sectors in the entire value chain of production and export management. The reorientation of export promotion strategy with a view to creating employment opportunities and supporting balanced economic growth of the country might essentially be required for such a scenario. The support mechanism for the export oriented sector may have to lay emphasis to reduce transaction costs by application of ICTs, creation of synergies between high performing export intermediaries and the low cost labor intensive goods suppliers and also by redefining and strengthening the role of TPO's for facing the emerging and turbulent trade environment.

India has adopted an effective export strategy mainly after the adoption of policy of liberalization in 1990s although the first Export Policy Resolution was passed by the parliament during 1970. As a result, thereof, export sector is now viewed not only as the foreign exchange earner for paying for imports but also as the major contributor to country's economic growth and employment generation so as to reduce the poverty and improve standard of living of the people. The scarcity of data may impede the establishment of direct relationship between employment and export sector, the framework however as discussed in the following pages with examples in Indian context, wherever possible, may give some insight on the subject.

Integration of Export Strategy With National Economic Plan

The first and the foremost requirement for strengthening export sector as employment generation and poverty reduction tool might be to integrate the export strategy with the country's economic plans which always have a wider perspective right from ensuring economic development to poverty reduction by efficient utilization and distribution of country's economic resources. There are several countries in the world particularly in Asia including China, Hong Kong, Singapore and Thailand etc have been able to generate millions of jobs by following export led growth and effective integration of export strategy with the national economic plan.

The serious efforts on this front are of recent origin in India despite the fact that the sectors like handicrafts, home furnishings, ready made garments, the major export potential items from India, provides employment to large number of skilled and semiskilled labor of the country. It has recently been estimated by RIS that export related activities provided employment to 10.7 million people during 2001-02 which went up to 15.9 million during 2004-05 and the level is further expected to go up to 37 million during 2009-10.

The labour intensive products such as textiles, handicrafts, garments and home furnishings, jute and jute manufactures, leather and leather goods, sports goods, coir and coir products etc are the major export earners for the developing countries including India. The products manufactured by the artisans are normally sold through informal channels in the domestic market at a very low price or through intermediaries both in public and private sector. Against this, the overseas market development requires a specialized skill and training and is normally undertaken by the merchant exporters who by and large act as masters and not partners cornering the major export benefits. It is therefore believed that integration of export strategy with the national economic plan can go a long way in revitalizing the institutional framework for adequate financial, marketing and training support to the artisans and producers with a view to improving their standard of living.

Participative Management and Feel of Ownership

As already mentioned, the real producers and artisans of labour intensive products do not have the required skill and financial resources for export development. The intermediation and partnership approach may be highly relevant and useful. The trading houses in Japan and Republic of South Korea have very successfully implemented the partnership approach in marketing and branding the products manufactured by the small manufacturers. It has been gathered that these houses provide all support including production, financial, training, quality control and product branding to the real producers and also judiciously share the benefits. They provide training to the people who really need unlike some countries where training to the application of ICT's is taken by the boss and responsibility of implementation is given to the lower staff. India also has a system of recognition of exporting companies as export and trading houses on the basis of export performance. They are assured easy access to the corridors of power and faster clearances wherever needed. The system has succeeded immensely in augmenting export performance but MIGHT have succeeded only partially in inculcating the feeling of partnerships and ownership with the growers/producers as can be visualized by series of advertisements in news papers by trading houses as and when overseas trade enquires are generated by them. The linkages therefore are required to be real where there should be a feeling of partnership/pride and benefit sharing.

