CHAPTER VIII

A COMPARATIVE STUDY OF EXPORT HOUSES
IN INDIA AND SELECTED FOREIGN COUNTRIES
A COMPARATIVE STUDY OF EXPORT HOUSES IN INDIA AND SELECTED FOREIGN COUNTRIES

In India, the Export Houses were established in 1946. However, abroad, the Trading Companies of Japan (Sogo Shosha) had been in operation much before. Subsequently, a number of other countries like S. Korea, Taiwan, Brazil, Mexico, U.K., U.S.A., Sweden etc., also introduced the concept of Trading Companies. This chapter deals with Trading Companies or Export Houses in four foreign countries: South Korea, Japan, U.S.A. and Brazil. These countries have been chosen keeping in view the following factors: (i) Export Houses in these countries have been in operation for at least five years; (ii) the selected countries include both developing and developed countries, (iii) Export Houses in Japan and South Korea have been highly successful and control a major share of their countries' trade.

The first part of the Chapter makes a comparative study of Export Houses in India with Export Houses in four countries viz. U.S.A., Japan, South Korea and Brazil on the basis of (a) Criteria of recognition, (b) Export
Promotion activities undertaken by them, (c) Incentives, assistance and facilities provided to the Export Houses (d) Their performance. The second part of the chapter studies the unit-wise performance of Trading Houses in South Korea and India. South Korea has been selected for this purpose because it provides a successful story with regard to the Trading House Scheme.

1 Criteria for Recognition

Chart 6.1 describes the criteria for recognition as an Export House or a Trading Company in the five countries under study. It is evident that the Government has prescribed criteria for recognition in the case of India, South Korea and Brazil. In the case of Japan and U.S.A., there are no criteria fixed by the Government of these countries. In Japan trading organisations, which have high export turnover, information network and perform multiple functions, are accepted by the trade as 'giants' in export trade and given the name Sogo Shosha (Trading Companies). In U.S.A., the Export Management Companies (EMCs) act as international marketing specialists, and sell products of all type of manufacturers, small, medium and large. The EMCs are one of the many export channels adopted by U.S. manufacturers. As has been pointed out earlier, in India, there are different criteria for different categories of Export

1 In Oct.8,1962, the USA Government for the first time introduced a Legislation - the Export Trading Company Act, for organizing Export Trading Companies (ETCs) - Business America, October 18,1963, p.8.
### Chart 8.1
Comparative Analysis of the Criteria for Recognition of Indian Export Houses and Export Houses in South Korea, Japan, U.S.A., and Brazil

<table>
<thead>
<tr>
<th>Country</th>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>For Export Houses annual exports of <code>2 crores of Select products or </code>5 crores of Non-select products.</td>
<td>General Trading Companies should have export performance per annum equal to $100 million spread over at least 10 items.</td>
<td>No specific recognition criteria by the government. But, out of 8000 Trading companies only 16 recognized by the trade as Sogo Shosha (trading companies) based on their size, information network and multiplicity of functions.</td>
<td></td>
</tr>
<tr>
<td>For SSI Export Houses, above minimum criteria is relaxed to <code>50 lakhs and </code>2 crores respectively.</td>
<td>GTC's are also required to have at least 10 branch offices.</td>
<td>Paid-up capital of minimum $15 million.</td>
<td></td>
</tr>
<tr>
<td>For Trading Houses a minimum exports of `10 crores out of which 10 per cent would be SSI products,</td>
<td>No specific criteria for minimum exports from SSI units.</td>
<td>No specific criteria for minimum exports from SSI units.</td>
<td></td>
</tr>
<tr>
<td>Other factors also considered for eligibility, like managerial resources, trade development programme, involvement in SSI exports, diversification policies (These factors are not enforced for eligibility)</td>
<td></td>
<td></td>
<td>contd...</td>
</tr>
</tbody>
</table>
CHART 8.1 (Concluded)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>Brazil</td>
</tr>
<tr>
<td>NO government recognition of export houses. Export Management Companies (EMCs) have evolved on their own and are small trading units generally having around 10 employees.</td>
<td>The firm for recognition as a trading company, should be a merchant exporter, i.e., buy merchandise in the domestic market, to the specific end of exporting. The firm should be a corporation, all shares of stock entitled to vote being in registered form.</td>
</tr>
<tr>
<td>In October 1982, the Export Trading Company Act was introduced to facilitate joint exporting and permitting banking institutions to own an interest in these exporting ventures.</td>
<td>Minimum capital of 20 million cruzeiros; in case of Brazilian firms and $ 2.5 million in case of foreign firm.</td>
</tr>
<tr>
<td></td>
<td>The firm should be registered with CAGEX and Federal Agency as a Trading Company.</td>
</tr>
</tbody>
</table>

**Sources:**
1) Import Policy 1981-82, Ministry of Commerce, Govt. of India.
2) Study Team to Republic of Korea, Taiwan, Hong Kong and Singapore, Report, FICCI, New Delhi, 1983.
3) Export Promotion Measures in Mexico, Brasil and South Korea, I.I.F.T., New Delhi, 1977.
Houses (See Chart 8.1). The most stringent criteria is for Trading Houses, while for manufacturer Export Houses the criterion is a relaxed one. For all other Export Houses there is a different criterion. There are also other factors listed for recognition as an Export House, in India, but these are seldom enforced. In comparison to India and Brazil, the criteria for recognition as an Export House are more stringent in South Korea. The criteria in South Korea includes a minimum level of exports, paid-up capital, number of export items and number of overseas branches. In Brazil the criteria lays down a minimum level of paid-up capital and specifies that a trading company should be a corporation.

It may also be noted from Chart 8.1 that unlike the eligibility criteria in India, there is no requirement with regard to a minimum level of SSI exports in South Korea and Brazil.

2 Export Promotion Activities of Export Houses

The basic objective of Export Houses in all the countries is to increase their country's exports. To this end the Export Houses perform a number of activities. These include (a) Quality control for the export products, (b) Help provided to the SSI sector, (c) Marketing Research, (d) Diversification and (e) Provision of finance to supporting manufacturers. However these
activities differ from country to country as indicated below:

a) **Quality Control**

It is expected that Export Houses would maintain a certain quality of the product and the packaging. This should not only be the case with their own production, but being trading companies they should also be in a position to check the quality of the product and the packaging of their supporting manufacturers. The Export Houses are also expected to see that their export products would be able to meet the Compulsory Export Inspection (where applicable) standards laid down by a Government agency. Thus, the Export Houses in order to perform as an effective Quality Control Center, have to have testing laboratories and equipment.

