CHAPTER - IX

CONTEMPORARY OPERATIONAL PROBLEMS
IN RESPECT OF INDIAN FOREIGN TRADE
Contemporary Operational Problems in respect of Indian Foreign Trade

The Indian foreign trade is seen to suffer from inhibiting bottlenecks. It is both the internal economic situation and the external factors that seem to suffocate the growth rate of exports and are primarily responsible for India's negligible share in the international trade. As per the PHD Chamber of Commerce and Industry (Phdcci) High procedural transaction costs, coupled with infrastructure bottlenecks, plague entrepreneurs in the textiles and garment exports front. The textiles and garment exports, with a contribution of about 25 per cent of the total exports, have to go through inflexible, obtrusive, slow and unsympathetic export processing regime to avail various concessions to make exports more profitable.

It has been estimated that over 100 different copies and over 250 signatures are required from the garment exporter, during various interfaces with the government and other agencies, right from manufacturing to the port of discharge of the consignment. There are over 20 major steps, starting from the dispatch of goods towards the domestic port and the shipping process, involving a large amount of paperwork, multiple government agents, mailing of important documents and so forth. With so many steps, it is likely that things go wrong. For instance, papers can get misplaced, mails get delayed, some important functionary may be on leave etc, it said, adding any of these 'out of the ordinary' happenings can create severe delays for export of the commodity.

The Indian Express news daily reported in February, 2001 that goods are transported from the manufacturing point to the port of destination, warehouse, and to the final transporting vehicle. All these affect the smooth flow of goods and containers, since boxes may be damaged or seals may get broken in such transportation. Dispatch and shipping of goods can be most difficult for the exporter and they need to interface with insurance companies, domestic transporters, customs officials, port authorities and international transporters. If there is any problem in one part of this process, the whole process gets affected, and many a time the process has to be repeated again.¹

Further a study by the EXIM Bank corroborates the above problems of the Indian foreign trade as it reveals that the high transaction costs affect export performance. According to EXIM Bank study ², Indian exporters are required to invest more time and resources in non-price factors which do not relate to physical process of production but affect the supply of exportables. Such non-price factors include obstacles and difficulties
associated with administrative processes, dishonesty of public agents, delays in sourcing finance, transportation etc. These costs are referred as "transaction costs" in the study, which are in essence opportunity costs as they entail involvement of the exporters' resources in the non-production processes of exports.

The study is based on a sample of 111 firms cutting across industries located in major Indian cities. The industries or commodity-groups are chosen according to their importance in our export basket either in terms of their percentage share or in terms of their annual average growth rate of exports during last few years or in terms of their traditional significance as export items from India.

The actual time taken at different steps of exports for all firms covered in the study is far more than the time stipulated in the regulations and procedures. It was revealed that the additional time is greatest in the case of getting refund like duty drawback, which is 210 days and is the least in the case of dealing with banks, which involve 10 days.

The study reveals that magnitude of transaction costs vary across the sectors. Among the leading export sectors, the study finds that the incidence of transaction costs is high in textiles, followed by chemicals, engineering goods and pharmaceuticals. Transaction costs are least in gem & jewellery exports. However, among the various steps of export transactions industries most commonly encounter problems with imports for exports, getting back refunds from the Government under Duty Drawback (DDB) and similar schemes and licensing processes.

The study covers a size class analysis of the procedural complexities. It indicates that small firms are better performers in some industries like gems and jewellery as they incur lesser transaction costs compared to the larger firms. These industries are mostly labour intensive. But in some industries like engineering and chemical smaller and larger firms alike face the similar incidence of transaction costs. These are more capital-intensive industries compared to gems and jewellery.

A separate analysis of software exports brings to the fore the uniqueness of the problems faced by the software exporters. They suffer mostly from the inadequate availability of working capital funds, as most often they do not have any tangible assets as collateral. Also, software exports are adversely affected by the stringent import rules, red-tapism and dishonesty of public agents. The study also finds out that, firms located in export processing zones (EPZs) like Falta near Calcutta and NOIDA near Delhi are slightly better
off than the other firms covered in sample. The incidence of transaction costs is negligible in the case of firms located in EPZs as they get the advantage of better infrastructural facilities.