Trade Promotion Organisation and Export Development

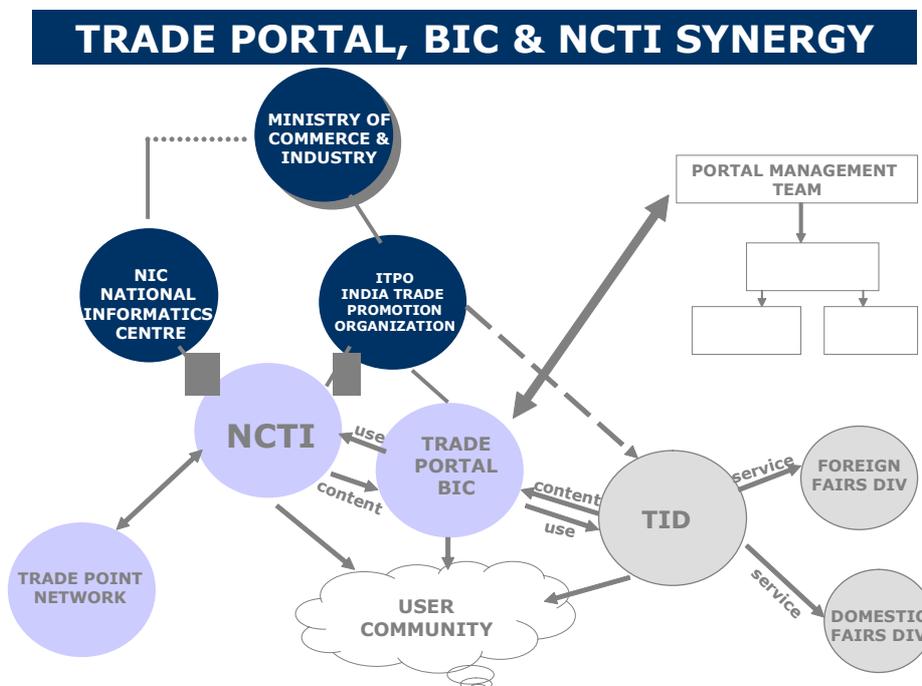
There are multitude of trade promotion organizations including chambers, trade associations, export promotion councils, trade and investment authorities, state corporations and such others in the world including India. These institutions invariably claim to support small and medium enterprises in their export efforts. Needless to mention that SME's are the **largest provider of employment** and are the important users of TPO services. The TPOs up to recently have been wholly or mainly depending on government financial support to conduct their trade promotion activities. The cut in their budgetary support and operational freedom as provided to the exporters due to adoption of the policy of liberalization have not only led to closure or activity reorganization of series of TPOs worldwide but has also made their task more challenging.

The TPOs today are required to reorient their strategy not only to maintain their customer base but also for expanding the same so as to augment the depleted government funding. The change in mind set at all levels, debureacratization, professional management, private sector involvement and carrot and stick principle can go a long way in providing real time assistance in capacity building for SMEs in export development, employment generation and poverty reduction. **In this context, the famous Chinese proverb "Give man a fish and you feed him for a day. Teach a man to fish and you feed him for a life time" appears to be highly relevant.**

There are series of examples where TPO's and EPC's have provided enormous support to the small manufactures and exporters, which have grown significantly. A company (name not disclosed) that was set up by the team of wife and husband way back in 1986, now has a turnover of over US \$ 5 million and employs over 500 people. Incidentally, this company is a 100 % export oriented unit and is owned by a medical doctor supported by a designer wife. Another company run by a young professional who has integrated earthquake-affected people from Gujarat in the supply chain. ITPO has played a significant role by providing these companies the required support in trade information and participation in trade development programmes.

ITPO has now developed an impressive mechanism to support the small and micro enterprises by application of ICT's in its operations in the areas of trade information, value added reports, online registration and space allocation in trade fairs and exhibitions and other trade promotion activities. The facilities are extensively used worldwide including thousands of regular associates of ITPO.

The exhibit as given below explains the mechanism as created by ITPO for the benefit of the exporting community.



In addition to providing trade information support, small and medium enterprises and hitherto disadvantaged regions are also being supported by opening regional trade development centres and organizing various regional events. The organization of North East Expo annually and preferential treatment to rural artisans, woman entrepreneurs in space allotment in ITPO's events particularly India International Trade Fair are other initiatives taken by the institution for supporting the efforts of disadvantaged segment of the society so as to bring them closer to the market both national and international thus improving their income levels.

Networking And Application of ICT's

As already explained, the export sector in the developing countries has immense labour absorption capacity as labour intensive products constitute a major chunk of the export baskets of these countries. The manufactures and artisans associated with these products however lack capability and marketing skill to face the dictums of international marketing. They therefore largely remain dependent on TPO's and trade facilitators and thus remain victim of exploitative marketing practices of intermediaries and prevailing red tape and bureaucracy in trade promotion organizations.