Chart 8.2 compares the extent of quality control facilities provided by the Export Houses in different countries. It is seen from the Chart that the Export Houses in India, U.S.A. and Brazil do not possess the facilities to test the production of their suppliers. In India, where there are also many manufacturer Export Houses, the Export Houses in this category are capable of maintaining quality control for their own production (for example, the In-process quality Control system and Self-Certification Scheme described in Chapter IV), but not for products of other manufacturers.
## CHART 8.2

Comparative Analysis of Export Promotion Activities of Indian Export Houses and Export Houses in South Korea, Japan, U.S.A. and Brazil

<table>
<thead>
<tr>
<th>Country</th>
<th>INDIA</th>
<th>SOUTH KOREA</th>
<th>JAPAN</th>
<th>U.S.A.</th>
<th>BRAZIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Quality Control</td>
<td>Quality control in case of Export Houses and Trading Houses is limited to their own production. They lack the testing facilities to inspect and standardise third party exports.</td>
<td>Strong complimentarity between manufacturers and Trading Companies.</td>
<td>The Sogo Shosha provide quality control facilities to their suppliers both in manufacturing and packaging.</td>
<td>The SNC's do not provide quality control facilities, and of providing quality control to their clients.</td>
<td>The Trading Companies do not provide quality control facilities, and there is no provision for compulsory quality control by the Government.</td>
</tr>
<tr>
<td>b) Small Scale Industry Exports</td>
<td>The Export Houses have no lasting relationship with their supporting units. They hardly help in export documentation, getting incentives, packaging etc. Except the trading Houses, the share of SSI exports in total exports of Export Houses is minimal.</td>
<td>The parent companies of the SNC's are large manufacturers, and the small scale units supply parts and components to them. The parent companies in turn use their trading arms, the SNC's for export marketing.</td>
<td>Complimentarity between small-scale industry and Sogo Shosha. They provide a variety of services, transportation to final destination, insurance cover, documentation and estimation of market potential.</td>
<td>Export Management Companies (EMC's) have a small share in total exports, and they do not specifically cater as much as to small scale units only.</td>
<td>No conscious effort by the Trading Companies to increase small scale industry exports.</td>
</tr>
</tbody>
</table>

contd...
(c) Marketing Research
Export Houses and Trading Houses generally do not have Export Marketing Research Dept. Except Central Govt. Export Houses, other Export Houses do not have branch offices abroad.

Thus, the importance of Export Marketing Research is limited.

A strong point of the GTG's is their information network. The GTG's (10 in number) have 2000 offices in foreign countries, through which constant watch is kept on foreign markets.

As a source of market information Sogo Shosha are matchless. They have a strong information network. They have 1,100 offices round the globe in 100 different cities. It is estimated that 25,000 telex messages per day are communicated by each of the 16 Sogo Shosha.

No overseas Offices of CEM's but have information about markets, since they deal in few specialized products. They get information through contact with agents by frequent visits. Their slogan "travel, travel, travel."

(d) Diversification
Export Houses are exporting one or two product lines to established markets.

Trading Houses have introduced some new products, but have not exploited new markets. Thus, there is hardly any diversification by Export Houses and Trading Houses.

General Trading Companies are exporting to nearly all countries of the world, except East Europe. GTG's have diversified into export of services and have established manufacturing joint ventures abroad.

Sogo Shosha are highly diversified. They have also gone multinational. Sogo Shosha export a large number of products; are involved in turn-key projects, joint-ventures, services and even retailing abroad.

EMC's specialize in the export of specific product line only. The larger EMC's may deal in three or four product lines.

Except the two state trading corporations COBEC and Interbras, other trading companies are small, and trade only in, limited products to a few markets.
### CHART 8.2 (concluded)

<table>
<thead>
<tr>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
<th>U.S.A.</th>
<th>Brazil</th>
</tr>
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<tbody>
<tr>
<td><strong>(e) Source of Finance</strong></td>
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<td></td>
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</tbody>
</table>

**Export Houses and Trading Houses do not provide direct finance to their supporting manufacturers, but offer back-to-back L/C facilities. Some also provide advances against export orders.**

The supplier gets prompt payment and the Export Houses take the credit risk.

**The GTG's do not provide finance to their supporting manufacturers. Because of the tight monetary position, finance is directly controlled by the Government.**

Financing is a very important function of Sogo Shosha. They divide their own bank credit among their suppliers, and take the credit risk. Suppliers prefer finance from Sogo Shosha rather than banks. Finance is provided for buying raw materials, components. The Sogo Shosha also give guarantees on behalf of their suppliers. They also import and lease major equipment.

**Most EMGs work on a buy and sell arrangement and some on a commission basis. Under the buy and sell arrangement the EMGs give prompt payment to the supplier and thus take credit risk.**

The Trading Companies in Brazil do not provide direct finance to the manufacturers. Export finance is strictly controlled by the Government. But the Trading Companies give prompt payment to the suppliers.

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**Sources:**


2) FICCI study team to Republic of Korea, Taiwan Hong-Kong and Singapore, FICCI, New Delhi, 1983

In South Korea and Japan there is strong complementarity between the Trading Companies and the manufacturers. While in Japan the Sogo Shosha are basically in trading, the GTCs in South Korea are the trading companies or outlets of the parent manufacturing group. As such, it is easier for GTCs to maintain quality of the product and the package, which originates from the parent company. Even otherwise, both in South Korea and Japan the Trading Companies have the testing facilities to check the quality of the product and the package. The Sogo Shosha have gone even a step further - "they provide shop-floor training to the technical personnel of the suppliers to improve quality."¹

(b) Small-Scale Industry Exports

In all the five countries studied, the small scale industry has an important role to play in the total production of the country. In the case of exports also, except U.S.A., the SSI units have an important share in a country's total exports. In U.S.A. the contribution of small industries in U.S. exports is very meagre. A substantial part of all U.S. exports, around 70 per cent, are by large multinational firms.² Even though the SSI units have a substantial share in the exports of the four countries viz. Brazil, India, U.S.A. and South Korea, they are unable to export directly. International marketing function in small

² Ibid., p.93.
enterprises is under-developed because of lack of resources and competition from 'giants' both at home and abroad. The Export Houses are expected to act as an intermediary for the exports from the small enterprises, and develop a long lasting relationship with the suppliers from the SSI sector. They are expected to provide help with regard to financing, export documentation, packaging, quality control, export incentives etc. Chart 6.2 indicates the extent of relationship between the SSI units and the Export Houses. It is obvious that the Trading companies in South Korea and Japan help the small scale units with regard to the activities mentioned above. In India, except the Trading Houses, the other categories of Export Houses have done precious little to increase exports from the SSI sector. In some cases, in Japan, the Sogo Shosha have also worked jointly with small enterprises taking up the entire export operations, rather than helping in a few activities.

