



RACE IAS

Editorial

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The recent woes of the jute industry in West Bengal

Context:

Member of Parliament (MP) from Barrackpore constituency in West Bengal met Textile Minister to apprise him **about issues concerning jute farmers, workers and the overall jute industry.**

Mills are procuring raw jute at prices higher than what they are selling them at after processing.

A September 30, 2021, notification mandated that no entity would be allowed to purchase or sell raw jute at a price exceeding ₹ 6,500 per quintal. The cyclone Amphan in May 2020 and the subsequent rains in major jute producing States aggravated the crisis.

The operations of 20 jute mills in Barrackpore constituency, with lakhs of people dependent on them, were adversely affected with many forced to shut down and many others on the verge of closure.

Approximately 60 mills operating in the State, 15 had shut down because of the crisis.

Climatic Conditions for Jute growth:

The jute plant needs a **plain alluvial soil and standing water.** Soft water is necessary for jute production.

Availability of quality jute: The Ganga-Brahmaputra delta grows about 90 percent of India's jute and provides raw material to jute mills.

Transportation: Cheap water transportation is available in the Ganga-Brahmaputra delta region. The area is also served by a network of roads and railways.

Labour: High density of population is required for abundant cheap labour.

The suitable climate for growing jute (warm and wet) is offered by the monsoon climate, during the monsoon season.

Temperatures from 20 to 40 °C (68-104 °F) and relative humidity of 70%-80% are favorable for successful cultivation. Jute requires 5-8 cm (2-3 in) of rainfall weekly, and more during the sowing time.

What is the problem all about?

In simple words, **mills are procuring raw jute at prices higher than what they are selling them at after processing.** Let's understand the mechanism first.

1. Mills do not acquire their raw material directly from the farmers. There are two reasons for the same.
2. First, because the farmers are far-off from the mills locations and the procurement process is cumbersome.
3. Mills would have to go to multiple farmers to acquire the requisite quantity as no single farmer produces enough to fulfil the requirements of the entire mill.
4. The **procurement now flows through middlemen or traders.** As a standard practice, the middlemen charge mills for their services, which involves procuring jute from farmers, grading, bailing and then bringing the bales to the mills.
5. The government has a **fixed Minimum Support Price (MSP) for raw jute procurement from farmers**, which is ₹ 4,750 per quintal for the 2022-23 season.
6. However, as the executive stated, this reached his mill at ₹ 7,200 per quintal, that is, ₹ 700 more than the ₹ 6,500 per quintal cap for the final product.
7. Though the Union government has come up with several schemes to prevent de-hoarding, the executive believes the **mechanism requires a certain "systematic regulation"**.

What happened to supply?

What made the situation particularly worrisome recently was the **occurrence of Cyclone Amphan** in May 2020 and the subsequent rains in major jute producing States.

These events led to **lower acreage**, which in turn led to **lower production** and yield compared to previous years.

Additionally, as the Commission for Agricultural Costs and Prices (CACP) stated in its report, this led to production of a lower quality of jute fiber in 2020-21 as **water-logging in large fields** resulted in farmers **harvesting the crop prematurely**.

Acreage issues were accompanied by hoarding at all levels - right from the farmers to the traders.

Where is jute used?

1. Bulk of the final jute produced is **used for packaging purposes**. The provisions of the Jute Packaging Material (Compulsory use in Packing Commodities) Act, 1987 or the JPM Act mandate that 100% production of foodgrains and 20% sugar production must be packaged in jute bags.
2. The share of jute used for sacks, therefore, increased from 67.9% for the TE (TE: Triennium Ending or three years ending) 2010-11 to 78.3% in TE 2020-21.
3. On the other hand, jute used for manufacturing other products (such as furnishing materials, fashion accessories, floor coverings or varied applications in paper and textile industries) has **declined from 15.5% to 9.7% during the same period**.
4. As per the Food and Agriculture Organisation (FAO), India is the largest producer of jute followed by Bangladesh and China.
5. However, **in terms of acreage and trade, Bangladesh** takes the lead accounting for **three-fourth of the global jute exports** in comparison to **India's 7%**.
6. This can be attributed to the fact that India lags behind Bangladesh in producing **superior quality jute fibre** due to **infrastructural constraints** related to retting, farm mechanisation, lack of availability of certified seeds and varieties suitable for the **country's agro-climate**.
7. What also does not bode well for India is that jute acreage competes with crops as paddy, maize, groundnut, and sesame.
8. The **increased availability of synthetic** substitutes is further bothering the demand for jute domestically.
9. Further, as the CACP report stated, Bangladesh provides cash subsidies for varied semi-finished and finished jute products.