The integration of rural artisans, small exporters and farmers with the established private operators by the application of ICT's and networking can be considered as one of the viable, long lasting and fulfilling solution for improving their levels of income, international competitiveness of their products and bringing them closer to the market place. The **E-CHOUPAL INITIATIVE** of ITC Ltd in India as discussed in the following pages is worth considering in the particular context of improving its agriexports by creating a network of farmers, service providers, intermediaries and ITC itself as an exporter and service provider.

ITC Limited – A Brief Introduction

ITC was incorporated during August, 1910 under the name of “Imperial Tobacco Company Limited” which changed its name to I.T.C. Limited in 1974 keeping in view its diversified activities and multi-business portfolio encompassing Cigarettes and tobacco, hotels and travel services, information technology, packaging, paper boards and specialty papers, greeting and gifting cards and stationery, life style retailing and agri-exports. The company was later rechristened as “ITC Limited” (Full Stops removed) on September 18, 2001. The company today has three subsidiary companies and two associate companies.

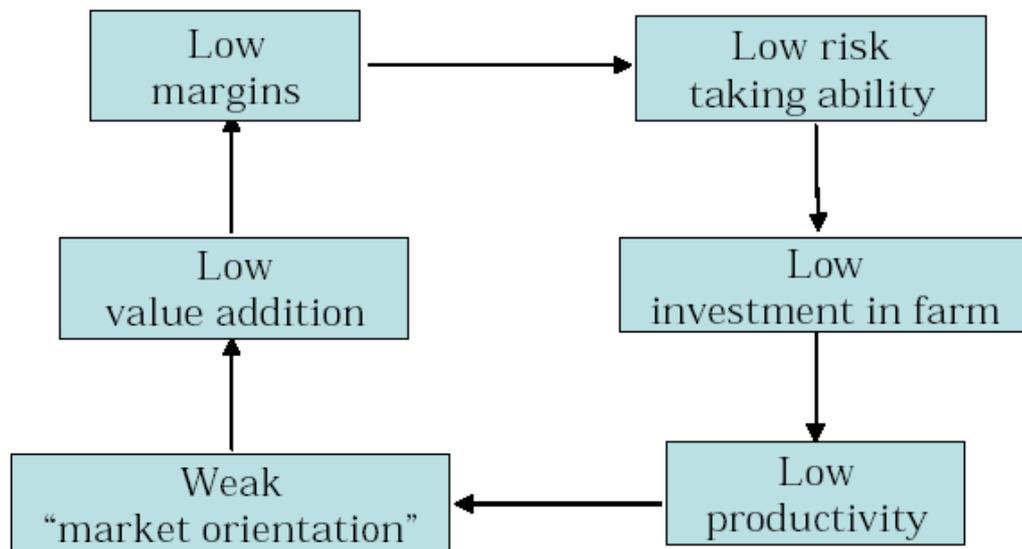
ITC, rated among the world’s best big companies by Forbes Magazines and among India’s most respected companies by Business World, is one of India’s foremost private sector companies with market capitalization of over US \$ 13 billion and a turnover of US\$ 3.5 billion. The company ranks third in pre-tax profit among India’s private sector corporations and is considered to be one of the countries biggest foreign exchange earners at the level of approximately US 2.5 billion. Its contribution to country’s foreign exchange particularly from the exports of agro products is very significant.

The company therefore set up its specialized ‘International Business Division’ (ITC-IBD) in 1990 to facilitate mainly the export of agri- commodities. The division revolutionized its marketing approach by taking a unique and widely acknowledged ‘e-Choupal’ initiative during the year 2000 with a view to ensure backward and forward linkages between farmers, trade facilitators and service providers. The initiative, which started with Soya farmers in the state of Madhya Pradesh, has now also been extended to other products and services. ITC, today, has 6300 ‘e-Choupals’ in seven states having a reach in 36000 villages and services 4 million farmers. It has also set up in its gambit 10 rural malls- ‘CHOUPAL SAGARS’ in three states of Madhya Pradesh, Maharashtra and Uttar Pradesh.

e-Choupal Initiative of ITC, Limited – A Case Study.