(C) Marketing Research

Correct and timely information is an important input for decision-making. In this regard Export Houses and Trading Houses in India compare quite low with their counterparts in South Korea and Japan. The Indian Export Houses, except the Central Government Export Houses, hardly have any branch offices abroad. This limits the contact of the Export Houses with the customer and it is not possible
to get accurate and timely information. On the other hand the Sogo Sosha in Japan and the GTCs in South Korea are matchless in regard to information network. For example, the GTCs in South Korea which number ten, have 2000 foreign offices all over the world, through which constant watch is kept on foreign markets. In the U.S.A. the $E_{H, C}$s are comparatively smaller enterprises and lack the resources to open branch offices abroad. But, they have made up for this deficiency by keeping in constant touch with their agents through frequent visits to them. In Brazil, also the Trading Companies are generally small and hence do not emphasize export marketing research. The exception to this is the state trading corporation, COBEC, which has 13 branch offices and subsidiaries in leading cities abroad.

It may also be noted that in South Korea and Japan Government sponsored organizations supplement the work of the GTCs with regard to market information. Both these countries have evolved an efficient system for collection and compilation of trade statistics, keeping constant watch on market overseas and bringing out excellent publicity materials. Korea Trade Promotion Corporation (KOTRA) in

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1 Study Team to Republic of Korea, Taiwan, Hong Kong and Singapore, FIOCI, 1983, p.41.
3 Export Promotion Measures in Mexico, Brazil and South Korea, I.I.F.T., p.68.
South Korea, and Japan External Trade Organization (JETRO) in Japan are examples of two such organizations.

(d) **Diversification**

In order to grow, Export Houses must constantly strive for new products and new markets. In other words, the Export Houses need to evolve diversification policies. Chart 8.2 compares the level of diversification attempted by Export Houses in different countries. It is seen from the Chart that generally the Export Houses in India, U.S.A. and Brazil concentrate on the export of one or two product lines to establish markets. The exception to this are, (i) the Trading Houses in India, which have introduced new products, but have not exploited new markets (ii) the state Trading Corporations in Brazil, COBEC and INTERBRAS which have introduced non-traditional items to their exports.

Compared to the Export Houses in India, U.S.A. and Brazil, the Export Houses (or Trading Companies) in South Korea and Japan are highly diversified and export a large number of products and services to nearly all the countries in the world. An example of this is the Daewoo Corporation, a GTI of South Korea, which in 1982 alone, exported to eleven new countries.\(^1\) Similarly, the Sogo Shosha in Japan have...
are not only involved in exports and imports of over 20,000 different items\textsuperscript{1}, but are also involved in domestic trading and offshore trading. In fact, exports just constituted around 21 per cent of their total trade transactions in financial year 1981\textsuperscript{2}. Thus, Sogo Shosha are also involved in exporting and importing between different nations, other than Japan. For example, in 1980, U.S. based subsidiaries of the Sogo Shosha handled exports from the U.S. valued at $22 billion, an estimated 10 per cent of worldwide U.S. exports. Around 25 per cent of these exports went to countries other than Japan. In recent years, the Sogo Shosha have also entered into joint-ventures like exploiting the natural resources of other countries, housing, hotels, leisure facilities and retail chains.\textsuperscript{3} Thus, it can be concluded that Sogo Shosha are truly Japanese multinationals.

(e) **Provision for Finance**

Besides the commercial banks and financial institutions, the Export Houses could also be a source of finance for the manufacturers who supply their output to the Export Houses. This source of finance is all the more important when the government financial institutions are

\begin{itemize}
\item \textsuperscript{1} Op.cit., I.I.F.T. Study on Role of Small Industries in Export Promotion in India, USA, Japan, p.186.
\item \textsuperscript{2} "Japan" an Economic Times supplement Nov.19, 1982.
\item \textsuperscript{3} Forbes, July 4, 1983, Vol.132, Number 1, p.96.
\end{itemize}
not in a position to supply the full requirements of the manufacturers. Most of the manufacturers in selected countries are from small-scale industry, and do not possess sufficient resources.

Chart 8.2 compares the role of Export Houses as a source of finance in the selected countries. It is clear from the analysis in the Chart that only Sogo Shosha are able to fully cater to the financial needs of their suppliers. The Sogo Shosha divide their own bank credit among their suppliers and take the credit risk. The suppliers prefer to borrow from Sogo Shosha rather than the commercial banks as the Sogo Shosha accept collaterals like warehouse receipt, bill of lading etc. while the banks insist on collaterals in the form of deposits, securities or mortgages. Moreover, while bank credit is not available during recession, the Sogo Shosha have to finance huge inventories accumulated through over-production preceding the recession. Finance is provided by Sogo Shosha for buying raw materials and components. They also give guarantees on behalf of their suppliers and import and lease out major equipment.¹

The Export Houses in India, Brasil and U.S.A. provide prompt payment to their suppliers, either by buying the export products outright or by opening a back-to-back L/C

in favour of the suppliers. In South Korea, also, the
GTCs do not provide finance direct to suppliers, but
in that country, "Availability of finance to preferred
sectors, particularly exports, is no problem at all.
Export finance is available at an interest rate of 10
per cent for both short-term and long-term finance."²

Thus, except the Sogo Shosha in Japan, Export Houses,
in other countries do not provide direct financing facilities
to their suppliers.

(3) Incentives, Assistance and Infrastructural
Facilities Available to Export Houses

Export is primarily a function of production. Thus,
unless enough exportable surpluses are created by a country,
its exports would be adversely affected.² Production for
exports can be increased by providing export incentives,
like Cash Assistance, Liberal Import Facilities, etc., by
providing tax benefits to exporting units and by providing
finance at low cost. Similarly, well-functioning and
growing infrastructural facilities comprising of smooth
and uninterrupted supply of power, communications network,
port facilities, warehousing, and industrial relations are
a necessary pre-requisite for growth of the export-oriented
industries. Bottlenecks in and non-availability of any of
these facilities lead to unutilized capacity and have a
dampening effect on the industrial climate of the country.