Hence, the **competitiveness emerges** as a challenge for India to explore export options in order to compensate for the domestic scenario.

What is at stake?

As the jute sector provides **direct employment to 3.70 lakh workers** in the country and **supports the livelihood of around 40 lakh farm families**, closure of the mills is a direct blow to workers and indirectly, to the farmers whose production is used in the mills.

West Bengal, Bihar and Assam account for almost 99% of India's total production.

Measures taken for the jute industry:

1. **Improve quality:** Innovative ways of bleaching, dyeing, and finished goods processes the jute industry now provides finished jute products that are softer and have to luster with aesthetic appeal.
2. Today Jute has been defined as **eco-friendly natural fiber** with utmost versatility ranging from low-value geo-textiles to high-value carpets, decorative, apparel, composites, upholstery furnishings, etc.
3. **Efforts in R&D to strengthen the jute industry** and implement newer technologies, diversified products, and improved machinery through intensive modernization.
4. These will fetch more profit by reducing cost and has less market competition (synthetic counterpart) due to its eco-friendly property which has good prospects in the coming days.
5. Jute cultivation is being expanded. There has been some dispersion, due to increasing demand from the sugar industry in UP and cement industry MP.

Way Ahead:

The future prospects of the Jute industry, however, is bright due to the following:

1. Diversification of jute products
2. Environmental awareness
3. Ban on polythene and plastic bags
4. Increasing use for oil conservation
5. Construction of bunds, river embankments, landslide protection
6. Along with cotton, jute is also being used for apparel manufacturing.

Conclusion:

Diversification of jute products such as clothing items, decorative items, matting of carpet improve durability, packing items, etc. has been done to increase the horizon of Jute Industry.

Jute is environment friendly and renewable; hence its use must be encouraged e.g. by making it mandatory to use jute for packaging.

Govt has issued orders like cement, sugar, fertilizer, have to strictly make use of jute production to packing the materials, Food Corporation of India, oilseeds, and tea sector also have to implement this order.

National jute Manufactures Corporation has been formed to boost the jute industry.

MSMEs and Global Value Chains

The rapidly expanding Global Value Chains (GVCs) of multinational corporations (MNCs) are increasingly dominating international trade, which emerging economies like India can hardly afford to ignore.

The limited presence of Indian **micro, small and medium enterprises (MSMEs)** in the GVCs is a consequence of the negligible share of internationalised MSMEs, which is primarily due to a **weak innovation base**, owing to **weak networks of MSMEs**.

The integration of Indian MSMEs with GVCs is the need of the hour for MSMEs. **India needs to create a hub for MSMEs** as a market with linkages to various countries by building and strengthening regional innovation systems and by establishing a multipurpose science and technology commission in the clusters of SMEs.

What Role do the MSMEs Play in the Indian Economy?

- The MSMEs play a fundamental role in India's economic growth, contributing 30% to its GDP and nearly 50% to its exports.
 - The sector encompasses over 63 million enterprises and provides a livelihood to over 111 million workers.

- The potential of MSMEs is well recognised by industry bodies, academics, and policymakers.
 - In a recently concluded MSME conclave, the **MSMEs' potential in building a complete supply chain**, enhancing their global competitiveness was highlighted.

What are the Global Value Chains?

- Global Value Chains (GVCs) refer to **international production sharing**, a phenomenon where production is broken into activities and tasks carried out in different countries.
- In recent decades, international trade is increasingly dominated by global value chains (GVCs) of multinational corporations (MNCs). **More than two-thirds of international trade now takes place within such GVCs.**
- Internationalisation led by the steadily expanding GVCs has been **rapidly reshaping the competitive environment of business** in the global economy.
 - It has **opened national markets to new competitors**, resulting in immense opportunities for both large and small firms.

What is the Significance of Integration of MSMEs in the GVC?