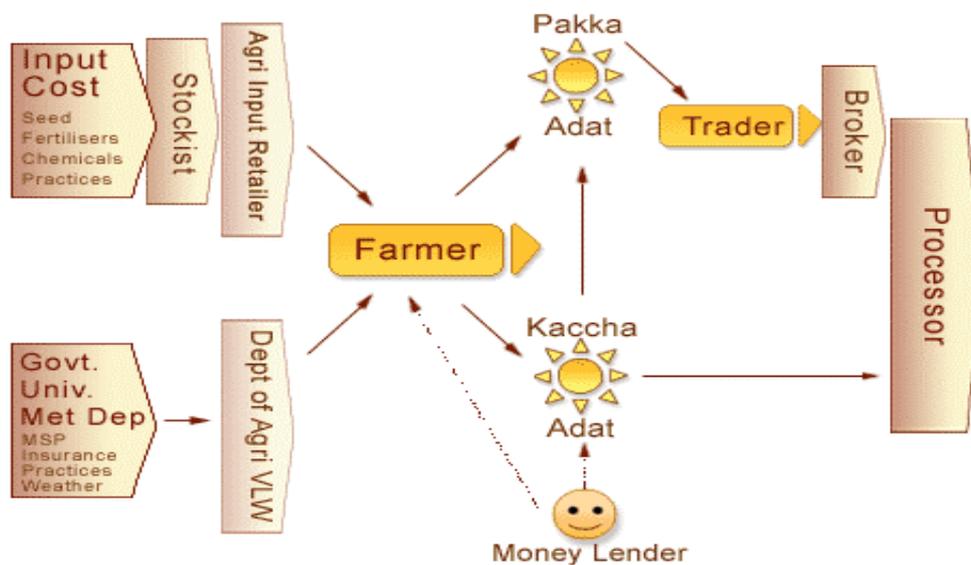
Needless to mention that “Indian agriculture contributes 23% to India’s GDP, feeds a billion people and employs 66% of the workforce. Since independence, the Indian agricultural productivity has improved to the point that it is both self-sufficient and a net exporter of a variety of food grains. Despite significant improvement in agriculture productivity, the large number of Indian farmers, even today, are affected by low level of education, financial dependence and information deficiency in addition to other well-known local problems. These farmers are trapped in a vicious circle and operate on the low level of equilibrium as given in the following diagram.

Cycle of Equilibrium In Indian Farming



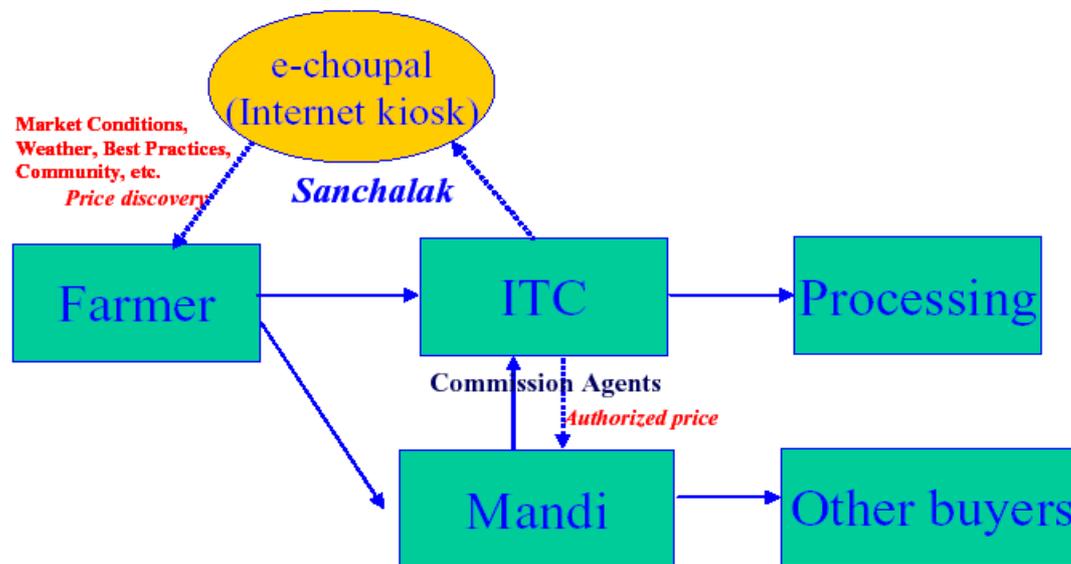
This segment of farmers, grossly affected by the small size of farms, market incompetence, inefficient infrastructure, information gaps and large distances, depends on numerous intermediaries and traders who exploit the agricultural marketing system which is largely unfavorable to the farmers in the entire value chain. The traditional agricultural marketing system in India can very well be explained in the diagram as follows.

