CHAPTER IX

SUMMARY AND RECOMMENDATIONS
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The present study examines the performance of the Export Houses in India, against the objectives of the Export House Scheme viz., provision of marketing channels for India's export products which would compete with large specialized marketing organizations in other countries; diversification of products and markets; establishing a long lasting relationship with supporting manufacturers, especially from the small scale industry; establishing and providing quality control and testing facilities. The study also evaluates the financial performance of the Export Houses as it is felt that for long term development of Export Houses mere sales turnover is not enough, and Export Houses must earn profit and develop sources of finance. In addition, it has also been examined whether or not the Export Houses in India work in a planned way. This has been judged by evaluating their export marketing plans. Planning, even otherwise, is a must for the success of any organization. The Export Scheme in India is also compared with similar schemes in selected countries where the Export Houses have been in operation for at least five years. This is done to bring out the comparative strengths and weaknesses in the Export House scheme in India.
The study has a sample size of thirty three Export Houses and Trading Houses drawn from all categories of Export Houses. The sample Export Houses have a share of 35 per cent in the total exports by all the Export Houses.

We may now state the main findings of the study and their policy implications. These have been presented below in two sections. Section A deals with general issues relating to India's Export policy, including export incentives, infrastructural facilities for export, tax incentives, Government's industrial policy, and procedural delays. Section B refers to the specific aspects relating to the working of the selected Export Houses.

Section A

General Issues Relating to India's Export Policy
Including Export Incentives, Infrastructural Facilities for Export, Tax Incentives, Industrial Policy and Procedural Delays

The Government policy is an important input for the success of the Export Houses. It not only affects the exports directly, but also has implications for export production. The various aspects of the Government policy are given below:

1) Evolution of Export Houses

Export promotion has been one of the main features of India's Foreign Trade Policy, especially after the Export Policy Resolution 1970. Since then, exports have
increased at a steady rate. Following the recommendations of the Committee on Export Strategy 1980's and the National Commission on Agriculture, the Government has laid down that exports would increase to ₹ 10,150 crores by 1984–85, the terminal year of the sixth five year plan. The exports are further stated to increase to ₹ 20,570 crores by the end of the present decade.¹ The targets set down above assume an average annual compound rate of 10 per cent for the sixth plan period ending 1984–85 and about 15 per cent for the next five years ending 1989–90. In order to achieve these high growth rates, both the Government and the exporters have to evolve a vigorous export marketing strategy. An important element of this strategy is the marketing channels for India's exports, and the role of Export Houses. Further, the Export Houses in India can only perform effectively, if due consideration is given to export incentives and infrastructural facilities provided to them.

Regarding the role of Export Houses in export promotion, the Government, ever since 1960, appreciated that export marketing is a specialized function and it is in the country's interest to develop and enhance the capacity, resources and competence of specialized marketing organizations in the field of exports. Until 1960, the country's exports were largely of agricultural products.

¹ Economic Times, February 14, 1981.
The Government, therefore, attempted to develop and utilize the services of these specialized marketing organizations for development of exports of non-traditional products to new markets. With the above objective in view the Government has been formulating schemes for Export Houses. Thus, for the first time, in September 1960, it had a scheme, specifically for developing exports of new products for new markets for specially constituted or private public companies in which none of the shareholders could hold more than 10 per cent of the capital, subject to Government having a nominee on its board and approving the auditors. Export Houses have thereafter been a subject of a number of resolutions of the Government, study teams and working groups. But, these study teams and working groups have largely been preoccupied with the criteria for recognition of Export Houses rather than the evaluation of: (a) their performance with regard to the objectives of the Export House Scheme, and (b) the environment in which the Export Houses have to operate. Over a period of time the Government did away with the strict criteria for recognition of an Export House that were laid down in 1960. The criteria have been diluted by including small scale manufacturer Export Houses, and by relaxing the criteria for Government Controlled Export Houses. The number of Export Houses have increased from just 3 in 1960, to about 1600 Export Houses in 1982–83. According to the
Working Group on Export Houses (1979), the Committee on Export Strategy for 1980's, and the FIEO study of 913 Export Houses, a large number of Export Houses (around 58%) are small scale manufacturer Export Houses. These Export Houses though large in number have a share of only 23.9 per cent in the total exports of Export Houses. Thus, the number of Export Houses have largely increased at the lower end of the export volume i.e. below ₹ 50 lakhs per year.