¹ Op. cit., FICCI report of Korea, Taiwan, Hong Kong and
Singapore, p. 46.
² This view has also been expressed in the Export Policy
Resolution 1970, and by the Committee on Export Strategy
for 1980's (Tandon Committee Report).
The present section compares export incentives, tax benefits and infrastructural facilities available to Export Houses in different countries.

(a) Export Incentives Available to Export Houses

Chart 6.3 gives a comparative picture of export incentives available to Export Houses in the selected countries. It is clear from the analysis in the chart that in all countries, the exporters (including Export Houses) can avail of incentives like import facilities, duty drawback, insurance cover, Export Credit, and cost-sharing for export promotion activities. Of course, the import facilities in South Korea and Japan are more liberal. For example, in South Korea, "The government has set a target to raise the import liberalization ratio from the present 60 per cent to over 90 per cent by 1986." Similarly, the cost of export credit is low in South Korea and Japan as compared to other countries. In South Korea, for example, the rate of interest charged for exports is 10 per cent as compared to 12 per cent in India (for pre-shipment and post-shipment export credit).

Additional incentives are available in India, South Korea and Brazil for the Export Houses. In India additional import facilities and blanket permit for foreign

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1 A good description of the export promotion activities for which funds are available, is given in the code of Grants-in-Aid, Annexure to Appendix 25, Import Policy 1983-84.

2 Op. cit., FICCI, Study team to Korea, Taiwan, Hong Kong and Singapore, p. 47.
<table>
<thead>
<tr>
<th>Country</th>
<th>Incentives Available to Export Houses and All Other Exporters</th>
<th>Incentives Available to Exporters</th>
<th>Incentives Available to Exporters</th>
<th>Incentives Available to Exporters</th>
<th>Incentives Available to Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>(i) Incentives available to Export Houses and all other exporters.</td>
<td>(i) Incentives available to exporters include liberal imports, low cost export finance, export insurance, duty drawback and cost-sharing for export promotion.</td>
<td>Indian Export Houses and Export Houses in South Korea, Japan, USA &amp; Brazil</td>
<td>(ii) Incentives available to exporters include duty drawback, no import duties, for goods kept in bonded warehouses, numerous tax benefits, overseas advertising, insurance, export insurance cover and low interest for export finance from commercial banks.</td>
<td>Incentives available to exporters include duty drawback, no import duties, for goods kept in bonded warehouses, numerous tax benefits, overseas advertising, insurance, export insurance cover and low interest for export finance from commercial banks.</td>
</tr>
<tr>
<td>South Korea</td>
<td>These include RBP licences, duty drawback, cash assistance, insurance cover, Export Credit by commercial banks and EXIM Bank, and funds for Export Promotion.</td>
<td>For GTCs, additional benefits are: (i) They can import banned items of raw materials and components. (ii) Borrow funds from banks, regardless of L/C by buyer. (iii) Can open L/C at concessional rates. (iv) Can get government assistance for opening up any number of offices abroad. (v) Can retain part of earnings for promotion, working capital, visits abroad etc.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td></td>
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</tr>
<tr>
<td>Brazil</td>
<td></td>
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</tr>
</tbody>
</table>

There are numerous incentives for exporters. These include duty drawbacks, pre-shipment and post-shipment finance, insurance cover, income tax benefits, reduction in taxes on fuels, lubricants and electricity for manufacturers, exporters, and imports for export oriented industries. Additional benefits to Trading Companies include additional tax reliefs, export credit at low interest rates, and commercial banks can purchase shares or convertible bonds issued by Trading Firms.
(b) Industrial Relations in the country

Industrial unrest affects the export effort because export production may be curtailed, leading to unemployment at ports and warehouses.

Due to industrial unrest in 1981, the total man-days lost were 32.7 million. In 1982 this figure was 90 million man-days.

Labour productivity declined in 1970's as compared to 1960's. Average increase per annum in labour output (per worker per hour) was only 0.8% during 1960-61 to 1974-75.

Lower productivity in the manufacturing sector pushes up labour cost.

Hence the labour relations would affect the Export Houses also.

<table>
<thead>
<tr>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
<th>U.S.A.</th>
<th>Brazil</th>
</tr>
</thead>
</table>

- Strikes are banned. Main function of the unions is to act as welfare councils. These councils look after welfare programmes like schools, housing, food etc.

- Labour productivity during 1978-80 grew per annum by about 15%. As a result, labour cost dropped in the manufacturing sector from 9.4% in 1979 to 7.9% in 1980.

- In all business, small or big, human factor plays a very important part. The dedication, adaptability and hard work of the Japanese worker is unparalleled.

- Productivity of labour increased by around 15% in 1970's. This was largely due to technological advancement both in small and large sectors.

- There is a greater co-operation between labour and management, in the form of workers' participation in labour and operating problems.

