CHAPTER 9

CONCLUSIONS AND POLICY PRESCRIPTIONS

--PAST POLICIES

--AREAS OF POLICY-MAKING FOR THE FUTURE
CONCLUSIONS AND POLICY PRESCRIPTIONS

Purpose of study

The purpose of this thesis is to study and analyse the trends in exports and to assess whether there is need for any improvement in the policies which need to be followed. It is easy to find flaws in policies and to become wiser after certain events. Any analysis is meaningful, only if it is possible to derive conclusions from the events of the past and to rectify things with better results. The present chapter focusses on the areas where policy initiatives are necessary. The idea is that only a multi-pronged approach, with concurrent action on various fronts can help the country to achieve sustainable economic development.

Complexity of the situation

It can be seen from the trends in Indian trade mentioned in Chapter 1, that although exports have increased in absolute terms, the growth in exports has followed a chequered pattern. Every few years there is a tendency for negative growth. This makes it clear, that exports have not grown on a sustained basis. Exports have clearly been very vulnerable to the vagaries of domestic and international factors - which include global recession and imposition of non-tariff barriers by the developed countries.

Conceptual framework

Figure 9.1 portrays the inter-relationships between exports, Governmental policies, and interest groups, which are affected by several factors - some domestic and some international.

Domestic factors

Since India is still a predominantly an agrarian economy, it is dependent on the monsoon, and is therefore easily affected by natural calamities like floods, poor monsoon rains, cyclonic disturbances, and other agro-climatic factors. Agriculture is the mainstay of the population, and poor agricultural production results in less income to a major segment of the population. This in turn affects the
International flows

Impact of domestic and international factors on exports

INTERNATIONAL CONSTRAINTS

External Exogenous Factors: World Oil Price; World Recession; Protectionism; Workers Remittances; World Market

DOMESTIC ENVIRONMENT
Infrastructure; Banking, Maritime; power; telecom etc.

Interest Groups
- Industrialists
- Traders
- Professionals
- Political
- Labour
- Bureaucracy
- Agriculturists

Government Policies
- Industrial Policy
- Financial Sector Policy
- Labour Policy
- Policy on Infrastructure
- Trade Policy

Exports
- Price
- Packaging
- Quality
- Delivery Schedules
- Updated Technology
- Market Information

Non-tariff Barriers
(azo dyes child labour)
- Export Restriction
- Quotas
- Regional Blocs
- MFA
- Market Penetration
- Liability insurance

Domestic Exogenous Factors: Crop Production; Monsoon; Regional issues; National Calamities; social factors

Source: Adopted partly from Thakur (Page 203) and partly from Adams (figure 1.1)
industrial production, by suppressing the demand for manufactured goods of all types. In fact, the effects of a poor monsoon are felt right across the economy, be it construction activities, tourism, or in domestic savings. Such a situation could affect exports also adversely.

Political, social and regional factors

All these factors have their impact on trade, as the country is still in the stage of consolidating its trade in the post-independence period. The recent period of militancy in Punjab is an example of the kind of factors which can affect the growth of exports. Despite the resilience of manufacturers and exporters from Punjab, who managed to keep up as much exports as possible, it is clear that if the disturbances had not been there, exports from Punjab may have been better. Similarly, terrorism in Jammu & Kashmir has in the last few years taken its toll on handicrafts and tourism. One example of a social issue is the attitude to beef in India, which makes it a commodity, which does not find favour even if there is a market abroad. Similarly imports of beef tallow are restricted in view of social sentiments.

International constraints

As is obvious, movement of trade is bound to be affected by international factors. Whether it is the break up of the Soviet union into the C.I.S states or the Gulf war, all international events have their impact on exports. After the break-up of Russia, there has been a disruption in Indian exports to the Soviet bloc. The impact of a hike in oil prices is a familiar issue for this country. Apart from increasing the cost of petroleum imports into this country, the "oil shock" as it is most often called, is one single factor, which has a spiralling impact on most economies. Any recession in world trade, has an adverse impact on exports, as has happened in 1996-97. Similarly protectionism in the international markets, affects the exports particularly from developing countries. Recent examples of protectionism include the linkage of child labour with the export of carpets, and the ban on exports of garments, using azo dyes to the European Union.
Government policies

As in almost all other sectors, Government policies are central to the development of trade, particularly in a developing country. Countries like Korea and Taiwan are examples of aggressive and judiciously selective state intervention. The Korean system of selective targeting is better than control. While Government policies have an impact on exports, they are in turn influenced by interest groups. The most prominent groups have been listed out in the Figure 9.1. The list is not exhaustive, but the significant groups are industrialists, traders, professionals, political groups, labour, bureaucracy and agriculturists. Interest groups normally have an impact on the decision-making through their representatives both inside Parliament, and people outside like associations, opinion-makers and sometimes even the press. There is an inter-dependency between exports, policies and the interest groups.