The Value Chain – Farm To Factory Gate (Traditional)



ITC Limited, closely associated with agri exports has tried to minimize the impact of traders on farmers and itself by leveraging the internet technology and positioning computers in rural farming villages, the initiative known as **'e-Choupal'** which means a gathering place in Hindi. Through this initiative, ITC has conceived an efficient supply chain aimed at delivering value to its customers worldwide on a sustainable basis. The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture marketing system as explained above. The system tends to ensure a mutually beneficial procurement and distribution channel – an e-

commerce platform that is also a low cost fulfillment system focused on the needs of rural India. ITC's e-Choupal is explained as follows.



It is firmly believed that ITC's e-Choupal initiative has brought a paradigm shift in the agricultural marketing spectrum for the farmers within its fold. The initiative has brought these farmers located in the far-flung villages at par with urban population in terms of availability of information and knowledge. The system enables the farmers to have an easy access to information on weather and daily market price at local market places, called Mandis, as well as global price trends and also the best scientific farm practices in their local language. The easy access to information has made their decision making process highly rewarding and comfortable.

ITC 'e-Choupal' is not just a village digital kiosk with human interface. The access to 'e-Choupals', within walking distance from the farm gate is supplemented through physical infrastructure-the ITC Choupal Saagar which functions as a hub for a cluster of villages within tractorable distance. These hubs also serve as warehouses and as rural supermarkets for a variety of goods including seeds, fertilizers and other consumer goods. Interestingly, information kiosks are operated by the local farmers in their homes who is called sanchalak (operator) and choupal saagar by an ITC approved agent called Samyojak (aggregator). They are trained by ITC but are not its employee and operate on transaction-based commission, which keeps their interest alive. The information through the kiosks is provided free of cost and buying from and selling to ITC is not binding which is a major confidence building and dignity assuring exercise for the farming community.

Appreciating the imperatives of intermediaries in the Indian context, ITC has virtually built up a profitable business model clustering all the value chain participants and bringing the poor farmers closer to market. The use of existing infrastructure, involvement of farmers, transparency and operational freedom has not only created a feel of ownership but has built permanent relationship between farmers and the company. The system has been able to make the delivery mechanism more efficient by leveraging the power of Internet without disturbing the social and psychological spectrum of the rural India, which is so close to the hearts of the rural population.

As a result, ITC today has a strong network of 6300 e-Choupals in 36000 villages serving 4 million farmers. The company has emerged as the largest exporter of agro products in the country with its exports increasing from US \$ 60 million to US \$ 220 million during last five years.

Conclusion

It can thus be concluded that the poor artisans, prospective small exporters and farmers in developing countries remain disadvantaged due to geographical dispersion, fragmented infrastructure and the broken and exploitative value chain which deprive them of the real value for their efforts. The problem can partially be solved by strengthening trade information flows by the TPO's. These organizations largely play only the advisory and promotional role and remain affected by red tape, financial inefficiency and bureaucracy. The strong public- private partnership and professional management is therefore vital to build a strong user community. Further, these organizations should develop capability to provide trade information in user-friendly format in this era when the cyber space is full of trade information and databases besides other well integrated trade promotion support. It may require the establishment of physical and virtual network in the identified area of operation.

The real value can however be created by linking the small and disadvantaged manufacturers and producers with large and experienced players if they act as partners and not as masters. The major challenge before the developing countries is the conversion of vicious circle of poverty into the virtuous circle of prosperity by utilizing the power of Internet for net working and efficient management of the entire value chain for the benefit of its partners and operators. The examples as discussed in the paper are not claimed to be the final version on the subject but are only indicative towards achieving a higher level of efficiency and fulfilling objective of poverty reduction through exports by assuring fuller value for the efforts of the rural artisans, farmers and small manufactures.