CHAPTER VII

BARRIERS TO TRADE AND EXPORT PERFORMANCE

SURVEY OF EXPORTERS

The exporter entrepreneurs require a level playing field to remain competitive in the international market (Asian Development Bank, 1990). The Government of India formulated EXIM policies and launched many a programme to boost exports. The multilateral negotiations under the auspices of the GATT and the WTO were aimed to reduce trade barriers existing in the form of tariffs and non-trade tariffs. But eventually there emerged new international standards for products and production methods, which are perceived to be further obstacles to cross border trade by the exporters of the developing countries like India.

There is a general concern shared among trade analysts in these countries that certain WTO provisions like Agreement on SPS, Agreement on TBT, Agreement on Agriculture and TRIPs Agreement have trade restrictive clauses (Sen, 2000). The institution of the WTO is viewed as a mechanism to safeguard the interests of the trade lobbies in the developed countries, imposing new regulations on the developing economies, though many of these apprehensions are not corroborated by facts.

A survey of exporters in Kerala was conducted to elicit their views and draw conclusions on the impact of trade policies and trade environment on their export performance, to assess the firm level and industry level impact of these changes and the strategies adopted by them to confront the new challenges. Sixty eight processing units in
the state were selected by using stratified random sampling technique for the purpose. The
survey covered the four traditional export items of Kerala— the commodity groups like
marine products, coir products, spices and plantation commodities and cashew nuts— and
also units in the Cochin Special Economic Zone. All together 68 exporters were covered
under the survey, which formed nearly 20 percent of the processors in every field of the
above activities.

7.1. Firm/Industry related Problems

The problems faced by the exporters were categorized into three—1) Firm/Industry
level problems relating to processing, 2) Problems related to export marketing, and 3) Trade
barriers imposed by the importing countries. Sector-specific problems encountered by the
exporters are discussed separately.

Table – 7.1: Firm/Industry - level Problems Cited by the Units under the Sample

<table>
<thead>
<tr>
<th>Export sector</th>
<th>No. of Units In sample</th>
<th>Raw material problems (Shortage, low quality, high price, etc.)</th>
<th>Machinery/Processing Techniques/Testing lab Non-availability, High cost</th>
<th>Labour Shortage, Unrest, High cost Etc.</th>
<th>Finance Shortage, High cost</th>
<th>Other infra-structural Problems Power, Transport Etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Marine Ex.</td>
<td>16</td>
<td>14</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>2) Coir</td>
<td>12</td>
<td>9</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>3) Spice/plantation</td>
<td>12</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4) Cashew</td>
<td>16</td>
<td>7</td>
<td>-</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>5) CSEZ</td>
<td>12</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Units citing problems</td>
<td></td>
<td>37</td>
<td>7</td>
<td>13</td>
<td>14</td>
<td>31</td>
</tr>
<tr>
<td>Units not citing</td>
<td></td>
<td>31</td>
<td>61</td>
<td>55</td>
<td>54</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Survey Data

Table – 7.1 summarizes problems at the processing level. The raw material problems
are cited to be a major problem, and majority of marine and coir exporters have stated
shortage as the key problem affecting smooth processing and capacity utilization. For exporters of other sectors, problems with raw materials pertain to high cost as in cashews or quality related problems as for spices / plantation commodities or certain commodity-specific procedural hurdles in obtaining raw materials for two units in the CSEZ. Technology for processing is not cited to be a major problem by the exporters. But a few units aiming at up-scaling of value chain in processing, pointed out difficulty in obtaining modern technology. Problems associated with labour and finance are not cited to be seriously affecting any sector, except for some units in coir and cashew manufacturing in the organized sector. Shortage and irregularity of power supply are problems for marine, coir and cashew exporters.

7.2. Export Marketing Problems

Table 7.2 shows problems associated with export marketing. On the whole, low price realization is being cited to be the major problem. The unit price realisation for cashews, and spices are in lower levels, and also for marine exporters. Competition from other trading partners is severe for cashew, spice and marine exporters. The exporters in general demanded for reduction in transaction costs and procedures. Low or uncertain demand is affecting spice and marine exporters.

