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The EU-India-FTA and its social, economic and gender-related impacts

Round-Table in Berlin „China and India in the (world) economy“

Heinrich-Böll-Foundation, Berlin/Germany

1. Introduction:

Since 2007 India and the EU are negotiating a Free Trade Agreement (FTA) with the original aim to come to an agreement already by the end of 2008. As the negotiations are conducted in closed sessions, questions regarding the possibility of more transparency and a stronger participation of parliaments and civil society gain momentum. The EU wants to establish benchmarks concerning sustainable development, much to India's disapproval, who regards this attempt as a pretext for the EU's protectionist interests. From the EU side this contentious point has triggered a discussion on whether labour and ecological standards should be negotiated with India at state level or whether it is more effective to work together with civil society groups in India and support them in their attempt to implement these standards locally. And given this already heated discussion, how can human rights, social and ecological standards be made binding reference parameter in EU foreign policy without giving the impression of reinforcing the "white man's burden"? As not all groups in India profit equally from trade liberalisation, the session started with a question to all Indian guests as to whether there is resistance among certain groups against the impacts of FTAs and foreign direct investments (FDI). The example given concern the opposition against forced land expropriation and the rise of food prices.

2. Liberalisation and growth in the Indian economy since 1991

India's growth mainly consists of the following components: there is strong growth in the service sector, followed by industry and exports. India's importance as a place for FDIs is also growing. Its position within the world economy is rising due to declining external debts and an accumulation of foreign currency reserves. India is a growing competitor to developed countries in the area of capital and knowledge intensive production. And it is competing with other emerging markets and developing countries in the energy sector, in natural resources and labour intensive production.

In reaction to this overview the following questions were raised: Why and in which historical contexts was liberalisation in India initiated? Would there have been other models for development possible at the start of liberalisation? Which measures should be taken today to avert negative social, economic and gender-political impacts?

The Indian think-tank perspective underlined India's orientation towards a gradual development scheme: according to the experts India is striving for gradual growth according to the Washington Consensus and has learned its lessons from the south-east-asian financial crisis. Especially in agriculture liberalisation is being executed with care, with at least 20 % of the sector not having been opened to world markets. The experts stressed that India has furthermore asked the World Trade Organisation (WTO) for more guidelines for the protection of the agricultural sector and particularly for the protection of small farmers' rights. This tableau of "soft" growth was later on in the session contrasted with a gender-political perspective, demanding for a further slowing down of growth and a consequent implementation of a sustainable strategy for a gender sensitive development.

3. Impacts of liberalisation and questions of political and social responsibility

Some commentators argued from a theoretical economic perspective that neither should the times before the reforms 1991 be idealized nor should liberalisation be demonized. Without liberalisation India's integration into the world economy would not have taken place, and neither would there have been any growth. Many problems such as infrastructure and the increase of the informal labour market are not directly caused by liberalisation, but are mere side effects of Indian labour, education and social policy. This position was contrasted with the argument, that only India's opening to the world market has brought upon certain mechanisms of supply and demand and the extension of unfair labour conditions. The question, whether India has defined itself successfully as one element of the global production chain was contrasted with the position, that India still produces articles for European companies and with European brand names and therefore still ranks very low in the value chain.

3.1 Growth only on the nod?

After the key notes on India's liberalisation and economic growth there followed a discussion on whether investments in India are not for the bigger part merely credits. The risk of a financial crisis was then discussed, accompanied by questions regarding India's responsibility for economic stability in the world economy. From the German experts' side these points were rebutted by arguing that India's savings rate had gone up to 32 % and the rate for external debts had gone down. What they regarded as critical was, however, the increase of internal debts and the high level of corruption within the Indian government.

3.2 Problems of infrastructure

Both Indian and German experts argued that growth in India has also increased the disparities between the people which has led to many deficits in infrastructure. The access to electricity, water, medical care, and education, deficits in human resource management and in the development of public transport, the increase of regional and gender disparities were highlighted in this context. It was obvious to the experts that on the one hand the number of well-trained people in urban areas increases, but on the other hand the number of unskilled people living of less than 2 dollars per day also increases. The question was raised whether the problem of infrastructure could be seen not only as a risk but also as a motor for development. The answers to that were overwhelmingly negative. The Indian government would need an estimated amount of 500 billion US-dollars to construct area-wide infrastructure. The former idea to solve the financial problems by way of PPP (public private partnerships) as suggested in the past, is not realistic. The planned SEZs (special economic zones) included plans of infrastructural development, but there is no financial concept for a general expansion. In this context the following questions were raised but remained unanswered in the debate: Who has to take on responsibility for the development of a general infrastructure beyond the SEZs? In how far should European investors and trade partners take on responsibility for such a development? Why do Indian investors put their capital in other countries but do not help to improve infrastructure in India?