The study also does a comparison of procedural complexities in exports between India and her major competitors in the region. The feedback received from the interviewed firms, reveals that supply constraints as explained in terms of procedural complexities are more acute in the case of India compared to her main rivals like China, Malaysia, Thailand, Indonesia, Korea, Hong Kong and Taiwan etc.

According to the feedback received from exporting firms covered by the study, their export earning will increase substantially if the procedural complexities are minimised or completely eliminated.

The study suggests guidelines for removal of procedural complexities. It proposes commodity-wise steps for removal of such complexities and simplification of rules and regulations and most importantly implementation efficiency.

The ground evidences referred above are primarily enough to draw the attention of the policy makers and all concerned as regards the prominent factors that impede the Indian exports. It is now pertinent to enlist and discuss the sector specific problems that hinder the country’s export growth.

**Sector specific procedural problems:**

The Indian exports are facing problems that leg-pull the export growth of the nation despite policy measures taken by the government of India. It is pertinent to identify the sector specific operational problems that impede the foreign trade functioning. The section below attempts to develop a profile of such problems that are being faced by the Indian exporters and importers.

**Software exports** happen to be an upcoming trade sector in the Indian foreign trade. The efforts of the individual organizations and the sops received from the government have provided the big thrust to this export sector of the country. Since 1998-99 the exports of computer software has gone down from 84.84 million U.S. dollars to a level of 20.11 million U.S. dollars in the year 2,001-2,002. After having posted an annual change over the previous year of 42 percent in the year 1998-99 and 49.82 percent in the year 2,000-2,001, the computer software exports has gone down in the year 2,001-2,002 by 70.67 percent.

Although India’s strength as software major has been addressed in various forums such as Asia Society’s conference on ‘Asia’s technology future: Transforming business’, yet the sector seems to suffer from the problems of the moving up in the value chain,
developing domain expertise, providing value addition etc. India faces serious threats from China in the software exports. China enjoys a negative growth in inflation in relation to India.3 “There is no room for complacency, however. Even in respect of the software sector, it was widely reported that a study by McKinsey found that India could be left behind China within a few years.” Further, the central and the state governments need to demonstrate cost consciousness and cost cutting. The export marketing managers of the organization need to develop market penetration strategies. Thrust to needs to be given to the research and development initiatives. Efforts need to be made to reduce inequality intra-firm contractual wage/salary. Similar issues were also been raised as regards the opportunity cost of software exports which could be considerable for India as the best talents of the country are employed for exporting the software services sidelong the software for domestic use which is largely imported. The majority of the export-oriented software companies serve as ‘export enclaves’ with little linkages with the domestic economy. The low thrust on the research and development in the Indian software companies is quite evident when compared with the companies of the developed world. The leading Indian companies spend only 0.89 percent of their turnover against 14-19 percent spent by the software companies of the developed world towards the research and development activities.4

According to a status paper on problems encountered by Indian I. T. and other professionals in the European Union, prepared by the global organization for people of Indian origin (Gopio), the Indian software sector could suffer from the lack of proper implementation of the GATS provision and inadequate liberalization in Mode4. Mode4 deals with temporary moment of the persons from provided-country to consumer-country for delivering services. Information technology being one of the priority areas for India and the European Union especially after the U.S. slowdown could receive a hit in the coming years.5 The Kelkar Committee recommendations, regarding the removal of benefits under 10A/10B, when implemented, will hit the small and medium enterprises (SMEs) software exporters the hardest. Such benefit removals would drive out around 40% of the SME software exporters from the business as they already face problems as regards the market access and capital paucity. 6

Agriculture & Allied Sector:

Historically, for agri-products the major constraint has been the difficulty of securing exportable surplus. Domestic political considerations often prompted the government to restrict exports of agri-products whenever prices trended upwards. This has given Indian
exporters the reputation of being unreliable suppliers. The primary need, therefore, is to increase productivity in exportable agricultural products. The bio-tech revolution and the arrival of genetically engineered crops have opened up a world of opportunities. There is also tremendous scope for increasing yield in many agri-products by using better varieties of seeds, scientific farm management practices, such as rotation of crops, proper irrigation, and the timely use of the right kind of fertilisers and pesticides. India has the problem of huge physical wastage on the farm and value loss due to antiquated storage, handling, grading, packaging, transportation facilities and the trading margins of a large number of intermediaries (unlike developed countries). According to a McKinsey study, all these losses amount to nearly 50 per cent of the total value of Indian production of fruits and vegetables. Other major problems in agriculture and allied areas (including floriculture, horticulture, medicinal plants and fisheries) have been poor infrastructure and inadequate access to global marketing channels. For example, the price of a cut rose gets halved in Amsterdam if it is more than 24 hours old. To avail of such opportunities one requires refrigerated vans right from the garden to the airport, good quality roads for quick transportation, speedy handling of export cargo at the airport and hassle-free documentation and inspection formalities by Customs officials.

