Chapter VI

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The current Trade Policy is riddled with several loopholes and restrictions which reduce its efficacy and sometimes even defeat the very purpose of their introduction. The import export policy therefore requires a thrust in the right direction.

The suggestions made here are based on the opinions of the exporting community. The systematic analyses of primary data and the trends in the economy based on the secondary data have enabled me to identify the constraints. The suggestions are broadly divided into three categories.

- General reforms

- Reforms related to import policy.

- Reforms related to export incentives.

The three areas are intrinsically related and some of the suggestions may overlap.
6.1 General Reforms

Export Strategy has to be essentially looked upon as a part of development policy itself and not in isolation as it has been in India.

The first prerequisite for a noticeable increase in exports is a new attitude of the country. The country must create an economic climate favourable for exports. Without a general export mindedness of the politicians there is little hope for a successful export promotion policy.

The second prerequisite would be the ability to produce more, exporting more should certainly not mean that the economy should consume less. The utilisation of production capacities for exports must lead to an increase in output and not mere diversion. Export promotion and industrial promotion in a developing country like India should be largely identical. Export promotion would be doomed without an increase in the supply of goods.

Thirdly exports are not a responsibility of any particular sector hence tends to get neglected amongst other priorities. The nexus between the government and the private sector should be strong with maximum co-operation and co-ordination to harness the full potential.

Fourthly if export promotion presupposes industrial production an important prerequisite will be the encouragement given to investments. The climate should favour domestic as well as foreign capital investments. A foreign investor seeks security for successful investments, he will be prepared to risk his capital only if this is assured hence there should be no restriction on the transfer of capital. The inflow of capital in the form of joint ventures
or partnerships has obvious advantages. They cause additional capital flow, provide personnel with managerial experience, create additional job opportunities and create a cadre of skilled workers. In this connection it is worth mentioning that the co-operation at the company level insures the products to adhere to the quality standards required for selling in the world market and often assures the sale itself especially when the partner in the developed country makes his sales organisation available or when the developing country produces parts used by the partner.

Fifthly in general it is agreed upon that labour is cheap in India and hence industrialisation is likely to be in favour of labour intensive products but to achieve better results through this strategy one must consider the ratio between wage level and productivity. If the productivity is very low the comparative advantage can turn out to be a miscalculation. Hence the available labour must be given vocational training to maintain the productivity ratio. This task is becoming increasingly difficult as the productivity of the capital investments is rising exponentially with modern technology where as the labour productivity is subject to diminishing returns. However the need for vocational training is indispensable.

Sixthly there are a number of infrastructure investments with immediate effect on exports which should be given special emphasis. They include transport, construction of harbours and airports. Without an extension of storage and loading facilities the country is unable to intensify its effort. All investments in public utilities have an indirect bearing on exports.
if the government is unable to provide them the private sector should be allowed to venture into these areas.

Seventhly most potential exporters in India lack export experience and feel insecure when faced with the task of doing business overseas which after all involves greater risks for this reason the producers are content with selling their produce in the domestic market unless the profit margins are far better and would balance the risks, this is possible only in exceptional cases and often does not materialize hence the government must endeavour to change this attitude by providing support schemes. The support schemes should include information service, market research, training services, export propaganda, export subsidies, export credit, fiscal incentives, and export promotion services.

The support systems provided by the government should adopt a positive attitude, the purpose should be promotion and not control. Many of the schemes mentioned above have been adopted by the Indian government infact there are areas where they have gone overbound and created a large network of bureaucratic machinery involving procedural obstacles which neglect the purpose of promotion. Simultaneously there are areas which have been neglected completely and call for greater attention.

The conditions of international trade change day to day, rigid and time consuming procedures can be very damaging. There are numerous examples of export orders being lost because clearances
could not be obtained. The authorities must have enough confidence in the exporters and allow them the freedom to take commercial decisions.

6.2 Suggestions for reforming Import Policy

(i) The import policy has seen some changes in the recent past but due to the absence of clear-cut policy objectives decisions have continued to rely on established precedents. These reflect the government’s need for revenue and lobbying pressures pressing for lower protection for capital and intermediate goods which are used by them and asking for the maintenance of the same or higher protection for the goods that they produce.