3.3 Agricultural sector in India

The growth rate of the Indian agricultural sector stagnates compared to the industry and the service sector. Almost 60 % of the Indian population works in the agricultural sector, but it only generates one third of the national GDP. It became clear in the discussion that it is important to differentiate between the situation of industries which produce for the agricultural sector, big farmers and small farmers, as they are not equally affected by Indian subsidies and by the negative impacts of FTAs. As an example some participants mentioned the

subsidies for the production of fertilizers and the fixation of minimal prices for the stabilisation of market prices for certain agricultural goods.

From a gender perspective India needs an agricultural policy that guarantees food supply for the people and the development of institutions that can represent the political interests of small farmers and land workers. The Indian experts complained that agricultural policy is not yet being discussed on a national, but merely on a regional level. Also there is no debate on the effects of FTAs for the agricultural sector.

3.4 Definition of “organized/unorganized market”

The term “organized labour market” means the official labour market where the implementation of labour laws and the guarantee of social security is relatively strictly controlled by the Indian government. “Unorganized labour market” means the informal labour market to which 90% of the Indian working population belongs. This unorganized market is characterized by precarious labour conditions, especially for the numerous peons, street merchants and farm workers. If a business employs more than 20 people it is obliged to have them registered and insured.

In order to avoid registration in many cases the creation of small businesses is preferred. The organized market produces products of high value with capital intensive technology and only few employees. In addition to the employed workers there are many temporary workers who are being hired and fired on demand. The majority of these workers are women. A good example is the textile industry where only 10 % of the working staff is employed, but which produces more than 70 % of India’s gross value of textile. This means that most capital within the textile sector is accumulated in the organized market.

3.5 Gender political perspective of the labour market

Liberalisation and the inclusion of India in the global production chain have visibly increased the number of precarious labour conditions especially for Indian women and also unemployment in the informal sector. Women have generally less access to education, training, less capital, and hardly any access to credits or bigger markets. They carry both the responsibility for the household and the care for the family and their work, and as a consequence their status on the labour market suffers. An extensive study in the textile sector has shown that women make up the biggest number of workers in the informal sector with the lowest wages, without social security, representation and with generally precarious conditions. The increase in capital and knowledge intensive production together with the entry into the world economy intensifies competition in the labour market which then leads to a downside of labour conditions in the informal sector of which the majority are women.

There was a discussion on whether these developments were in fact triggered by FTAs and the global economy or whether they were the result of Indian labour market policy. It soon became clear, however, that one could not be separated from the other as textile production plays a major role in exports. Beyond the bad position of women in the textile sector the participants also remarked upon a feminisation of the agricultural sector, and the informal sector in general.

3.6 Who is responsible for the implementation of labour rights?

In the context of the discussion regarding the impacts of liberalisation and the search for the causes of the increase of the informal sector the participants highlighted the role of Indian labour laws. The question was raised whether these laws might be too strict and cause businesses to outsource production to the informal market in order to lower their costs. It was critically addressed that on the one hand the EU is asking the Indian government to observe all standards while on the other hand European companies tried to avoid Indian labour laws

in practice. The question was also raised whether as a consequence to this European entrepreneurs should not be asked to bind themselves more strictly to the observation of labour laws in India.

3.7 Different interest groups in India: Losers and winners?

A German participant argued that trade or FTAs usually created a win-win situation between the involved countries, but not for all groups in society in these countries. Another participant stated that trade per se should not be judged negatively, as long as its development and conditions were controlled by all involved stakeholders. The discussion about different Indian interest groups was initiated by a number of questions: should there be a focus on the losers of the reforms, or are there also winners? Are there party political ties between different societal interest groups? Are there internal fights between different interest groups, such as small farmers against big farmers? How do the structures of interest representations look like? Which forms of resistance against FTAs are there? Are the communist party of India (CPI) or maoist groups opposing liberalisation? Only the last question received a concrete answer: The CPI is part of a ruling coalition in three states, and in two states it is strongly supporting liberalisation. Maoist groups in the south of India are gaining power with the support of Nepalese groups. In addition to this it was mentioned that the urban middle classes are in favour of liberalisation as it creates better career options for them.