<table>
<thead>
<tr>
<th>Export sector</th>
<th>No of Units in Sample</th>
<th>Demand Low/ Uncertain</th>
<th>Low unit prices</th>
<th>High Transaction cost</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marine Ex</td>
<td>16</td>
<td>6</td>
<td>7</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Coir</td>
<td>12</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Spices/plantation</td>
<td>12</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Cashew</td>
<td>16</td>
<td>-</td>
<td>16</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>CSEZ</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Units citing problems</td>
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<td>19</td>
<td>37</td>
<td>32</td>
<td>36</td>
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<tr>
<td>Units not citing problems</td>
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<td>31</td>
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<tr>
<td>Total</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Survey Data
7.3. Non-Tariff Barriers

The extent of external trade barriers on export performance is summarised in Table – 7.3. The trade barriers in use are SPMs, TBT, Anti-dumping, quotas, labelling requirements and rules of origin for certain textile goods. SPMs are cited to be major problem impacting on marine and spice exporters. The anti-dumping procedures will affect marine exports only. The technical barriers are cited by coir exporters in view of specific requirements of processing insisted on by the importing countries. But this is not cited to be a serious problem, as compliance is not found to be difficult.

Table – 7.3: Trade Barriers Cited by Exporters of the Sample

<table>
<thead>
<tr>
<th>Export sector</th>
<th>No of Units in sample</th>
<th>SPMs</th>
<th>TBT</th>
<th>Anti-dumping</th>
<th>Quotas/ Labelling/ Rules of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Marine Ex.</td>
<td>16</td>
<td>16</td>
<td>-</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>2) Coir</td>
<td>12</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3) Spices/Plantation</td>
<td>12</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4) Cashew</td>
<td>16</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5) CSEZ</td>
<td>12</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Units citing trade barriers</td>
<td>30</td>
<td>10</td>
<td>13</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Units not citing</td>
<td>38</td>
<td>58</td>
<td>55</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: Survey Data

7.4. Exporters of Marine Products

Majority of exporters surveyed opined that the major barriers in the external market in the post liberalisation era have been in the forms of sanitary and phyto-sanitary measures imposed by the developed countries like the US, the EU and Japan. Recently anti-dumping investigations have been initiated in the US and anti-dumping duty to the extent of 14.21 percent of the value of the export product will be imposed on the shrimp exports to the US.
These measures have adversely affected the prospects of the industry. The strict enforcement of quality standards by the US and the EU led to hasty implementation of Codex standards and HACCP regulations, which entailed additional cost by way of both fixed costs and variable costs, which ranged between 10 to 20 percent of the total cost. This was required for continuance of the same level of exports and maintenance of the existing export markets, not to speak of any increase on the exports.

Exporters complained of the lack of uniformity in standards. The EU standards were stricter than the US and the Japanese quality standards. Within the EU, there were differences among various countries in quality stipulation levels. There was unanimity that the guidelines were transparent, but lack of uniformity posed difficulties to the exporters, especially for the small-scale and medium-sized firms. The exporters agreed that these measures would have long-term implications for the sustained growth of the industry. The imperatives of the consumer awareness in the advanced countries have to be properly taken into account while planning for processing for export, especially in the case of food items. According to a few exporters, hasty implementation schedule posed a threat to the very survival of the firms. The guidance and assistance by way of subsidy from government agencies like MPEDA, EIA etc. were commendable. The pre-processing cost increased considerably owing to implementation of HACCP/Codex regulations as stipulated by the USFDA and the EU Standards. Even though there was definite increase in value addition by way of more finished processing, packing and branding of the product, there was no corresponding increase in export volume and price realisation. There is no questioning the fact that high quality standards are required as per Codex/HACCP regulations, but quality-testing facilities as per international standards are not often available for exporters. Some of the quality norms are to be observed during the pre-processing period, and the processor-
The exporter cannot be held solely responsible for this. There is shortage of testing equipments and personnel. But MPEDA officials stated that these are now made available to exporters and inspection by EIA officials are mandatorily carried out to check for high norms of quality.

Among the SPS measures, the stipulated maximum antibiotic residue levels in case of culture shrimps often were found difficult to comply with by the exporters. In the case of capture shrimp, the stipulation that turtle excluder devices (TEDs) are to be employed while trawling is being cited a non-tariff barrier imposed by the developed countries. These are not financially feasible for implementation and processor/exporter can in no way ensure this during the production process.