In addition, the exporter may need to tie up with some multinational company, which has the established marketing networks in Europe and elsewhere. So, even if India has the advantage of having a variety of climatic zones so that roses can grow throughout the year in some or the other region, we cannot make use of this unique advantage because of other constraints. Creating products to match international health and hygienic standards is an additional problem for the fishery and dairy sectors, apart from the other problems already mentioned.

Indian producers can get a much better price if they can sell their products under their own brand names. There is a big difference in price between generic and brand-name products.

For example, if (say) the quality coffee grown in the Coorg area in Karnataka can be marketed abroad under a distinctive brand like "Coorg", the growers of Coorg coffee would be able to get a much better price. But developing such brands internationally requires considerable money and efforts, which small or even medium producers cannot afford. Here, producer cooperatives or private companies can play an important role. Under existing land laws, a company cannot own large tracts of land. But a private company can lease land from
CHAPTER - IX
CONTEMPORARY OPERATIONAL PROBLEMS IN RESPECT OF INDIAN FOREIGN TRADE

small landholders or develop a network with specialised growers. In the networking model, the corporation will conduct R&D and will extend that knowledge, along with providing seeds, implements, fertilisers, pesticides, credit, insurance and marketing services, to its network of firms. One hopeful sign is that some big industrial houses in India have made a beginning along these lines by providing farm-specific total agri-solutions packages comprising most of elements mentioned above.

In India, often, the government tries to identify the focus zones/areas or products. It should be clearly understood that this is not the government’s job. The motivation, training, expertise, and the transferable nature of jobs of IAS officers do not particularly equip them for these roles.

If at all government agencies try to do these jobs, these should be headed by professional managers and business-people who understand the nuances of international trade. Even asking the government what products to export shows that we are not yet free from the old mindset.

The government’s job is to provide the required export infrastructure, the appropriate exchange rate (to the extent it is government controlled), a hassle-free Customs regime, import duties at internationally comparable rates (along with temporary anti-dumping duties in appropriate cases), and to promote India as a brand. It is then for the private entrepreneurs to decide what products to export and to which markets.

For instance, at one stage, wigs made of human hair were a major export item for South Korea. Then, when human hair was in short supply, Korea began to export synthetic wigs.

It is nearly impossible for a government bureaucrat to identify wigs made of human hair to be a thrust area for exports. In fact, government officials may even consider this an affront to national honour, however good business sense it may make. 7

Agriculture sector primarily faces non-tariff barriers according to preliminary report prepared by the economic division of the Ministry of Commerce, India. India’s main trading partners U.S., European Union and Japan use the non-tariff barriers and impede trade flow. USA has imposed non-tariff barriers like seasonal tariff high rates, import monitoring etc. Japan has imposed NTBs on the Indian products mainly by way of the tariff quotas, Authorization, quotas for sensitive products etc. The European Union has listed non-tariff barriers in the form of quotas related to environmental protection, seasonal tariff rates etc.
CHAPTER IX
CONTEMPORARY OPERATIONAL PROBLEMS IN RESPECT OF INDIAN FOREIGN TRADE

The tea producers in India face a high cost of production. For a nation that prides itself on being the largest producer of tea after China, it comes as a surprise that exports are much lower than that of other countries. As compared to Kenya and Sri Lanka, India exports of tea where much behind in the year 2,002. In particular India has lost share in the British and Russian markets due to quality and prices. Another problem that India faces is as regards the CTC consumption which India prefers. The world on the other hand prefers the orthodox variety. Such types of markets are better served by the growers of Kenya, Indonesia, Malawi and Sri Lanka. The tea industry also faces the competition from the soft-drink majors and other beverage companies. The high age of tea plants in India has affected the quality and yield. The Darjeeling variety of tea has not been patented and protected enough that markets broad are often flooded with quantities far exceeding the actual production.