Are imports & exports necessary?

If we observe the complexity of international trade, one question which then arises is whether imports and exports are indeed necessary. Another related question is whether there is any need to focus on exports at all and whether export promotion is necessary. The considered viewpoint is that in the present times, is a matter which no country, which seeks prosperity can afford to neglect. With the rapid advances in science and technology, many of the barriers which confined countries to operate within the narrow domains are fast breaking down. It is difficult to remain entirely insulated from such an environment for all times to come.

It may be pointed out that exports are in fact needed to earn the much required foreign exchange. It was seen from Table 1.8(b) that a significant proportion of imports consisted essential items. The bulk of India's requirements of foreign exchange, have, in the past, been required for the import of essential products like cereals, petroleum products, fertilizers and essential bulk products like edible oils. Foreign exchange reserves are required not only for effecting essential imports, but also for technological upgradation and for enabling the country to
benefit from the latest developments in the world. There is, for example, no reason why an Indian citizen should not have the opportunity of having access to a drug, which is available in another country for a particular kind of ailment.

Agnosin has commented that since production for export markets has to be competitive and of high quality, producers have to necessarily be in contact with new technologies and business practices. It is thought that this would be more conducive than import substitution to innovation and to the lowering of costs. Both these factors-larger scope for economies of scale and greater inducements to innovation are expected to result in faster Total Factor Productivity Growth (TFPG) under export-oriented policies than under an import-substituting regime.

At the same time, it is clear that India is such a large country and such a huge economy, that it would be very difficult for the country to go in for export-led growth. In other words, the model followed for example Taiwan, where exports, spurred the economy, cannot be expected to be as successful in India as it was in Taiwan. The reasons are that India has a large population, whose demands make competing claims on the budgetary resources. Moreover, the domestic market, exerts a pull, making it remunerative for the producer to sell within the country. This is further aided by the scarcity premium available due to supply constraints.

The alternative option of growth-led export appears to have better chances in the long-run, of yielding results. In a country with as diversified an economy as India, growth led exports are likely to be more sustaining. There is one view that the focus on exports leads the country away from self-reliance and makes it increasingly dependent on foreign debt, but this is not necessarily so. With a right balance of policies, it is possible to expose the country to international influences in a phased manner, while at the same time ensuring that the competition does not result in the closing down of domestic units.
Past policies

In the initial years of our independence, the country did not have a significant industrial base, and it was essential that the economy was protected and allowed to grow, without being damaged by the impact of imports. We also did not have adequate foreign exchange for different kinds of imports. However, this rationale no longer exists.

The earlier policies attempted to upgrade segments of the economy to reach international standards for export production. This system, though it worked for some time, did not always help. This was because units or zones, could be upgraded only to a limited extent, and tended to be affected by the normal constraints of the domestic economy. This system however tends to be very vulnerable. Any slight upheaval in the environment upsets the parameters and adversely affects the export growth. The attempt to upgrade the export production has also to be at the expense of the rest of the economy, since there is a paucity of resources. Consequently, it is looked upon with disfavour by many thinkers. There is one school of thought which feels that export promotion is a necessary activity, and that many countries do it. Another section of thinkers feel that while export promotion is acceptable in the initial years, these crutches should not be continued with for too long. The country should now be able to carry out exports, without more and more benefits.

Several methods were utilised for export promotion. The schemes like the REP scheme, the Duty-Exemption Schemes, Pass-Book Schemes, were meant to provide easy access to inputs at international prices. The second methodology was to attempt the creation of exclusive areas or zones, where adequate support would be available for exports. Export Houses and Trading Houses were expected to provide marketing strength. The last method was to provide financial support including cash compensatory support, market development assistance, duty drawback, and bank finance. All the export promotion schemes however impinge on the budget and draw on the existing resources. There is a limit to export promotion activity which cannot clearly be impervious to the cost to the economy.
Exportable surpluses

Very often, the question is debated, whether there is availability of exportable surplus. The debate loses sight of the fact, that India is a producer of a large variety of products. There are always products, which can be exported without adversely affecting the domestic availability of essential products. An example of this is Basmati rice. Being a costlier variety, its exports do not have an adverse impact on the domestic consumption of rice. Similarly, in the case of marine products, India is blessed with a very long coastline. The social customs in India in many areas place an emphasis on vegetarianism. Consequently processed marine products are available for exports. In the context of processed fruits, only about 3% of India's production of fruits is processed. The major portion of this goes waste. Proper processing and preservation could add to the availability of fruits, and even exports, if the quality improves.