On the infrastructure problems faced by the exporters, the majority of exporters complained of the scarcity and irregularity of power supply. All the exporters have cited dearth of raw material as one of the major problems. The availability of marine catch has declined over time, according to some traditional exporters. Except for the busy season from July to December, the units operated at sub-optimal levels, often below 50 percent of the installed capacity, mainly owing to non-availability of raw materials. There is the need for streamlining the import procedures for marine items meant for export purposes and this should be given encouragement for the units outside the SEZ. According to some processors, granting of license to foreign vessels to allow trawling in the Indian Exclusive Economic Zones has compounded the problem of shortage of raw fish. Suitable policies should be formulated and implemented for protection of marine capture and eco-friendly aquaculture farms should be developed to increase culture production.

The dearth of raw material both of the capture and culture varieties has caused what is termed as the 'crowding out' phenomenon in the marine processing sector. Added to this
is the strict implementation of SPS standards. These factors have led to the automatic exit route to many processing units in the sector. Only those units having some sort of tie-up or collaboration with overseas buyers could record a steady trend in export growth. A few of the performing units stated that technical and financial collaboration of the overseas buyers was a major factor for their continuous steady performance.

Most of the exporters agreed that commercial banks were willing to extend finance for export activity. There was adequacy of finance at comparatively lesser cost. Some exporters underlined the need for making available sufficient amount of foreign currency loans at libor-based rates. Foreign currency loans should be made available to small-scale exporters also. This would partly offset losses on account of the rupee appreciation.

Incidentally, no major problem with regard to labour was cited by any of the exporters. Labour unrest / unwanted collective bargaining etc. are not cited as major problems in the marine processing sector recently. This also coincides with the fact that most of the small scale and medium exporters have already switched to contract labour system (e.g. Casualisation of labour and feminisation of labour) and outsourcing of various processing activities. Also, no shortage of skilled and technical manpower is reported in the marine processing sector. Owing to intense competition from other export markets, the overseas buyers now prefer spot purchases to forward purchases. This has led to uncertainty in the demand for the product.

The exporters complained of the anti-dumping investigation initiated against shrimp exports from India to the US. They consider this very discriminatory, as imposition of dumping margin will affect the upstream processing or value addition in the sector. These are non-tariff barriers invoked under the pretext of WTO-compliant regulations to safeguard the interests of the domestic shrimp processing industry in the US. The anti-dumping
investigation will affect value added items of cooked variety. These items do not have a sizable domestic market and there are no chances of these items being exported at less than the domestic market prices. Hence imposition of anti-dumping duties is a clear violation of fair rules of international trade, according to the affected exporters.

7.5. Exporters of Coir Products

The survey of coir exporters revealed that there are no major trade barriers by way of higher tariffs or non-tariff barriers like SPS, TBT or anti-dumping duties in the import markets. The competition from substitute goods like polythene and plastic items notwithstanding, the coir products have a niche market in some of the developed countries. Sanitary and phyto-sanitary regulations are invoked in some of the countries like Australia and Korea. This can be complied with by fumigation of the products and the compliance cost is a meagre expense.

The exports in terms of volume and value have shown an increasing trend. The innovative products like geo-textiles and rubberised/polythene mats have received good buying support. The branding of the product has fetched high price realisation and also certification by the standardising agencies. Compliance with the ASTM (American Standard of Testing Method) has been stipulated for products to be exported to the US.

There is ample scope for promotion of coir products as eco-friendly and a natural product, which can help it retain and increase market share. It is generally gathered that the liberalisation measures, EXIM policies or the implementation of the WTO regime per se did not have much impact on the export of coir products.

The exporters cautioned that coir products cannot be expected to have an assured market as it is not an essential consumable item and also due to competition from substitutes. This calls for continuous marketing strategies to sustain demand. All exporters covered
under the survey agreed that finance from commercial banks were adequately available at comparatively lower cost. A few of them remarked that apart from working capital, term loans covering project expenditure also should be made available at concessive interest cost. Most of the exporters were satisfied with availability of infrastructure facilities like transportation, communication and customs procedures. Some processors complained of the irregularity of the power supply. All exporters highlighted shortage of coir fibre in Kerala. There is increased dependence on supplies of fibre from states like Tamil Nadu, Andhra Pradesh, Orissa and also from Sri Lanka. As the quality of indigenous fibre is excellent, there should be promotional efforts on the part of the Government agencies for more production of fibre within Kerala.