As regards the coffee industry India’s main problem is the overproduction of the cheaper and harder Robustas mainly by Vietnam. This has affected the Indian coffee exports. To add the woes the country’s coffee production has received a hit the because of the poor agricultural management practices arising out of lower prices for the produce. Karnataka, which accounts for about 70 percent of the country’s coffee production, has witnessed a decline in the fertilizer off take by 25-40 percent. The labor input has also got reduced by about twenty percent as there is not enough money to pay the workers.

India is also set to face problem in the exports of rice. With other origins catching up and the exchange rate not exactly export-friendly, infrastructure bottlenecks are further adding to the discomfort of Indian exporters. In the highly price-competitive market India is facing the risk of losing to competitors like Pakistan and Myanmar (Burma). Rice exporters are rather upset over the sudden discontinuance of rake allotment, which has dislocated their shipment schedules. Movement by road is not only more expensive, but also restrictive of volumes, apart from creating logistics problems.

Ores & Minerals:

The technology improvement in usage of coal is essential for sustainable growth of the coal sector. Most of the production India comes from overcast mines and raising from under ground mines have been stagnating. This has also been in on the exports of the coal.

Manufactured Goods Sector:

The growth in the leather sector owes much to its export thrust. India has been traditionally strong in the European markets. However, of late, exports to the U.S. have seen
a rising trend, thanks to the initiatives taken by the council for leather exports and the industry jointly. The footwear was identified as an extreme focus sector for export in 1992. Unfortunately, due to various contradictory objectives, it was never possible for the government to take on the required policy measures in one go. It was only in the beginning of 2,002 than the footwear was removed from the list of industries reserved for the small scale sector. As the requirements of the domestic market were quite different from those of export markets, the dispersed cottage and small scale sector could not take part in export efforts in a significant manner. The quality of components (moulds, heels, in-souls, tacks etc.) has not, come up to the international standards. On the other hand, the demand for better for the inputs required by the export oriented units was too small for large enterprises to enter the scene. As a result, many of the export oriented units depend on import for such imports, leading to delays, higher cost and longer turn around time, none of which is acceptable in today’s highly competitive environment.

For the leather garments and goods the resource limitation did not allow them to accept large orders. If they did, delays in delivery or quality problems cropped up, adversely affecting the industry’s image abroad. To retain the market the prices were lower to unworkable levels. The small exporters were unable to undertake meaningful marketing efforts. The large trading houses which entered the scene started facing unhealthy competition from small independent exporters. The leather industry of the country faces fierce competition from countries similarly placed as India in terms of endowments were, for example, China, Indonesia, Thailand, South Korea, Brazil and Italy. In fact of the room to you, in terms of reduced tariffs offer threats also. China’s entry into the WTO in November, 2001 has sent alarming signals for India in respect of the traditional markets like the European Union. Many large importers have begun to demand for environmental compliance also. The compliance of labor standards is also being demanded by the importers of the big importing countries.

The Indian chemical industry is showing a positive trend in exports during the last seven years but still it accounts for only 1.3% of the global trade worth $ 545 billion. The industry remains a net importer with an annual trade deficit of $1.3-1.8billion. The Ganguly task force on chemicals stated that the chemical industry in India did not inspire confidence in the prospective investor. The main requirements to prepare for the challenges ahead were speedy growth and consolidation, cost reduction and investment in research and development.
Consolidation is one of the critical imperatives for the Indian chemicals industry, which has a "dismal record of very low levels of R&D spending". As a percentage of sales, R&D expenditure is only about 2 per cent in the pharmaceuticals sector, against an international norm of 18 per cent, and in specialty R&D the scenario is even bleaker.

At the 12th Acharya P.C. Ray Memorial Lecture, "Chemical industry - prospects and challenges", organised by the Indian Chemical Manufacturers Association, Mr Vinay Kohli, Secretary, Union Department of Chemicals & Petrochemicals, said if the Indian industry has to enhance its competitiveness, R&D was a theme to which "we must constantly return".