This leads to the question of value-added products. The same production can in most cases sustain more value-added products. The popularisation of brands of tea-bags, could apart from popularising the Indian brand-name, result in better value-addition. There is much more to be gained through the export of manufactured export products. there is also the advantage of a value which is high, due to the value-addition. In any event primary products are more vulnerable to the vagaries of slackening in demand. The Brand Equity Fund seeks to address these problems. More work however needs to be done in future in this area.

AREAS OF POLICY-MAKING FOR THE FUTURE

Domestic policies and trade policy to work in a complementary manner

In Chapter 8, it was shown that wherever the policies of Government worked complementary to each other, there was a larger degree of success. However of deregulation and economic liberalisation needs to be extended to all other sectors also. It is proposed to clarify this by an example.
It is found that the price realised by Indian cotton is lower than the price realised by cotton from certain other countries in the international market. This is due to the fact that a large amount of extraneous matter is found in the ginned cotton. There is an outdated law called the Cotton Ginning and Pressing Factories Act, 1925, which apart from other matters fixes the ginning and pressing charges. These have naturally been fixed below the viable limits, as this is the normal tendency in the case of fixation of prices. This in turn curtails the returns, and acts as a disincentive for further investment in new machinery. The extraneous materials are caused by the usage of outdated machinery. It is clear that innocuous policies in other sectors also have an impact on the efficacy of production of exportable commodities. Recently, a committee has been announced, which is expected to carry out a review of old laws and regulations, which serve as bottlenecks. These need to be identified and revised expeditiously.

Another example is that industrial growth itself cannot take place unless there is credit availability. Similarly agricultural production cannot take place optimally without adequate fertiliser availability. This stresses the importance of interlinked factors. As all such linked laws equally affect domestic production as well as the export production, this again highlights the need to upgrade the domestic economy.

**Stability of policies**

While several policy measures were attempted in the past, they were not tried out on a long-term basis. In the initial years the policy was brought into operation on a six-monthly basis, then on an annual basis, then on a three yearly basis and lastly on a 5-yearly basis. At times policies have been interrupted to suit political mileage. For example, in 1990, the Import Policy was terminated and a fresh policy was brought into force, although the old policy would in reality could have been in operation for one more year. The Import-Export Pass Book Scheme was discontinued in 1990, and brought back again in a different form subsequently.

The scheme of Export Houses/Trading Houses which was
conceptualised with a great deal of foresight was changed very frequently. The scheme consequently lost its bearings. The proliferation of such houses diluted the scheme. This resulted in a situation where the scheme did not give adequate impetus to a select group of export houses on trading houses, or enable them to become big organisations with marketing abilities and international linkages. The scheme did not encourage the movement of the export houses/trading houses towards the establishment of strong institutions with the capacity to forge marketing linkages in the international arena.

The import-export policy did provide some incentives by allowing export houses facilities for the imports of raw materials, components and capital goods. However, export-houses did not build up any special expertise in imports and exports. This was quite different from the kinds of capacities which the Japanese sogasoshas have built up. Both the chaebols of Korea and the sogasoshas of Japan have the capacities to participate effectively in export activities. Apart from providing cheap credit, they are able to organise cheap imports and arrange shipping at economical freight rates.

Evaluation of schemes and policies

In the past, in the case of some policies, evaluatory studies have been carried out. One example is the case of E.P.Z's and E.O.U's, where some studies were carried out. In the case of the majority of the schemes however, no evaluations were done. The I.I.F.T for example is one organisation, which is equipped to carry out evaluatory studies. There are other institutions like the I.I.M's and Universities and research bodies, which can evaluate policies. All policies and schemes introduced by the Government, should be evaluated. Government should base its future decisions on such studies. These would prevent frequent and arbitrary changes in the policies.

Among the important Committees, appointed in recent times, the only Committee, which covered a wide canvas was the Tandon Committee of 1980, which worked towards a strategy on exports. The Tandon Committee dwelt on various related matters like infrastructure, which have an impact on
exports. While the import-export policy and licensing received a great deal of attention, perhaps much more than necessary, other related issues did not get so much attention. They were also not pursued with the same kind of vigour.