(ii) If the changes in the policy are to have any impact indigenous industries should not be given unconditional protection. The removal of Quantitative Regime is of basic importance and should be considered a fundamental objective. As observed earlier the interrelations between domestic and trade policy are complicated hence removal of Quantitative Restrictions may have repositions on several other sectors. To be accommodated these a time limit should be specified within which these have to be accomplished. The maximum period can vary according to the type of industry.

(iii) If Q R’s are to be removed they should be replaced by tariffs as the sole instrument of import protection. To enable the firms to plan their investment policies the tariff structure which is to replace the Q R should be made known. In general commodities with low protection should have relatively low tariffs and those with high protection can start off by having a
high level of tariff initially which can gradually be phased out as it adjusts to competition.

(iv) The present highly complex tariff structure should be replaced by a simpler model. There should be four or five basic rates which can increase according to the degree of processing. The lowest rate of tariff should be on 'universal intermediates', the next slab on specific raw materials, the next rate would apply to capital goods and the highest rate for non essential consumer goods a list of essential consumer goods should be declared which can be subject to a low level tariff as per the requirement of the nation. All other goods can fall in the category of non-essential.

(v) The following general guidelines can be followed while framing tariff rates

a) Tariff should not exceed 100% any case, the reason being that if a commodity cannot be produced indigenously at twice the international rate it is eventually going to be a burden.

b) Tariff rate should be the same irrespective of who is importing it and for what purpose such as actual user, small scale. Except for exporters who will add value and re-export where it should be zero at present.

c) The slab rates of tariffs should be maintained regardless of whether an item is produced indigenously. This will introduce an element of competition and efficiency.
d) At present similar materials or products are subject to varying Q R tariffs depending upon end use, this should be avoided as far as possible.

e) If an area is expected to suffer considerably because of the removal of Q R and the tariff rate on the basis of the above guidelines does not provide sufficient protection, a temporary tariff surcharge should be allowed which can taper off in a given period of time.

f) The removal of licensing and introduction of tariffs would also require the realignment of other Non Tariff Barriers. Areas which are subject to such barriers Phased Manufacturing Programme, subject to 'List Attestation Procedures' should be allowed some transitional rates as they may have made plans for investments as prescribed. However in the long run it would be very desirable to curtail such a programme and firms should be able to rely on efficient levels of indigenisation.

g) In the light of the poor or mediocre performance of the canalising agencies as importers decanalization would be desirable. If at all the government agencies should be allowed to operate in competition with private sector organisation involved in bulk buying. The removal of Q R will remove the potential rents arising out of scarcity and if the canalising agencies are able to utilize their experience they can develop into aggressive trading companies on the lines of Japanese Trading Houses.

h) The special tariff exemptions linked to the 'actual user' lead to a proliferation of tariff rates, its elimination would greatly simplify matters.
The rate should remain the same irrespective of the end use. This can be done by expanding the list of importables by traders.

i) Import restrictions give unlimited protection to industries including the production of luxuries, while at the same time inducing large scale smuggling on which government collects no import duties. Instead the government should allow luxuries subject to high customs and indirect taxes both domestic and imported goods. This will either deter consumption or collect revenue for the government and also redistribute incomes in case the domestic industry finds it too difficult to sell at the high cost and competition, they may divert towards other areas which are more competitive.

j) The conservation of foreign exchanges seems to guide most of the changes introduced time to time. Hence the single most factor which can achieve this should be private ownership of foreign exchange to a limited extent with some amount being shared with the government for basic imports. This will automatically restrict the imports to the extent of the earnings and will avoid deficits. Additional imports will call for additional export earning.

6.3 Export Policy Reforms

i) The trade policy must have a clear cut objective of earning higher foreign exchange as it is a scarce resource and cannot be generated within the economy. It should not be used to support other objectives which can be looked after by other internal policy. To earn foreign exchange producers must not be expected to comply with all the multifarious objectives. There is bound to be a cost involved in this but it will be negated by the benefit.
ii) The present highly protected market with a strong internal de-
mand makes domestic sales more remunerative than export sales. This dis-
parity can be reduced by opening up the economy to external competition.
This will not only expose the domestic producer to the dynamic changes in the
industrial economies but also create the need to be more efficient. Today only
5% of the manufactured goods are directed towards exports the majority does
not fees the need to export. This attitude is bound to change with liberalisation.