- Technical innovations workers' participation in management, lower energy prices have helped the U.S. economy to maintain high productivity, around 2% per annum during 1970's. No precise information is available in the case of Brazil.
CHART 8.3 (contd.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Power-supply, and Telecommunications Network</th>
<th>Trade, Freight Charges and Warehousing</th>
<th>Containers used</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>The outdated system of telecommunication is a bottleneck, as instantaneous connection is not possible with every part of the world. This would limit, up-to-date information available to Export Houses, and contacts with buyers abroad.</td>
<td>Efficient handling at ports and competitive freight charges affect the C.I.F. price of the product.</td>
<td>Containers used by 67% of exports.</td>
</tr>
<tr>
<td>South Korea</td>
<td>Excellent and computerized telecommunications network. No power shortage.</td>
<td>Ports are highly modernized, containerization most common. No congestion at ports. Port charges are low and procedures are simple. Competitive freight charges for Korean exports. Warehousing facilities at ports and abroad improve the service of the GNCs.</td>
<td>Well developed ports. Information Free Trade Zones in U.S.A., number 20, not available where goods can be kept at warehouses without duty and nominal charges.</td>
</tr>
<tr>
<td>Japan</td>
<td>In Japan also, the telecommunications network is highly efficient. This is a major requirement for Sogo Shosha, for it enables them to monitor prices, demand and supply conditions, changes in government policies etc. Power is not a bottleneck for production.</td>
<td>Trade is mostly containerized. Simple customs formalities. Japanese exports also get freight advantage. Automated warehouses at ports,</td>
<td></td>
</tr>
<tr>
<td>U.S.A.</td>
<td>Details not available.</td>
<td></td>
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<tr>
<td>Brazil</td>
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</tr>
<tr>
<td>Country</td>
<td>Tax Benefits</td>
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<td>---------</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>The fiscal incentives can generate investment in export oriented units. This creates export surplus. For export oriented industries a certain percentage of export turnover is allowed as deductions for export expenses. Tax concessions are also granted to Indian companies from tax on dividends, royalties and know-how fees received from abroad. Free trade zones have 5 years tax holiday, etc. For investment in the domestic market a number of deductions are allowed in the income of a new unit. These include normal depreciation for factory, plant and machinery, extra depreciation for plant shift allowance for plant and machinery, investment allowance which is also available, except for products under 11th Schedule of Income Tax Act, for 8 years. Corporate tax at 45%-65% per annum. There are also capital gains tax and wealth tax.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>A number of tax incentives are available for investment both for domestic market and export markets. For domestic market companies, normal depreciation and R&amp;D and modernization expenses are deductible. Normal depreciation allowance up to 33% is allowed. For exporting units, there are additional tax benefits. These include tax relief up to five years; deduction from company's foreign exchange earnings for creating overseas market development reserves; deduction for creating export loss reserves; and deduction for price fluctuation reserves. Accelerated depreciation and investment allowance up to 50% are other deductions. Low corporate tax, (20-25%). No capital gains or wealth tax.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>A number of fiscal incentives are available. For the investment in domestic market, normal depreciation and investment for modernization of plant are deductible expenses. In the export industries, there is additional benefit for export of technology (60% of normal depreciation in additional). Additional depreciation to the extent of 160% and 130% of normal depreciation for Class 2 and Class 3 export units respectively. Reserves for development of overseas market, (1.5% of export sales) and for anticipated losses in overseas investment, can also be created from export earnings. Low corporate tax.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.A.</td>
<td>No incentives. In Brazil also Export incentives for export-oriented expansion and industries modernisation are allowed. For the export market, a number of fiscal incentives are available. Profits accruing from exports of manufactured products are deductible from income in a ratio of export sales/total sales. Trading companies can deduct amount equal to the difference between prices as paid to the domestic manufacturers and f.o.b. value realised for same.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Freight and insurance can also be added if Brazilian ships are involved.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Contd...**
Chart 3.3 (concluded)

<table>
<thead>
<tr>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
<th>U.S.A.</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selectivity in Exports</td>
<td>Selectivity in exports would mean discouraging the fair-weather exporters, which results in allowing those exporters which have the resources and the inclination for long-term exports. In India there are about 50,000 exporters and no selectivity is prevalent. Floor-prices are fixed for some products.</td>
<td>In South Korea both exports and imports are subject to licensing. An export licence is only available to firms whose exports are at least $700,000 per year or those which have an L/C worth $300,000. Further only an exporter gets the facility to import.</td>
<td>No selectivity with regard to the exporters which can export. But, export trade is mostly through trading companies which total about 5000. In 1952, a comprehensive Export-Import Transaction Law was enacted. It overlooks the agreement between manufacturer and trade regarding price, quality and design. Thus, it limits the trading companies to those which can operate within this constraint.</td>
<td>Export licence is required for a variety of products. The Comercio Exterior (CACEX), limits the quantities to be exported and the prices at which these have to be exported.</td>
</tr>
</tbody>
</table>

Sources:
2) FICCI study team to Republic of Korea Taiwan, Hong Kong and Singapore FICCI, New Delhi.
3) Various IDA reports.
4) Various journals like Fortune, Business Week, Indian Shipping, India Today, Business India etc.
5) Various references in Economic Times, Financial Express.
exchange are available to Export Houses. For the Trading Houses, in India, the above facilities are on a still higher scale. In South Korea the EACs can import even banned items and can open any number of offices and warehouses abroad.\(^1\) The Trading Houses in India have also been given the facility, recently of opening branch offices and warehouses abroad without prior permission of the Reserve Bank of India. A unique feature of the incentives available in Brazil is that the commercial banks there can participate in the equity of the Trading Companies. This contributes to the finance of the Trading Companies without adding to the tax burden.\(^2\)

The above analysis indicates that incentives available to Export Houses, especially to Trading Houses in India favourably compare with those available to Export Houses in any other country.

(b) Industrial Relations

The Industrial relations also affect exports, since strikes and lock-outs would affect the production for exports, as well as the loading and unloading at ports. It can be seen from Chart 6.3 that in 1982, due to industrial unrest in India, 90 million man-days were lost.\(^3\) (including

\(^{1}\) Ibid.
\(^{3}\) Commerce Vol.146, No.3735, January 1, 1983, p.11.
the Bombay textile strike). As a result of the industrial unrest there is underutilization of capacity and the productivity of labour goes down. Chart 8.3 shows that India, in spite of being one of the richest countries in human capital or skilled and qualified manpower resources, had a marginal increase in labour productivity (0.89% per annum during 1960-61 to 1975-76). On the other hand there has been a phenomenal increase in the labour productivity in both South Korea and Japan (15% per annum during 1970's). As a result of lower productivity overheads keep increasing, making the export product expensive and uncompetitive. In U.S.A. also there is a greater sense of responsibility and co-operation by the labour unions.

(c) **Power Supply and Telecommunication Network**

Chart 8.3 gives a comparative analysis with regard to power shortage and telecommunication network in the selected countries. It is seen that while in India there is power shortage, no such problem exists in other countries. It is estimated that in the recent past the short-fall in power in India has varied between 10 to 15 per cent and a 10 per cent short-fall lowers industrial production by nearly 17,000 per annum.

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Telecommunication network is highly efficient in other countries. For a multinational like the Sogo Shosha this is a pre-requisite for efficient working of a world wide network.

(d) Ports, Freight charges and Warehousing

The conditions at the ports, the freight charges for exports and the warehousing facilities at home and abroad, all affect the c.i.f. price of the product and hence the competitiveness of the product.

Chart 8.3 analyses the above factors in different selected countries. It is seen that in India, the ports lack modern material handling facilities. There is congestion at the ports, and the port charges are comparatively high. For example in South Korea the loading and unloading time for ships per 1000 tonnes of general cargo is approximately 6 hours while in India the comparative time is 2.33 days.¹ Because of congestion at Indian ports the turnaround time for ships is high. For example at Bombay port it was on the average 10.49 days in 1980-81.² The turnaround time at foreign ports is negligible.