Focus on marketing

Foreign trade is primarily the art of marketing products. Starting from the initial task of gaining market intelligence, several areas need close attention. This includes acceptance of the export products in the international market. Some of the main areas, where there is need for effort are as follows:

1. assured quality
2. proper packaging
3. delivery on time
4. after-sales service.

All these attributes contribute to the image of the country. The price realisation is dependent on the image of the country. Viś-a-vis Japan and Korea, India does not enjoy a good image in respect of the quality of export products. This results in lower price realisation. If the country has to do well in exports, we will have to erase this image. As pointed out by in Chapter 1, quality is an area on which adequate emphasis has not been placed even in the past. The Government needs to place emphasis on the quality aspect. The National Quality Council has been established, and it needs to be activised. The performance of individual exporters in adhering to quality, delivery schedules, after-sales service and proper packaging is the only way to improve the international image of the country. This has to be impressed on the exporting community, that the image of India would be built on their behaviour.

In addition, India needs to carry out publicity for its brands and its image as a country, which is capable of manufacturing quality products. Several products, like tea, rice, and some agricultural products, sell better, if there is a brand name attached to the product. Of late, exporters have been getting ISO 9002 certificates for their products. Having an ISO 9002 certificate or a certification from some
of the testing laboratories at Japan or Germany, adds considerable value to the product.

In general, it can be observed that international buyers are willing to pay a higher price, if they are assured of a quality product and supplies right on time. Although, there is an improvement in the outlook of exporters to ensure that export products are as per the original specifications, the country has still a long way to be traversed, before frauds in exports become more an exception than the rule. Along with this the action taken on erring exporters must be strong enough to act as a deterrent.

**Quality campaign**

A major campaign on quality needs to be undertaken through the medium of press and T.V. The upgradation and maintenance of quality is also a serious drawback in our domestic production. For the future, wider publicity on quality would improve both the domestic as well as the export market.

**Packaging**

The art of packaging is another area, where our standards fall short of international levels. Apart from contributing to the aesthetics of the packaging, export products often have to be packed in lightweight but durable and neat boxes, many of which are collapsible. There are different packaging requirements for different commodities—such as air-tight containers, or those capable of retaining low temperatures. The Institute of Packaging has developed expertise on this. However, packaging as a serious support activity, has still a long way to go.

**Delivery**

Timely delivery is an important pre-requisite for sustained export contracts. Internationally, buyers like to keep a low inventory, due to the cost of storage. Indian exporters suffer from several handicaps. They are often not able to get the inputs for their production on time. Very often, it is difficult to ship the items on time, as a
result of which the exports reach their destination late. Garments which are needed for use in Summer have to reach well before Summer. It would serve no purpose, if for example if they reach well after summer is over. Of late, warehouses are being set up in important markets, to enable exports to be stored and supplied on time.

After-sales service

In the area of after-sales service also, there is a need of better quality of services. In particular, in respect of capital goods, repair and services are extremely important, since without the service facilities, capital goods become useless.

Entry into foreign markets

With regional blocs being on the increase, India needs to evolve strategies for the entry into countries within the regional blocs. One way is to form joint-ventures which operate within the blocs. The Government of India has in fact liberalised the regulations relating to the formation of joint-ventures. Wherever possible, firms and companies should be encouraged to form joint-ventures outside, if necessary through fiscal concessions.

Role of Government and other agencies

As could be seen from Chapter 6, an elaborate structure has been built up for the promotion of exports. The system however needs to be geared to facilitate exporters. Export Promotion Councils need a total orientation in their outlook. They need to be more helpful in their attitude, with the latest communication facilities. These organisations have to play a more useful role in keeping exporters informed of Government’s policies, as well as in the maintenance of a good data-base. The role of our Commercial Representatives in the Missions abroad, has also to change with time, and an orientation is needed for this. With Internet facilities available, the focus today is on information, and on providing exporters with all access to important information. An attitudinal change is also needed so far as the staff in Government offices is concerned. This again calls for heavy investment in human resource
development, through training, seminars and updating of skills.

**Procedural simplification at the operational levels**

The 1992-97 policy took significant steps towards a reduction in procedures. There has been the introduction of EDI at the Customs outposts. There has been a lot of enthusiasm in the initial years, but the effort has not continued with the same momentum. The delays faced by exporters is an aspect, which is very well known. They are also required to fill in several forms. The solution is to carry on further procedural simplification.

Exporters in Korea were allowed to clear imports of inputs required for export production, on the basis of notified input-output norms, and based on a back-to-back letter of credit opened by the banks. This is a far cry to the cases of Advance Licenses in India, where an application for an Advance Licence took months to process, thereby leading to considerable in delay effecting exports.