He said R&D spending of 0.4 per cent of total sales in the case of specialty chemicals was a "shameful reflection" of the priority attached to R&D. He said the main requirements to prepare for the challenges ahead for industry were speedy growth and consolidation, cost reduction and R&D. Growth has to be the prime basis for industry to emerge from the difficulties it is now facing, and this can come from newer application development or by support drivers such as agro credit, better health management and other relevant measures. According to Mr Kohli, other components of more aggressive growth could be a focus on exports and setting up capacities globally.

He also urged the entire manufacturing sector, including the chemicals sector, to look beyond the domestic market and actively pursue the opportunities which the new world trading order has thrown up. Cautioning industry that stiff competition from China, Korea and Taiwan and decline in margins would be a fact of life in the future, he said, we need to capitalise on the availability and abundance of raw material and establish a win-win partnership using Middle East petrochemical feedstock as a base for major value addition.

He posed the question: Can we exploit the potential of using India as a production base for the domestic market and for outsourcing requirements?

Classifying industry expectations from Government into the three critical areas of export competitiveness, environment-related issues and export promotion, he said the Government was conscious of reducing tariffs on basic inputs such as fuel and feedstock to make the industry more competitive. In the year 2,002, the chemical industry demanded the duty free imports of research and development equipment and technology/designs to bring down the operational cost of the industry. The basic chemicals, pharmaceuticals and cosmetics export promotion council (Chemexcil) strongly felt that there should be the mandatory registration from international exporters exporting their goods to India. This was in line with the majority of the Asian countries. To produce the world-class products, Indian
chemical industry requires capital goods and machinery for producing products using the latest technology available in the world. With the heavy component of import duty these capital goods were costly. The chemical industry has been demanding the simplification of procedures as regards the customs and excise, single window clearance, fixation of ad hoc norms for new products, custom bond facility etc.\textsuperscript{10}

The Indian paint industry has been a limus test of the growth of the world's fifth largest economy in terms of the world's fifth largest economy in terms of purchasing power. The industrial rains are specialty products used in infrastructure creation as well as large scale manufacturing of words such as consumers durables, automobiles, furniture, Machinery and equipment. The renewed emphasis on export orientation will require all indigenous manufacturers to conform to international quality standards. The environmental concerns are also creating problems for the industry.

The Indian pharma industry has shown remarkable growth and maturity during the last four decades. The exports from the industry face a low level of his version development expenditures which is remains as low as two percent of the total industry turnover. The industry continues to be the most regulated of all, notwithstanding the globalization policies initiated in 1991. The lack of economics of scale, high financing costs, poor technology, and even poorer marketing capabilities all added up in the recent past to near crisis situation in a section of the industry. Post-2,005, if India is to emerge as the third or fourth largest pharmaceutical force in the world; at least the leading companies need to reinforce their commitment to new drug discovery research. Meek and meager efforts and negligible investment in research and development had been made for the discovery of new drugs during the last two decades. The total allocation for research and development by the pharmaceutical industry in India had remained at the level of 1.5 percent to 2 percent of its turnover (compared to 15 to 20 percent in developed countries), bulk of it was spent on the process and technology development. The Indian pharmaceutical industry although may have contributed towards process development but it has hardly contributed to qualify for innovative and patentable processes.\textsuperscript{11} There's also a lack of popularity of contract research organizations which is one of the reasons for low levels of research and development India. The introduction of MRTP Act and FERA. reduced the level of foreign direct investment (FDI) in the pharmaceutical in the 1980s. However, with the adoption of trade liberalization measures, they limit for automatic approval has now reached hundred percent. However his point of these measures the foreign direct investment has not increased substantially. Also
there is a vast difference between the FDI approved and actual inflows. There's also a lack of any initiative in new product development, though some are taking efforts to step up investment in this direction. The Indian pharmaceutical industry also has a low level of interaction with the academia. It suffers, further, from insufficient institutional infrastructure. Currently, processing of patent applications in the Indian patent office (IPO) takes a minimum of four to five years. The industry sources on the that the lack of technical manpower at the IPOs create hassles in the firing of the application self and this could lead to further delay at the stage of collecting evidence on prior art to establish the novelty of the product. Delays in processing the patent applications could lead to India disadvantage especially in the context of the fact that no other country but for India and Argentina have accepted to provide 'exclusive marketing rights' (EMRs) for products patented elsewhere. As per the rules for the grant of exclusive marketing rights implications for India are clear. If the processing of an application takes longer time, till then the product can make use of the monopoly marketing rights. The other weakness with which the Indian pharmaceutical industry suffers from is the lack of an understanding of the various clauses under the TRIPS Agreement among the industry members. The Indian pharmaceutical industry also requires adhering to certain international quality standards which will be necessary sans which nation registration will not be available on such products in developed countries. Such standards should be more there for the small scale units which are large in number. The lack of standards for such unit levels can affect export opportunities.