4. Transparency as a starting point for political influence and as a motivation to act

Transparency regarding the preparation of and negotiations on FTAs is the precondition for creating greater public awareness and motivate civil society stakeholders to get engaged. In this context the question was raised whether there are such groups in India working on these issues. So far it has been difficult to generate wider interest in India, some participants said. Indian experts stated that there is yet little public awareness regarding these issues. Neither local economic councils nor women groups or farmers associations were involved in the negotiations. There is no public debate on democracy and human rights or labour laws, and as a consequence there is also no strong political lobby in the Indian public or in its political institutions. The losers of the reform are mostly working in the informal sector or they are unemployed, mostly female, and without political representation. Hirway stressed that Indian media should be used more effectively to raise awareness about FTAs and the necessity of civil society participation in the negotiating process. An active media could help to form alliances between those groups affected by the social, economic and gender-political impacts of FTAs.

5. FTA negotiations

India is interesting for the EU especially in the sectors intellectual property service, investments and public procurement. India regards European investors as helpful to expand India's role next to China as a global focus point for production, trade and service.

5.1 Why EU and not ASEAN as most important trading partner?

Some German participants asked why, given the growing economic power of India's neighbouring countries as well as the obvious problems in the FTA negotiations with the EU, India is not primarily seeking closer trading links with its geographical neighbours. In their answers experts pointed out that the problems and the number of products on the negative list were even bigger with ASEAN than with the EU. In the 90s the "Look East" policy had been actively pursued, but today it has lost some of its power.

5.2 Europe's new perspective

Europe's new concept "Global Europe – Competing in the world" clearly puts global competition and economic interests before political responsibility in the fields of sustainability, poverty reduction, social justice, human rights and food security. Development cooperation is conditioned by the appropriation of "favourable investment surroundings" for European businesses. Europe's points of orientation are the four Singapore issues (WTO conference 1996): Investment protection, ability to compete, transparency in public procurement and trade relief. The EU's budget for development cooperation with India is constantly being reduced with the argument that India now belongs to one of the "emerging powers". It should be noticed, however, that even though India's economy grows with a yearly rate of 9, 2 % relatively fast, the per-capita income each year stagnates on a rather low level (635 Euro).

5.3 Contentious questions in the concrete negotiations between India and Europe

How to implement fairness as a leading principle into a trade agreement between two very unequal partners – this was one of the main questions asked in this debate. India lists only on 10th place for the EU whereas the EU is India's most important trading partner. Furthermore India can raise its export rate only up to 19 %, the EU on the other side can increase up to 57 %. There are the already mentioned problems of implementation of EU standards and intellectual property rights (TRIPS), but there is also the export of agricultural products from the EU to India, the establishment of European retailers in India and the limitation of imports of EU industrial products as controversial subjects.

6. Common perspective: reciprocity and social responsibility

As one result of the discussion it can be summarized that a slowing down of India's growth rate is regarded as vital for implementing ecological and social sustainability. Especially the implementation of labour laws, the protection of indigenous knowledge, a responsible handling of intellectual property rights in the field of pharmaceuticals and food security are points that must not be endangered by foreign trade policies of neither India nor the EU. Hirway and Wichterich both agree that there is a certain race to the bottom which also affects India's labour conditions i.e. in the mining sector and in textile production. Europe's demand determines the supply of cheaper energy, cheaper manpower and lower production costs in India. This shows the responsibility both of the EU and of India to negotiate for a sustainable trade agreement and to abide by social and ecological standards.

7. Summary

The first part of the session was hardly long enough to discuss all relevant questions. It became clear that the complex historical and political dimensions came to play in the negotiations of the EU-India-FTA. But there was too little time to go into the details of these issues. One result was the realisation that gender related issues cannot be separated from general questions concerning the causes of the growing informal sector, the implementation of labour laws, also from the part of foreign corporations, poverty reduction, optimizing the general living conditions and a slowing down of the liberalisation process. Other topics regarded as relevant in this context were the feminisation of the agricultural sector in some regions, the importance of female labour in the food sector, and the necessity to develop a strategy on sustainability for the use of natural resources like water. All participants stressed the importance to raise public awareness for these issues in the FTA negotiations. All stakeholders, in parliaments, governments and civil society should be made aware of the impacts of FTAs concerning social, ecological and gender-political questions.