**Infrastructure**

There are several important factors which act as an impediment to export growth. These include infrastructural facilities such as power, maritime infrastructure (like shipping and ports), transportation facilities—like railway transport, shipping, airlines and air-cargo facilities. There is therefore a continuing need to upgrade these facilities also.

Increasing containerisation has been attempted. However, the movement of containers from the hinterland to the ports leaves much scope for improvement. The ports from which the exports are sent out suffer from serious limitations—both in respect of availability of ships which would be landing as also in terms of quick loading and unloading. Ports like Singapore have established an excellent system where the containers are unloaded, packed on to another ship and allowed to set sail within a short while.

For perishables like flowers, fruits and vegetables,
air lifting becomes very important. The airports need to be further developed to provide better cargo facilities. Vegetables and fruits also need storage facilities, before despatch. These storage facilities are only available to a limited extent. The chain of cold-storage facilities for floricultural and horticultural products, needs to be further developed to facilitate the development of exports. Facilities like good roadways, refrigerated trucks etc. are all aspects which need to be developed. The development of such infrastructure needs considerable resources.

Banking infrastructure

Finance at low rates of interest is critical for export development. In the recent past, the financial sector, has been opened up to a large extent, by the establishment of new branches of banks, by allowing access to international low interest funds like venture capital, Euro-issues, etc. Non-banking financial institutions are also being allowed to be set up. This is also expected to result in the upgradation of the financial sector. These measures have to be consolidated in course of time, in order to be of greater use to exporters.

Need for foreign investment flows

Since 1991, India has liberalised on foreign investment and has become an attractive venue for investment. However while clearances for investment have been streamlined, there are several rules and regulations in different sectors which have to be simplified, to facilitate the implementation of projects. Consequently, while there is adequate scope for investments, there are difficulties in these getting off the ground.

In a wider parlance, international trade flows cover investments also and include both direct foreign investment and foreign institutional investment. Foreign investment is often looked upon with mixed concerns - for some it implies foreign machinery and foreign goods. Others express concern regarding the impact on the sovereignty of a country. One of the significant spin-offs of foreign investment is the transfer of managerial expertise, inventory control and
management of human resources.

It is always possible for the country to work out sector-wise, how it wishes to open up the sector to investments, and to competition. What is however essential, is that having opened out a sector, there should be fewer impediments to investments and to the implementation of projects. The opening out has to be done in a phased manner to enable the units in the domestic economy. It would however be difficult to agree with several economists that the protection must continue indefinitely. India has had a protective domestic structure for over four decades. Continuing with the same system without a change would only render the system more inefficient and uncompetitive.

**Competitive advantage**

Michael Porter has rightly pointed out that in the present times competitive advantage and not technology will drive trade flows and investment decisions. India has decided advantages, which could provide a competitive edge in several areas. For example, on the agricultural front, India has a wide range of agricultural products right from those grown in the tropical areas to those grown in the cold climates. However, processing of agricultural products is very low. Consequently large amounts of agricultural production go waste. There are those who apprehend that the domestic market would be denied access to such products. It must however be realised that presently only part of the produce finds its way into the market, and would anyway be accessible only to the very affluent. Processing of the remaining produce would upgrade the quality of the product and would provide an insurance to farmers against the vagaries of the domestic markets.

**The country’s potential for exports**

India has very good potential in certain areas like software exports, gems and jewellery etc. There is a vast pool of technically qualified manpower in India, who are capable and competent, and able to pick up technical matters. Their skills however need to be upgraded from time to time, to equip them to use the latest technology. Similarly concepts such as quality control and productivity
are not very well practised in India. For exports the viability occurs at the margin. Consequently, for export production every bit of profitability is important.

Conclusion

We have established a strong foundation for our economic growth, on which we should now try to build a sturdy structure. In view of the problems in the country, upgradation of the domestic economy is not easy. We however have the advantage of drawing upon our experiences of the past, and must improve on our performance of the past. The post-1991 years have shown, that if the economy is given a push, then private initiative and entrepreneurship can propel exports farther than can be imagined. This is what we need to work towards. Government has to play a more effective role as a facilitator of exports. If the major points suggested above are kept in mind and Government succeeds in its role as facilitator, then India can emerge as a major economic power, and a great trading nation.

Notes

1. Agnosin-(Page 6)- A cross-section analysis for Turkey, the Republic of Korea, Yugoslavia, showed that Total Factor Productivity Growth, was positively and significantly correlated with the share of the growth of output that can be attributed to export growth.

2. Bardhan, P. in Vakil- Page 147