Labour disputes / problems were cited by some of the exporters, but generally there exists peaceful industrial relations. A good number of processors complained of the absence of good investment and industrial climate in the state and hence host of problems associated with it. The frequent call of hartals /strikes in the state has caused anxiety regarding timely implementation of export orders. Shortage of coir fibre, the essential raw material, has compounded the problems, and has prompted them for shifting whole or part of the processing to neighbouring states.

7.6. Exporters of Spices and Plantation Commodities

The exports of spices had to face the problems arising out of strict implementation of SPS measures by the importing countries. Accordingly, pesticide residue levels are to be within the stipulated maximum levels. The majority of exporters, who are processors of products, expressed their inability to ascertain the required levels, as the residue levels are based on agronomic practices at the farm level and processors have no direct control over it. According to them, national level certifications for maximum residue levels for pesticides in
food products should be prescribed for changing farm practices. Such quality certifications for domestic consumption should be made compulsory. Most of the exporters opined that the prescribed maximum residue levels are impossible to comply with. Some exporters have planned to commence processing oils and oleoresins to avoid this problem.

Most of the exporters reported decline in export sales in value terms, due to downfall in export of high value items like pepper, cardamom etc. But the volume of exports has been maintained with increase in items like chilies and whole spices. The exporters who are custom-grinders i.e. regular suppliers to overseas buyers as per order, registered better export performance owing to assured demand conditions.

According to majority of exporters, the EXIM policies of the government had a negative impact at the price level and on the export front especially in the case of items like pepper, tea and coffee. With lower customs duty for import from Sri Lanka as per Free Trade Agreement, there were large arrivals of these commodities into domestic market, which depressed prices. Though import of pepper is allowed only for processing for export, this would adversely affect export prospects of the domestic processors, as black pepper of Kerala origin are priced high.

Stricter implementation of SPS regulations have prompted processors to go for export of organic spices, though availability is limited, in spite of premium prices in the external market. Majority of exporters have acclaimed the role of govt. agencies like Spices Board in promoting export of spices by setting up of test centres for pesticide residues and promotion of organic spice cultivation.

The external market conditions / demand factors had a major role to play in the decline of export of pepper, tea and coffee. Due to increased production of pepper from countries like Indonesia and Vietnam, there was decline in international prices. There is
oversupply of these commodities in the world market. Though the Indian variety has high quality characteristics, price competitiveness is a major factor. Improvement in productivity requires urgent attention.

Exporters cited no major infra-structural constraints other than scarcity of power supply. According to majority of exporters, rupee appreciation has affected profitability. The processing units involved in high value added items demanded lower cost foreign currency loans to compensate for loss from rupee appreciation. There is need for development of forward markets in commodities with wide fluctuations in prices, and there should be price stabilization/equalisation funds for all export commodities. According to exporters, govt. agencies like Spices Board should take steps for registration under WTO TRIPs provisions of Geographical Indications for the unique properties of Malabar Black Pepper, Ginger and Cardamom so that these items may command premium prices and develop a niche market.

7.7. Exporters of Cashew Kernels

Though exports of cashew kernels are also subjected to SPS regulations, the magnitude of the problems associated with this is not significant. Certain overseas buyers required the implementation of HACCP regulations, as this would fetch a premium price for the products. The liberalisation measures, changes in EXIM policies or implementation of WTO provisions per se did not have much implication on the industry. The additional cost incurred for HACCP implementation and testing facilities is not reflected in increased price realisation, according to majority of exporters. This has increased annual maintenance cost. Some exporters found that the recent measures in the US to remove cashew nuts from the FDA list of safe nuts for consumption will adversely affect export prospects to the US in the long run.
According to majority of exporters, secular and steady decline in the unit value of cashew kernel has affected the processing units by narrowing the profit margin. The exporters pointed out that the average unit value has decreased from USD 3.00/lb in 1980s to USD 1.80/lb as at present. This is owing to increased production of cashew nuts from countries like Vietnam and West African countries. There is increased competition from these countries, as the processing facilities are fully mechanised there and hence, SPS/HACCP regulations are easily complied with.

Only 30 percent of the raw nut requirement is sourced from domestic production, the balance is met by way of imports. The cost of raw nut has gone up but the price realisation of cashew kernel has come down over the years thus narrowing the margin. The raw nut cost is not related to kernel price. The shortage of raw nuts should be addressed by taking measures to increase domestic production of cashew nuts.