iii) The extreme complexity of the export regime greatly complicates
the design and administration and reduces their effectiveness. Hence a single
scheme of incentives can be introduced instead of the current jungle of incen-
tives. A measure which can save considerable amount of administrative ex-
penditure and give a psychological boost to exporters is the introduction of
private ownership of foreign exchange. A fixed proportion of the earnings
should be surrendered to the government for their obligations towards, import
of science and technology or loan repayments. The exporter should be permitted
to use the retained foreign exchange as required by him for import of inter-
mediate goods. This will remove the need for the present preferential schemes
which suffer from procedural bottlenecks. The only restriction should be a
banned list which may include goods causing damage to the nation. All im-
ports made against the earned foreign exchange should be either duty free or
at a nominal rate to cover administrative expenses. The need for imports and
earning of foreign exchange will encourage the exporters to earn more foreign
exchange. The outflow of foreign exchange will be matched by the inflow of foreign exchange.

The exporters who do not need the retained portion of foreign exchange should be allowed to transfer it to other importers or the government at a premium. This will be an incentive for the surplus earner and at the same time facilitate the domestic industrial sector to meet their import requirements. The government will get a fixed portion of the foreign exchange as suggested earlier, in case they need more they should be willing to pay a premium like the others. The sale of foreign exchange will be like the present sale of Rep License without the administrative hurdles. The main purpose of conservation of foreign exchange will be served because the outflow of foreign exchange will be dependent on the inflow.

The need to export will felt by the importers and exporters, the government must propagate 'Export linked Imports'.

6.3 (iv) **Rationale** of the above suggestion

(a) The above scheme of retention can replace the present not so effective measures such as cash compensatory support, Rep license, Duty drawback and Duty free licenses which are not only a burden to the government but also cumbersome and relatively ineffective in the promotion of exports.

(b) The export effort is likely to get intensified in terms of maximisation of foreign exchange as the profitability of exports will be directly proportional to the net foreign exchange earning.
(c) The retention will also motivate exporters to concentrate more on exports of products with higher net foreign exchange earnings instead of those with low value addition which do not bring much foreign exchange but are continued by the producer because of the subsidies and incentives provided internally. This involves a net burden on the economy.

(d) The sectors which have a lower import content like cotton textiles, agricultural & marine products, handicraft, paper, leather and consumer goods representing the promising sector will receive a tremendous boost and the others with higher import content will be discouraged or may be encouraged to create more value addition.

(e) In the absence of any crutches the exporter will have to stand on his own and this is bound to result in higher efficiency in production and quality.

(f) Import demand will be rationalised and there will be economy in imports because of the need to earn foreign exchange, the imports will be regulated through the market mechanism and this can eliminate import licensing and the colossal paper work and formalities related to it. The cost and effort can be directed towards more productive.

6.3 (v) The trade policy is officially controlled by the Commerce Ministry but the revenue aspect is looked after by the Finance Ministry and the objectives laid down by the other ministries have to be inculcated into trade policy. This involves numerous changes and affects the stability of the policy. Instead the trade policy should be formulated by an autonomous commission,
headed by the Ministry of commerce. This body should have the power to take
administrative and financial decisions. All matters dealing with foreign trade
should be handled by this body. The present structure of numerous organiza-
tions such as Trade Development Authority, Trade Fair Authority of India,
Indian Institute of Foreign Trade, Commodity Boards and Promotion course
should be merged under one body whose main role will be promotion of ex-
ports.

6.3 (iv) Reorienting Export Promotion Councils

(a) There are about 20 EPCs and 5 commodity boards. There are
technical differences, for example, CBs are run entirely by government and are
constituted under the Act of Parliament whereas EPCs are run conjointly by
the trade and government. In practical terms, both CBs and EPCs are expected
to provide an export marketing thrust for the concerned products.

A marketing thrust should logically include: market research
to understand customers, identification of product niches, product
development, market management and promotions, earning of margins and
profits, and monitoring sales and market share increase on a planned basis.
Unfortunately EPCs do very little of all this. The commerce ministry had the
right motivation in setting up the EPCs: it was an attempt to blend the
market skills of the exporter with the administrative skills of government,
which picks up a significant tab of the EPC's operational expenses. EPCs are
a very important part of the institutional framework for export promotion in
the country.
EPCs have played a useful role in their early years and it is opportune to re-examine their mandate and give them a fresh direction. There are three suggestions for the EPCs to consider in reorienting the mandate for the '90s.