Because of the above unfavourable factors at the Indian ports, the stevedoring cost (the total cost for a ship to load and unload at a port + port charges + costs due to

² Ibid. This is on the low side, as in 1976-79 this was 15.65 days.
delays) is $9 per tonne at Bombay compared to $4 per tonne in South Korea.1

With regard to freight charges for exports, India has a disadvantage. The freight charges from Indian ports to specific destinations are higher than freight charges from South Korean or Japanese ports. For example, while the freight from Bombay, per container, to U.K./Continent was $1500 in 1981-82, the freight from South Korea to the same destination was $1000 per container.2 In a study on freight tariffs, the LIFT has identified products in which India has freight disadvantage.3

With regard to warehousing, Indian exports are again at a disadvantage. While in South Korea, Japan and U.S.A., there are automated warehouses with ample storage space, warehouses in India are overcrowded. In South Korea, both exports and imports can be stored free of charge for 3 days.4 The OTCs in South Korea and Sogo Shosha provide warehousing space at key centres abroad. This helps the exporters in these countries to provide a high service level to their customers.

2 Indian Shipping Vol.35-No.2/1983,p.34 and FICCI study team on South Korea, Taiwan, Hong Kong and Singapore, p.32.
(e) **Tax Benefits**

Tax benefits can help in increased production and consequently exports. The tax benefits may also be specific for export-oriented industries. Chart 8.3 analyses the tax rebates and deductions for investment catering to the domestic market and for exporters. It is seen from the Chart that in all the selected countries certain deductions are allowed from the total income for all types of investment, whether for domestic marketing or for exports. These deductions include normal depreciations and incentives for expansion and modernization of the plant. For exporting units additional tax benefits are available, in all the selected countries. But, the most liberal tax benefits are available in Japan and South Korea. These include tax holiday up to five years for exporting units, and deductions from foreign exchange earnings for creating reserves for market development, export losses and price fluctuations, and accelerated depreciation. In Japan additional depreciation to the extent of 150 per cent of normal depreciation is allowed for Class A export units. Even in Brazil there are liberal tax benefits for exporting units. For example profits accruing from exports of manufactured products are deductible from income in a ratio of export sales/total sales.

In India, a standard deduction 1 per cent of the export

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1 In Japan Class A units are those which have i) 1% growth rate, ii) High export sales/Total sales ratio, iii) Rate of increase in exports is at least 2/3 of Japanese exports — A Survey of Export Houses — Industrial Deve. Services, No. v. 1970.
turnover is allowed, in addition 5 per cent of the incremental turnover over the export turnover of the immediately preceding year is also allowed for exporters. For 100 per cent export-oriented units also the same tax benefits are available. For free trade zones a tax holiday for five years is available.

The rate of corporate tax in India is comparatively higher than other countries. In India the corporate tax is between 45 per cent to 65 per cent while in South Korea it is only 20 per cent to 25 per cent. This tends to depress savings and investment and induces tax evasion. It thus affects production and consequently exports. The Rangarajan Committee also considers the Corporate Tax to be on the high side.

The above analysis with respect to taxation indicates that liberal benefits are available in South Korea, Japan and Brazil for all exporters. But in India, only free trade zones have benefits anywhere near them.

(f) Selectivity in Exports

Selectivity in exports tends to discourage fair-weather exporters exploiting the facilities provided for export promotion, and tries to build an image of a country in overseas markets. Selectivity

1. The Budget 1983,
2. FICCI Study team to S.Korea, Taiwan, Hong Kong, Singapore,
3. As reported in "Approach to Seventh Plan", Economic Trends, 16 March 1984,
4. For example, see "KAPITZ = problems & Prospects", Economic Times, January 16, 1984.
in exports can be with reference to the selection of exporters on some basis, or it also refers to laying down certain guidelines for exports.

It is clear from Chart 8.3 that only South Korea limits the number of exporters to those which fulfil certain criteria. There are at present only 3100 exporters accounting for $20,993 million of exports. On the other hand in India, where there is no selection of exporters, there are about 50,000 exporters exporting $7358 million worth of exports. This gives an export of $6.77 million per exporter in South Korea compared to $0.148 million in India. Clearly, there are economies of scale in South Korea.

With respect to other countries selectivity is limited to laying down minimum levels for price, quantity and quality.

The above analysis justifies a case for selectivity in exports in India.


2 i) An estimate of the number of exporters in India, is given by the number of Registered Exporters, which were 50,869 in 1981-82 — statement No.4 to the gazette Notification April 14, 1984, Import Policy 1984-85.

ii) The I.I.F.T. study estimated the number of exporters in India, at 50,000 exporters in 1980-81, "Export Promotion Measures in South Korea, Mexico and Eswatini," p.8.
(4) Export Performance

Chart 8.4 analyses the export performance of the Export Houses in the selected countries. It is clear from the chart that Export Houses in India, South Korea and Brazil have a high share in their country's exports, highlighting the importance of Export Houses in the export trade of these countries. In U.S.A. and Brazil the Export Houses have a small share signifying that this concept of 'Export House' has still to catch on in these countries.

Further, it is generally true that the Export Houses in all the countries have a higher growth rate than other exporters. For example in South Korea while the GTCs had an annual average growth rate of 47.8 per cent during the period 1975-81, the South Korean exports increased by 22.1 per cent only.¹

It is also clear from the chart that compared to the Export Houses in other countries the Export Houses in South Korea and Japan, are large in size with a high export turnover. While in India 117% Export Houses accounted for 37 per cent of the country's exports, in South Korea only 10 GTCs accounted for 50 per cent of South Korean exports. Similarly in Japan 16 Zogu Shosha accounted for

¹ Economic Times Supplement, Nov. 29, 1982.
## Chart 8.4
Comparative Export Performance Analysis of Indian Export Houses with Export Houses of South Korea, Japan, U.S.A., and Brazil