There is increased competition from other substitute nuts like almonds and peanuts in the US market. There should be marketing promotional programmes in the overseas markets to sustain the demand and diversify markets.

According to 80 percent of exporters, processing cost is higher in Kerala, compared to availability of less costly labour and raw material in the neighbouring states. This has led to relocation of some processing units to the neighbouring states. The government has to address the problem as this may lead to de-industrialisation in the state and hence, remedial measures to be taken up immediately.

Some exporters in the organised sector highlighted the recent phenomenon of divergences in average unit conversion cost between organised and unorganised sector. There is wide variance in labour cost between organised sector under KSCDC (Kerala State Cashew Development Corporation), CAPEX, private factories following good practices and
the unorganised, dispersed cottage processing. Exporters cautioned that the emergence of cottage processing would pose a threat to the survival of the organised sector.

Most of the exporters surveyed were satisfied with availability of adequate finance from commercial banks for working capital. Some of them wanted substitution of less costly foreign currency loans for comparatively costly rupee loans, as this would partly offset losses on account of rupee appreciation. Foreign currency finance is more in demand for those exporters who source most of raw materials through imports. No major problems with infrastructure facilities were cited except for irregularity of power supply.

7.8. Exporters in SEZ, Cochin

The survey in the SEZ revealed that the exporters in the zone had a better environment of infrastructure and trade facilitation procedures than the exporting units situated outside. Most of the units surveyed had buyer tie-ups and this ensured assured market for the products. Technical, managerial and financial collaboration entitled them to better performance. Duty-free import of raw material has helped continuous and timely production schedule. The exporters cited non-tariff barriers such as SPS for food items like shrimp exports, TBT like USTM for manufactured products and quotas for garment exports. They stated that regulations were transparent enough for implementation, though not uniform in the case of exports of food items and this caused confusion and additional cost. The implementation of Codex regulations and HACCP systems did result in value addition, but not in increased volume of exports, nor in additional unit value realisation.

Most of the units reported an increasing trend in export sales and net profit as result of liberalisation measures and EXIM policies. But they opined that SPS, and TBT regulations appeared trade restrictive in nature at least in the short run. But implementation
of these measures facilitated value addition, quality improvement, product diversification, branding etc, which in turn sustained export sales.

A processor exporting tissue cultured plants of different varieties cited problems faced by them related to import of plants owing to strict implementation of SPS regulations by India on the imported plant products meant for processing for export. The strict import regulations are not matched by requisite infrastructure for testing facilities, which caused problem.

Most of the units surveyed had imported machinery installed as the procedures for duty-free import are simple for the units in the SEZ. Exporters welcomed the changes in the export performance criterion for units in the SEZ from value addition norm to positive NFEE. Some of the exporters having surplus production or facing slack in external demand required of the government to allow them DTA sales at a reduced rate, i.e. SAARC rate of import at 15 percent, whereas the existing duty is above 30 percent. Some exporters stressed the need for initiating nursing programme for the units prone to sickness owing to adverse market conditions. Units in the manufacturing segment requiring more power consumption complained of unstable power supply. Some units processing and exporting perishable, sensitive products and garments complained of the absence of regular airlifting of cargo facility from Cochin Airport.

Most of the units surveyed had buyer tie-ups, buyback arrangements, contract manufacturing, custom-processing etc. and this helped in maintaining regular orders.

Most of the units were satisfied with availability of adequate finance from commercial banks, at lesser cost, though some of them highlighted the need for low cost foreign currency loans, and a few complained of shortages of working capital.
Nobody raised any major problem relating to infrastructure, availability of raw material, technology etc. though a few complained of the occasional labour unrest disrupting production. Overall, the units in the SEZ enjoyed a better competitive environment and level playing field.

The survey revealed that the exporters are not adequately aware of the provisions of the WTO like Agreement on SPS, Agreement on TBT, Agreement on Agriculture and Antidumping Agreement, which have direct implications for the export performance of items from Kerala. The government agencies and export organizations should make awareness campaign among the exporters so that opportunities and challenges in the wake of the institution of the WTO and the on-going negotiation process may be comprehended by them and necessary processing and marketing strategies adopted to remain competitive in the international market.