6.3 (vii) **Product Focus**: Let us consider engineering exports. They account for only 11 per cent of India's exports and have, in fact, lost share to other EPCs compared to, say, 1980. Whereas India's share in world trade is already minuscule at half per cent, India's engineering exports share in world engineering trade is even smaller at 0.08 per cent. India derives 6 per cent of GNP from exports while Indian engineering industry exports only 3 per cent of its output. Yet the EEPC has perhaps the largest number of overseas offices compared to other EPCs, engineering exports consume over two-thirds of the resources of institutions like Exim Bank and ECGC and about two-fifths of the government budget for Cash Compensatory Support. So, whichever way one looks at it, engineering export performance is over-rated and the media communication is excessive in relation to its performance.

Gary Reimer of Boston consulting Group, a specialist in new product development programmes, has identified five management themes as being the most common to new product development. Focus on a few products at any point of time, Think globally about product quality and competition. Senior management should be involved hands-on. Recruit and train the top people. Speed to the market is an asset, not a threat to quality. EPCs should behave and act as national marketing companies. This is best illustrated through the example of how the Mexican government approached the US market.
for the export of their marine products. Ocean Garden Products Inc., San Diego, USA offers a good case study.

This is a 32 year-old US corporation, wholly owned by the Mexican government. The entire company is staffed by US professionals headed by a professional chief executive. The chairman of the company is the Mexican minister of fisheries reporting to the President of Mexico. The mandate of the company is to market Mexican seafood primarily in the US but also elsewhere in the world. Mexican fishing is done by 320 co-operatives with 2400 deep-sea vessels and 92 processing plants. In addition, 20,000 small boats also operate. Ocean Garden inspects quality from boat to final user. The company also buys non Mexican seafood and markets the same in the US to better utilise their infrastructure. Ocean Garden has eight company owned sales offices around the US and also has its own trucking and warehousing companies. While acknowledging that shrimp is a commodity, Ocean Garden attempts to market their brands to the extent possible. They use direct mail, trade advertising, consumer newspapers, PR activities and major trade shows. They are in direct contact with 1000 major customers. The company has been able to achieve a quality reputation and Mexican shrimps are price leaders. They control the US market prices by taking commodity positions. They market 38,000 tonnes per year and are the largest marketers of shrimp in the US.

For value added tea or branded basmati rice, this model is very interesting. Instead of popularising Indian and Darjeeling tea logos, why cannot we launch an INDIA GOLD 100% pure packeted Darjeeling Tea like champagne? The Tea Board in its present form has neither the organisation
nor the skill to do this. The Ocean Garden example of professional marketers offers a lesson.

6.3 (viii) **Plan and monitor** : The third role of an EPC relates to export planning. The data base with both EPCs and government needs significant improvement. All the data comes to them but to make them useable required modernisation of information handling. Exim Bank has done a goods job of excerpting from World bank publications how Korea monitors its exports daily! Their system is : (a) Annual targets are set by sector, company and country of destination. These are broken down month-wise. (b) Larger firms are consulted on measures government needs to take to achieve the set target. (c) All concerned agencies are encouraged to track their export performance against targets on a daily basis. (d) Monthly trade promotion meetings are held to review performance. These are chaired by the Korean President. (e) Quick remedial measures are taken where targets are not met. Where slippages are to specific countries, ambassadors are recalled for consultation and advice!

At present many of the operations are overlapping and at the same time the exists gaps in certain others. To avoid this they should operate as different departments of the one body. This central organisation should be able to coordinate activities in such a manner that all facts are covered. It should also guide an exporter and work as a data bank. e.g. T.D.A. should promote export trade by providing necessary market and product information, it should be able to provide country related information to exporters. The network of embassies should provide up to date information. At present though on paper the embasies are expected to perform a commercial role, they do not
pay much attention to it. The political role is given greater importance. In fact they should maintain a commercial cell whose main job would be to acquire orders by projecting the right image of Indian capabilities. They should operate like the international marketing department of any organisation.