<table>
<thead>
<tr>
<th>India</th>
<th>South Korea</th>
<th>Japan</th>
<th>U.S.A.</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There were 1174 recognised Export Houses and Trading Houses till 1981-82, with a share of 37% in the country's exports. Their growth rate in 1981-82 over 1980-81 was 35.7% which is higher than the country's export sales growth of 16.2%.</td>
<td>The GTC's have around 50% share of total South Korean exports. Their total number in 1982 was 10. They had a growth rate of 47.8% per annum during the period (1975-81), compared to the country's export sales growth rate of 22.1%.</td>
<td>The Sogo Shosha have around 50% share of the country's exports. The exports of the nine most important Sogo Shosha increased from $42.6 billion to $73 billion from 1975-76 to 1981-82, representing a growth rate of 11.9% per annum.</td>
<td>The FMC's handle around 5% of the country's exports. As of October 1978, there were 27 trading companies of which the State trading Corporation COBEC handled 6.0% of the total exports by Trading Corporations. They had a share of around 8% of total Brazilian exports.</td>
<td>The largest Sogo Shosha, the Mitsubishi Corporation had exports of around $6.8 billion in 1981-82, while its total sales turnover was $67 billion.</td>
</tr>
<tr>
<td>The nine Trading Houses (total upto 1982-83) accounted for about 30% of the total exports by Export Houses, and 11% of the country's total exports. The Trading Houses included the state Trading Corporation, which alone had export turnover of Rs 555 crores in 1981-82 accounting for 7.1% of country's exports.</td>
<td>Daewoo Corporation had the highest exports of $1904 million in 1981, accounting for 9.06% of the country's exports.</td>
<td>The largest Sogo Shosha, the Mitsubishi Corporation had exports of around $6.8 billion in 1981-82, while its total sales turnover was $67 billion.</td>
<td>COBEC is the largest trading company with total exports of $320 million in 1981.</td>
<td></td>
</tr>
</tbody>
</table>

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**Source:**
1. Role of Small Industries in Export Promotion in India, U.S.A. and Japan, IIFT
3. Annual Reports of Export Houses in different countries.
50 per cent of Japanese exports. Further the chart compares the export turnover of the largest Export House in each country. The State Trading Corporation (STC) had an export turnover of $555 million\(^1\) in 1981-82, accounting for 7.11 per cent of the country's exports. Similarly the Daewoo Corporation in South Korea and Mitsubishi Corporation in Japan had an export turnover of $1904 million (1981) and $6800 million (1981-82) respectively. COBE, in Brazil had an export turnover of $320 million in 1981.

Thus, it can be concluded that Export Houses in South Korea and Japan have a high export turnover, and contribute substantially to the country's exports. The Export Houses in South Korea have also shown a phenomenal export growth rate. As has been observed earlier the Sogo Shosha in Japan have really diversified operations and are acting as multinationals.

B. Comparison of Performance of Individual GTCs and Trading Houses

As is clear from the previous section the GTCs in South Korea are a successful example of Export Houses or Trading Companies. In this section, some selected GTCs are compared with Trading Houses in India. The Trading Houses have been chosen for comparison as they have shown a better performance than other Export Houses, and are recognized

\(^1\) Annual report of S.T.C., 1981-82.
on the basis of a higher export turnover.

The comparison seeks to identify the areas of strength in GTCs and how Trading Houses can emulate the example of GTCs.

Tables 8.1 and 8.2 highlight the activities of the five Trading Houses1 in India, and five selected GTCs of South Korea. The five Trading Houses account for 95 per cent (in 1982-83) of the total exports by the Trading Houses and the five GTCs selected, account for around 73 per cent of the total exports by GTCs. Thus, the selected Trading Houses and GTCs account for a substantial share in their group, and the conclusions drawn from them would be valid for other Trading Houses and GTCs.

The main conclusions which can be drawn from Tables 8.1 and 8.2 are:

1. The level of exports by the GTCs are much higher compared to the exports by the Trading Houses. For example, the exports by the largest Trading House (in 1981-82) viz. Tata exports was around 83 million U.S. dollars, while the comparable figure for Damwooo Corporation, the largest GTC

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1 It may be noted that in 1981-82, there were only six recognised Trading Houses. The STC got recognition as a Trading House only after March 1982. Right now it is the biggest Trading House in India.
### TABLE 8.1

A) Performance of General Trading Companies (GTCs)

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Export (US $ million) 1980</th>
<th>No. of countries Exported to 1980</th>
<th>Overseas Branches</th>
<th>Items Exported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Samsung Co., Ltd.</td>
<td>1237</td>
<td>1607</td>
<td>Trades with 120 countries</td>
<td>Multinational group, 15 overseas subsidiaries, 76 branch offices in 46 major cities in 36 countries. 14 different product lines including export of services like insurance, hotels &amp; retailing.</td>
</tr>
<tr>
<td>2 Ssangyong Corp.</td>
<td>642</td>
<td>758</td>
<td>Export to 70 countries located in six continents</td>
<td>Has 26 overseas branches 8 product lines</td>
</tr>
<tr>
<td>3 Daewoo Corp.</td>
<td>1415</td>
<td>1904</td>
<td>Exports to nearly all countries of the world except the East European countries.</td>
<td>Multinational group, 70 overseas branches in 43 countries. 12 different product lines including services like financing.</td>
</tr>
<tr>
<td>4 Bando Sangsa Ltd.</td>
<td>493</td>
<td>622</td>
<td>-</td>
<td>Has 25 overseas branches 10 different product lines.</td>
</tr>
<tr>
<td>5 Hyundai Corp.</td>
<td>1028</td>
<td>1722</td>
<td>Exports to 110 countries</td>
<td>45 branches 10 different product lines</td>
</tr>
</tbody>
</table>

**Source:** Annual reports of the GTCs and other secondary data.
### TABLE 8.2

#### B) Performance of Trading Houses

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Exports (US $ million)</th>
<th>No. of countries exported to</th>
<th>Overseas Branches</th>
<th>Items exported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Data Exports</td>
<td>74.8 82.8</td>
<td>Exports to 60 countries</td>
<td>Nil</td>
<td>9 different product lines</td>
</tr>
<tr>
<td>2 Hindustan Lever</td>
<td>68.5 54.5</td>
<td>Exports to 55 countries</td>
<td>Nil, but has its parent Company UNI LEVER</td>
<td>7 different product lines</td>
</tr>
<tr>
<td>3 Metro Exporters</td>
<td>15.8 15.8</td>
<td>Exports to 35 countries</td>
<td>Nil</td>
<td>8 different product lines</td>
</tr>
<tr>
<td>4 Chinar Exports</td>
<td>3.84 24.88</td>
<td>-</td>
<td>Recently it has opened an office in Moscow</td>
<td>8 product lines</td>
</tr>
<tr>
<td>5 Allamasons Pvt. Ltd.</td>
<td>17.10 35.4</td>
<td>Exports to 32 countries</td>
<td>Nil</td>
<td>6 product lines</td>
</tr>
</tbody>
</table>

**Source:** Annual reports of Trading Houses and Data collected during the field survey.

**Note:** The value of the dollar (US) is estimated at Rs 10.
in South Korea, was around 1904 million U.S. dollars, during the same period.