There are many issues as well as anomalies that are currently hampering the competitiveness of Indian machine tool manufacturers. The small and medium enterprises end up in absorbing the taxation element, as they are not allowed to avail the benefits modvat or cenvat credit.

The capital goods industry is the epicenter for the development of a strong and self-reliant India since independence. Excess capacity in ending-user industries such as steel, cement and paper coupled with the lack of investment in other sectors such as power, fertilizers and refineries, not only in India but also in the neighboring countries has adversely affected growth opportunities for manufacturers of capital goods. Moreover, the slowdown in some of the leading Western and Asian economies has resulted in aggressive and unrealistic competition for relatively small markets in and around India.

The Textile and the garments export sector also face procedural problems of their own sort. The sector faces high procedural transaction costs, coupled with infrastructure
bottlenecks, which plague entrepreneurs in the textiles and garment exports front. With a contribution of about 25 per cent of the total exports the textile and garments exports have to go through inflexible, obtrusive, slow and unsympathetic export processing regime to avail various concessions to make exports more profitable. It has been estimated that over 100 different copies and over 250 signatures are required from the garment exporter, during various interfaces with the government and other agencies, right from manufacturing to the port of discharge of the consignment. There are over 20 major steps, starting from the despatch of goods towards the domestic port and the shipping process, involving a large amount of paperwork, multiple government agents, mailing of important documents and so forth. With so many steps, it is likely that things go wrong. For instance, papers can get misplaced, mails get delayed, some important functionary may be on leave etc, it said, adding any of these ‘out of the ordinary’ happenings can create severe delays for export of the commodity. Moreover, goods are transported from the manufacturing point to the port of destination, warehouse, and to the final transporting vehicle. All these affect the smooth flow of goods and containers, since boxes may be damaged or seals may get broken in such transportation. Despatch and shipping of goods can be most difficult for the exporter, said the release, adding they need to interface with insurance companies, domestic transporters, customs officials, port authorities and international transporters. If there is any problem in one part of this process, the whole process gets affected, and many a time the process has to be repeated again. ¹³The most critical component in global textile trade is cost-competitive and pricing. As compared to the previous years the price of the Indian shipper has gone up due to the high cost of operation. The high cost of operation has been due to the deteriorating quality of cotton, high cost of energy and inflexible labor laws. The discriminatory trade practices through the preferential trade route have also hit the textile exports. The power charge for by the end and textile exporters is hundred percent costlier than the charges charged from the exporters of Pakistan, Bangladesh or Vietnam. ¹⁴

Procedural problems:

The Indian exporters still continue to face many procedural problems in their export operations. The exports are, thus, beset with both industry-specific and procedural problems. The procedural problems faced by the exporters are of wide variety.

(1) Very recently the country’s exporters faced the appreciation of the rupee against the U.S. dollar. The rupee, which was at 48.80 a dollar on March 31, 2002, has strengthened to 47.48 in March 2003 and July 2003 is at 46.12. The Indians are usually operating in
the buyer's market. They have to adjust the quoted value of exports downwards when rupee weakens. However they cannot move the other way when the rupee strengthens. The Information Technology (IT) companies and the project exporters are the hit points for such rupee appreciations. The export profitability is eroded which worries the exporters much. The cost-cutting efficiency measures are the only ways left for the exporters to buy relief in such perturbing situations. The magnitude of the problem can be gauged from the fact that around 80% invoicing in case of textiles is done in dollar terms. The problem further gets a blow up when the increasing foreign exchange reserves are not properly absorbed every year into investments. The problem of excess supply of U.S. dollars is due to the fact that they are available as PCFC Loans which can be converted into rupee on same day. The inflow of NRI dollars which are converted into rupees for bank deposits fetching six percent interest and giving the non resident Indians four percent even after hedging of the dollars.