The efforts to acquire export orders should focus marketing the Indian products. Today export marketing is extremely costly for a small or a medium exporter hence he prefers the domestic market where demand is known and marketing not as costly. The government must pass on the export orders to private sector producers who are capable of meeting the demand or should entrust the canalized agency to procure the products and export. There should be an element of competition between the private export and Trading houses and the government agencies.

T.F.A.I. : The efforts put in by TFAI are very poor in comparison with those put in by other countries. International fairs are an extremely good opportunity for exporters to exhibit their products and tap markets. Today most exporters view TFAI as a bureaucratic hurdle granting permission to participate in Trade Fairs. The Government must step up its effort to locate potential products and sponsor producers to exhibit their products. The kind of efforts taken to identify performers for the festival of India should be continued on a continuous basis. What tends to happen today is that established exporters participate in such fairs and there is a marginal addition to the existing level of export earnings. What needs to be done is widen the scope and the horizon of potential exporters. Each department should send a report of its activities to the central organisation to enable the exporter to get information regarding,
Marketing - through T.D.A., regarding International Fairs - TFAI Promotional Support for specific products through - the Promotion Councils and Commodity Boards. Export Capabilities of a specific region - through Chambers of Commerce.

The central organisation or Export Promotion Body should be able to document it with the state of the art technology. If India has the ability to export Software it should have no problem in creating such documentation software. This will reduce considerable hardship for the new entrant and the easy availability should be able to encourage the existing exporters. The manpower currently engaged in the bureaucratic network of restrictions should be directed towards promotion, if at all the government is concerned about the employment effect.

e) Indian government wants to achieve export growth but would like the safe way to success. Often the Korean model is misinterpreted as 'Export first and then liberalize'. This experience is not necessarily suitable for the Indian market due to the following reasons. Firstly in Korea the export market was more profitable than the domestic market this was managed by across the board subsidies and incentives not disconcertingly like India, the exchange rate was also managed in a manner which made exports much more profitable. Secondly the firms were not inhibited by production bottlenecks and there was indirect competition between firms supplying to the export market which led them to be competitive. Thirdly in India given the present small contribution of the export industry mere export orientation will not lead to competitiveness of the domestic industry or move the government away from rent seeking
activities, as it happened in Korea. Instead import policy reforms allowing potential import competition can significantly affect the industry. Fourthly domestic deregulation and import liberalisation must go hand in hand. If the former precedes the latter it may lead to the establishment of industries which may survive in a protected market but prove uncompetitive after the trade liberalisation takes place, making the trade reform more difficult.

The fear of balance of payment difficulties has stood in the way of Quantitative control reforms. This is not necessarily true if the QR is replaced by a pragmatic tariff structure it can have the advantage of curtailing unnecessary imports, or helping to control the domestic budget or contributing towards modernisation which will ultimately help exports.

f) Finally Trade Statistics are published after a considerable time gap and are not very up to date. This lowers the impact of a particular policy decision or the eagerness to lower the problems as it is always looked at in retrospect. The time delay changes a number of factors and hence urgency of the policy change is not felt. A better co-ordination between the Directorate General of Commercial Intelligence Statistics (D G C I S) and the customs is called for and users, policy makers and special advisors from trade and industry should make recommendations regarding the design of the tables so that gaps in statistical information are not left.

g) Historically the single most important factor providing an impetus to trade liberalisation has been crises either due to the country's own policies or exogenous. If India faces a crises on the foreign exchange front it
will largely be endogenous. The most common form of crises has arisen out of excessive budgetary & balance of payment deficit and rising inflation.

To sustain trade liberalisation beyond its initial stage, economic and political stability has proved essential. Hesitant policy which leads to gradual liberalisation is much more likely to run out of steam especially in countries with a long history of trade restrictions.

A clear shift in the policy is necessary firstly because in its absence producers may expect the reform to reverse and may not take advantage of the incentives and this in turn will raise doubts regarding liberalisation among policy makers and secondly a major reform is likely to spur exports appreciably and thus create an interest in supporting the trade regime.

Political Stability and sustainability is a major question mark at present but greater the thrust of the economic change the more difficult it is to reverse and has to be seen through.

Hence is strongly advocated!

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