(ii) The GTCs export to nearly all parts of the world, except the East European countries, while the Trading Houses export to limited markets. Tata Exports, for example, exports to about 60 countries while Samsung Co. Ltd. exports to nearly 120 countries. The GTCs are constantly on the lookout for new markets.

(iii) The GTCs maintain a chain of overseas branches. It is estimated that the ten GTCs have 2000 foreign offices. These branch offices provide an important information base and marketing network. On the other hand, Trading Houses hardly have any offices abroad.¹

(iv) The GTCs export a large number of products and are also involved in the export of services like shipping, insurance, international hotels and retailing. The exports by the GTCs are not concentrated only on a few products.

Further analysis of the literature shows that the GTCs are part of large conglomerates. These conglomerates produces a variety of products and export:

¹ Chineer Exports has recently (1984) opened an office in Moscow. Further, some Trading Houses like Tata Exports and Hindustan Lever, use the branch offices of their Associates.
a high percentage of their output through their trading arms, the GTCs. Thus, the GTCs have a strong production base. For example, the Samsung Co. Ltd. is the international trading window for the Samsung group. The Samsung group, composed of 26 companies, with 90,000 employees recorded net sales of $5 billion in 1981, representing 8.1% of South Korea's GDP, in that year. Its total assets were values at U.S. $3.8 billion and the exports of the total group were $2.7 billion in 1981. Similarly the Hyundai Corporation is part of the Hyundai group whose turnover was US $7.13 billion in 1981, 80 per cent of which was exported. This group is ranked 51st. in the list of the world's 500 largest industrial corporations outside the U.S. in 1981.1

Compared to this Tata Exports is part of the Tata group of Industries which had total sales of U.S. $2.883 billion in 1982 and total assets valued at U.S.$ 2.43 billion in 1982.2

The low sales turnover and assets value of the Trading Houses and their parent companies can be explained in terms of the restrictions placed by the Government on growth of monopoly houses. Recently, there has been some

1 These statistics, have been collected from i) Fortune, August 23, 1982, (ii) Annual Reports of GTCs, (iii) Economic Times Supplement on S.Korea, Nov.29, 1982.
2 India Today, December 15, 1983.
liberalization with respect to the growth of monopoly houses, in case the increased capacity is utilized for producing goods for export.¹

Thus we see that the Trading Houses in India are small compared to their counterparts in South Korea. The GTCs have a strong production base, have overseas branches and diversified markets and products. It may also be noted that the GTCs are separate trading companies, and not departments or subsidiaries of the parent organization. But, in India, it is seen that most of the export houses are manufacturer Export Houses (Chapter II), and exporting is done by a department of the organization, rather than by a separate company. Even in the case of the five Trading Houses, two are subsidiaries of the parent company, and the other three are purely trading organizations. But, these trading organizations have no production base of their own and depend totally upon other manufacturers.

It follows that the large organizations in India, should set up separate trading companies.

The comparison between Indian Export Houses and their counterparts in other countries, and unit level comparison between Trading Houses and GTCs brings out the

the following important points:

(a) The success of Export Houses in South Korea and Japan lies in their strength to handle small and medium enterprises' production. These Export Houses are able to cater to the export needs of the suppliers, by having experienced and extensive overseas sales network and contacts. The Export Houses in these two countries have an excellent information network, whereby they are able to quickly adapt to the needs of the overseas buyers. These Export Houses are also able to provide resources to finance production if necessary, and prompt payment is made against supplies. It is also worth noting that the suppliers have a lower overhead costs while exporting through the Trading Companies than on their own. The Export Houses have the competence to deal with the complexities of international trade regulations - which change frequently and involve tedious documentation.

(b) The large size and resources of the OTCs and Sogo Shosha make them suitable for the execution of turn-key jobs where supplies and services have to be chosen from different manufacturers and specialists, but where the customer prefers to deal with a single agent.
(c) The resources and competence of the OTCs and Sogo Shosha enable them to export capital goods and heavy equipment which require deferred credit and after sales service.

(d) Unlike the Indian Export Houses, the Export Houses in South Korea and Japan, can and do take up off-shore trading. This should also be possible and should be allowed for Indian Export Houses. This would enable them to provide goods even if they are unavailable in India. This would improve the delivery schedule and the product package of the Export Houses in India.

(e) It is also seen that the Export Houses in other countries are separate trading companies. The Sogo Shosha in Japan are also basically trading companies, although now they have gone in for joint ventures in other countries. The concept of an Export House in other countries including U.S.A. and Brazil is that of a merchant exporter. On the other hand, India's Export House Scheme also extends recognition to manufacturer exporters.

(f) The Export Incentives offered to Indian Export Houses are comparable with those available to the Export Houses in other countries, but the infrastructural facilities in India are much below than
what are available to other Export Houses. This makes the Indian Export Houses, uncompetitive, unreliable and non-quality conscious.

(g) The liberal tax benefits and low rate of corporate tax in South Korea and Japan, especially for export oriented units, has helped to increase production for exports. Consequently, the Export Houses in these countries are not hampered in their efforts because of inadequate export surplus.

(h) In South Korea there is a measure of selectivity with respect to exporters. Further, only licenced exporters can get import licences. The selectivity in exports results in a few number of established large exporters and importers. Thus economies of scale are generated in international trading. As compared to this, in India there are small and fragmented organizations each involved in exporting or importing a small quantity against different import licences.

It may be added that in countries like South Korea and Japan there is close co-ordination and interaction between policy makers and business. For example, in South Korea, the President of the Republic presides over monthly export promotion meeting attended by the concerned
ministers, senior Government officials as well as representatives of trade, industry and other related business sectors. Since 1964, the Government of South Korea has designated November 30 as Export Day. On this occasion leading exporters are felicitated.¹

Further, in countries like South Korea and Japan the procedures and documentation are simple and less time-consuming, whether they be for exports, imports or joint-ventures abroad. For example in South Korea only a two page customs clearance form is required to be completed.² On the other hand, Indian exporters have to pass through a tedious rigmarole and have to fill out a maze of documents and related paperwork.

¹ Study Team to Republic of Korea, Taiwan, Hong Kong and Singapore, FICCI, p.94.
² Ibid., p.62.