(2) Exporters also face the hikes in container rates. Such increases make the exports are uncompetitive owing to the rising freight charges. Such increase has been recently faced in the year 2,003 by the exporters and they're further under threats from the shipping lines as regards the increases in the offing. Because of the low draft the mother container vessels were also not calling certain ports like Kolkata or Haldia in the eastern region, which was a problem for the exporters. The use of feeder vessels was being made to make exports Colombo or Singapore where again the waiting times extended to fifteen days sometimes. Further, the shipping lines are more eager to move lighter items like garments as compared to steel products and engineering items. This has created problems for steel and engineering exporters.

(3) The Indian exporters face in non-tariff barriers in the markets abroad. For instance, In Indonesia, Non-Basmati imports from India are allowed broken rice content of only fifteen percent. For China, Vietnam and Thailand, the permissible levels are 25 percent. In Japan, the Indian roses are auctioned with the prices have dipped. The European Union does allow its members to import Indian whiskey on the pretext that it is based on molasses and not cereals. Such examples of the non-tariff barriers have been recently highlighted in a report prepared by HAC Prasad, economic advisor in the department of commerce. The Indian exports to the U.S. as per the report face greater non-tariff barriers. For 25 percent of the value wise exports are
subjected to safety requirements (global average 22 percent), and in nineteen percent face labeling restrictions (global average Sixteen percent). Interestingly, the Indian exporters face new forms of trade restrictions in the global market which have been termed by the report as the indirect non-tariff barriers, as opposed to direct NTBs (which include quantitative restrictions, export subsidies, government procurement and import licensing). The indirect NTBs faced by the Indian exporters include measures like health and safety and technical regulations, customs valuation procedures and marks of origin restrictions. Even anti-dumping duties, countervailing duties, regional subsidisation, subsidization of public enterprises, tied aid, etc., is included under this category. The textiles, nuts, food and vegetables, Iron & steel, machinery, pharmaceuticals, wood and marine products are the items which you receive the hardest hit by the NTBs. Unfortunately the country’s three largest trading partners- the U.S., the European union and Japan- are the major ones carrying the NTBs. Besides the product-specific NTBs Unilateral measures like “Special 301“ imposed by the U.S. to protect its intellectual property rights. The report which is based on the UNCTAD database estimates that 44 percent of the Indian export made in 1999 faced NTBs in the U.S.

(4) Many a times the Indian exporters face unilateral bans on their exports. In October 2,002, such a hit was received by the seafood exporters when it’s been rejected consignments from five major exporting units alleging contamination by antibiotic residues. Failing to give any concrete evidence Spain has invited anger of the Indian exporters. Argentinian shrimps are India’s closest competitors who may have lobbied with the Spanish authorities, allege the Indian exporters, to move India out of the picture. Significantly, only Spain, the European union countries has rejected the Indian consignments which reinforces the lobbying phenomena.

(5) Legal and procedural complexities in the importing nation are also faced by the Indian exporters abroad. For instance the problems that are faced in exporting to the European Union include the preferential trading agreements with other countries, certification problems and visa and other regulations.

(6) Market denial as against the market access is the other problem faced by the Indian exporters in many of the developed nations. The very recent proposed bans on the Business Processing Outsourcing (BPO) by four states in the US for data processing contracts for the developing countries defied the principles of market access.
(7) *Slow import cargo clearance* hits the imports made by the traders and the manufacturers. There are reports that such delays which ultimately increase the transaction cost of the traders. It says that, "the cargo clearance system by customs has two aspects. One is the paperwork and the other is the physical check. If the goods have been declared in the import document as, say, newsprint or ultrasound equipment or resin to make shoe soles, then the importer's first job is to get the customs duty classified and the value declared approved.

Assuming that the classification is completed after the importer has fulfilled some conditions, the next formality is opening and examining the goods in the docks.

This applies to all goods — even if they are sensitive computers bought by the Indian Institutes of Technology. Not all packages are opened, a certain percentage — say, 10 per cent — is selected. This system is unproductive and meaningless because:

- the rigour of the examination can be avoided by bribery;
- even when a full examination takes place, the results are not reliable because the nature of machinery or chemicals can never be determined visually;
- the record of detecting misuse by importers through this route has been poor; and
- the demurrage charges, which are substantially a result of delays in examination by customs, in Mumbai port are known to be roughly Rs 100 crore in a year. These charges are borne by importers.