- **Employment Generation:** As the **World Bank's World Development Report 2020 (WDR 20)** suggests, contingent upon deeper reforms in developing countries and policy continuity in industrial economies, **GVCs can help reduce poverty, and continue to augment growth and employment.**
 - The **Economic Survey of India** also highlighted that by participating in GVCs, India's manufacturing sector may witness an **addition of four million jobs by 2025** thus contributing **one-fourth of the total in value-added terms** towards the \$5 trillion economy.
- **Boost in Income:** Cross-country estimates suggest that a **1% increase in GVC participation can boost per-capita income by more than 1%**, particularly when countries engage in limited and advanced manufacturing.
- **Productivity Improvements:** GVC participation can precipitate significant firm-level productivity improvements.

- WDR 2020 suggests that GVC firms engaged in manufacturing activities show **higher labour productivity than one-way traders or non-traders**, after controlling for firm-level capital intensity.
- Innovation is one another component of competitiveness, and MSMEs can test advanced technologies in a pilot mode.
- **More Flexibility:** Integration into GVCs can not only support economic growth but might also be a crucial strategy in the post-pandemic recovery.
 - **GVCs enable firms to participate in international markets more flexibly**, as they might contribute only a small component of an overall supply chain rather than a product in its entirety.
- **Shockproofing:** The **OECD's METRO Model** shows that localised regimes are more vulnerable to shocks, and result in a significantly lower level of economic activity and fall in national incomes as compared to the interconnected regimes.
 - While interconnected regimes build resilience, stability and flexibility in the production networks, localised regimes offer fewer channels for adjustment to shocks.

What are the Impediments to GVC Integration?

- **Access to Finance:** MSMEs' integration into GVCs depends crucially on access to finance, however, the **credit supply shortage to MSMEs** has been a concerning gap in India's MSME sector.
 - Despite its importance and potential, the **MSME sector is often plagued by a lack of working capital**, affecting its day-to-day operations.
 - Without improved access to finance, the goal of integrating MSMEs into supply chains will remain a challenge.
- **Informalisation:** Given that **95% of the MSMEs in India are in the informal sector**, access to formal finance remains a significant constraint.
 - Studies highlight that MSMEs as a whole **receive less than 6% of bank credit**.
- **Delayed Payments:** The number of applications filed by MSMEs on the delayed payment monitoring system **MSME Samadhan** has **crossed the 1-lakh mark**, amounting to over - 26,000 crore.

- **Lesser Technological Understanding:** Moreover, **MSMEs** are often hesitant in adopting digital solutions due to limited understanding and inadequate training.
 - The emergence of new technologies of the **Fourth Industrial Revolution** (AI, Data Analytics, Robotics and related technologies) is a **bigger challenge for MSMEs than for organised large-scale manufacturing.**
- **Other Challenges:** The **lack of skilled workforce**, knowledge and **adequate physical infrastructure** are some other constraints that inhibit the efficiency of MSMEs and thus their integration into the Global Value Chains.

What can be Done for a Smoother Integration of MSMEs into GVC?

- **Digitisation of MSME:** A recent MSME digital readiness survey by PayPal highlighted that **29% of the MSMEs witnessed an increase in online customers** and **32% experienced better payment solutions.**
 - The digital payment ecosystem holds immense potential for MSMEs by helping them **expand their online customer base** and **enabling faster flow of funds.**
 - The adoption of digitalisation by MSMEs certainly needs to be supported more and leveraged in **providing innovative financial solutions.**
- **Digital and FinTech Literacy:** It becomes essential to **provide training** and generate more **awareness among MSMEs about digitalisation** of banking systems and their operational dynamics to make the digital transformation smoother.
 - Moreover, a **strong impetus towards greater digitalisation in finance** is the need of the hour.
 - Doing so will reduce the dependence of MSMEs on informal sources of finance and reduce their operation cost given the latter's high lending rates.
- **Role of Banks:** Banks could also play other roles to help MSMEs in GVCs - they can **facilitate networking sessions with global companies.**
 - **Regular market updates can be provided** so that the MSMEs can take informed decisions on such markets. This can help them to mitigate risks.
 - **Global banks** also have a role to play here in terms of **connecting clients globally.**

- **Policy Reforms:** Participation in the GVCs necessitates **deeper reforms in labour markets, trade infrastructure,** and improvements in the overall business environment.
 - Policies directed towards **facilitating vertical GVC linkages** between domestic MSMEs and larger foreign and domestic firms can go a long way towards strengthening India's relative position in GVC trade.

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