The economy has to pay a very heavy price for the higher transaction costs that importers bear. Manufacturers are uncertain about getting the goods in time for their production schedules, so their inventory goes up.

The Japanese follow the Just-In-Time principle for procuring material. This can sometimes mean that their factories can work on inventory levels as low as two days. In India, such a cost-cutting exercise is impossible given the physical examination stipulation.

What is more, this contradicts international practice. In US, Canada, England and Holland the study of the cargo clearance for import shows that the goods are cleared out of the port without any physical examination. They were only opened when customs received intelligence about specific consignments.

The amount of cargo handled in ports like New York and Rotterdam is many times more than the biggest ports in India. But these ports looked so clean simply because the clearance of goods is super-fast.
The revenue department in India claims that the green channel is already greener because it has issued circulars that waive physical examination in certain cases.

The fact, however, is that these instructions are hedged in by many ifs and buts. Also, exempting government undertakings or large consignments of bulk cargo does not achieve much.

Even now the emphasis is on allowing “non-examination” for importers of “proven integrity”. This is a qualification that few customs officers will find easy to certify.

The fact is that no bureaucrat can take the risk of categorising many importers of proven integrity. In any case, a handful of people will fall in this category. And many frivolous showcase notices against importers stand for a long time before being set aside.

The only way in which the scheme can succeed is to allow all importers to avail of the green channel facility. There have been recommendations from NIPFP (1997), the Partho Shome committee (2001) and the Kelkar committee (2002) to ease the physical examination stipulation.

I must, however, emphasise that to make the cargo clearance system really speedy, it is necessary to introduce several other reform measures as a package deal and not just waive physical examination. The measures include:

- Simplify the tariff, remove conditions and lists and bonds.
- Move the assessment work to the docks, so that importers don’t need to run from the customs office to the docks to get their goods cleared.
- Order the clearance of cargo by keeping only samples that can be tested later.
- Reduce the possibility of chemical tests by unifying the rates of duty.
- Downsize the appraising staff and the chemical laboratory.
- Pre-shipment certificates for goods should be accepted.
- Valuation hassles can be removed if details of imports and value of goods are made available to public view by opening a website for this purpose.
- Abolish physical examination of goods, except when revenue intelligence or customs intelligence staff have positive information that contraband is being cleared secretly.
- The post-audit of goods with reference to documents or samples should be strengthened."

(8) Inability to fulfill export obligation sans extensions results into the exporters being declared as defaulters and they are required to pay customs duty on the excess imports of raw materials made by them together with a 24% interest from the date of import made by
them. The price fluctuations and other uncertainties of the political climate disable the exporters to fulfill their export obligations within the stipulated time period. For instance, extensions are only given to exporters who have been issued licenses to or April 01, 1997. However for chemical and pharmaceutical exporters, despite the government orders even those licenses were excluded from being extended which were issued before 01April 1997. This has created financial problems for the exporters who also lose their credit worthiness.

(9) The problem of poor and costly infrastructure facilities compounds the exporters’ problems. The domestic producers because of poor transport facilities and unstable access to power are at a major disadvantage as compared to their international competitors.

(10) The insincere attitude of the customs officials poses problems for the exporters. For instance, at Petrapole (land border point in west Bengal) LCS (Land customs station) it is possible to clear up around 500 to 550 trucks daily by the customs officials if they start as early as 6.00a.m. However the officials resume work only at around 11.00 a.m. and wind up by 5.00p.m. The exporters are compelled to pay heavy detention charges due to the lack of parking facilities apart from bearing the deterioration in quality of perishable products. This happens because of the trucks getting stranded up on the border approach road.

The above procedural problems got largely expressed in the responses secured through schedules served to the twenty exporters at New Delhi and Calcutta by the researcher. The delays encountered by the traders due to unsympathetic attitude of the officials, the transportation, theft, finance problems were the common problems prominently noticed by the researcher in his interviews.
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CHAPTER - X
LONG TERM PROSPECTS : PERSPECTIVE PLANNING AND PROJECTIONS FOR INDIA’S FOREIGN TRADE BEYOND 2001