The Working Group on Export Houses (1979), also rightly observed that barely a handful of the Export Houses would merit the title of a proper Export House. The Working Group, therefore, recommended the formation of Trading Houses, from among the Export Houses which had high and proven performance. The Committee on Export Strategy 1980's, endorsed the above observations of the Working Group and recommended among other criteria, a minimum average annual export performance of ₹ 15 crore. It was on the basis of the above recommendation that the Government established Trading Houses in 1981-82 (with a reduced export performance of ₹ 10 crore).

2) Frequently Changing & Confusing Criteria for Recognition of Export Houses

The criteria for recognition of Export Houses have quite often been changed and made less stringent. The basic motive has been to enlarge the scope of the scheme so that
more and more exporters, especially from the small scale sector would benefit from increased incentives available under the Export House Scheme. However, the Trading Houses set up in 1981-82 were set up on the basis of selective recognition.

The criteria are also vague and confusing. The emphasis in the criteria is on sales turnover rather than on functional/operational aspects. The sales turnover criteria are no doubt administratively more convenient but they fail to emphasize the real motive (to set up viable, specialized and competitive organizations) of the Export Houses.

The criteria for recognition should be clear and stated in a comprehensive manner. There should not be exceptions and too many additions to the main criterion for any one aspect of the recognition criteria. For example, Clause 180(2) of the Import Policy (1981-82), should only be limited to the comparison between the base period and the previous three years performance.

The sales growth criteria should be strictly enforced, and the criteria for the Government Export Houses should be clarified and stated clearly.

The functional/operational aspects of the Export Houses, like planning for exports, financial resources,
diversification policies, involvement in exports of small-scale industry etc., are very essential for long term viability of Export Houses, and should also form part of the criteria for recognition (besides sales turnover and sales growth rate). Some of the above factors are already part of the existing criteria for recognition, but they are seldom enforced. Moreover, the above criteria should be spelt out in concrete terms, though some of the criteria may not lend themselves to precise quantification. In this case, an appreciation of the efforts made and results achieved by an Export House in the matter of developing these resources can be considered (as has been done in the present study for these factors).

3) Scope of the Export House Scheme

In India the Export House status has been given to both manufacturer exporters and merchant exporters. This is in sharp contrast to the position prevailing in other countries where only trading companies are included in the Export House Scheme. In India, there are many categories of Export Houses, but considering the performance of Export Houses in other countries, only trading companies should be allowed to operate as an Export House. The 1960 criteria for recognition of an Export House also required an Export House, "to be a separate company, public or private, under the Companies Act" involved in
exports. Subsequently this concept was not pursued. The
Mudaliar Committee had also recommended that, "only reliable
business houses specializing in modern methods of market-
ing, and being in a position to contribute effectively
to fostering and development of India's export trade,
especially the non-traditional products should be granted
recognition as an Export House." 1

Thus, the existing manufacturer Export Houses
should have a separate trading company. Where the small
scale Export Houses cannot form a separate trading company,
they should be amalgamated for this purpose. If the
existing Export Houses fail to form a trading company,
then logically they should be derecognized. But, from a
practical point of view it may not be possible to scrap
a large number of existing Export Houses. In such a
situation, at least the Trading Houses can form separate
trading Companies, and work to achieve the objectives
of the Export House Scheme.

4) Foreign participation in trading

Before independence foreign trade was in the hands
of the Managing Agents, who worked as agents for a number
of companies registered in U.K. The Managing Agents were

1 The Selectivity Committee, Ministry of
mostly Britishers and they had a high share in foreign trade. After independence the Government's policy was, "not to allow unlimited field for foreign capital in the trading sector." Even now there are restrictions on the trading activity of the foreign firms (FERA companies)\(^1\). The result of these restrictions has been that the share of exports in the total turnover of the FERA companies is just 2 per cent\(^2\).

There seems to be no reason that when exports have been given priority in the Export Policy, why the same should be reversed in the case of FERA companies. It is suggested that the restriction on trading, particularly exports by these companies should be free from the FERA restrictions. Efforts should be made to increase exports through the FERA companies as they have world wide marketing network.

5) **Exports by Small Firms**

There is no clear cut Government policy with regard to the types and number of exporting units to be involved in exports. All types of units, small and large have been allowed to operate simultaneously. This has resulted in

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1. The limit for FERA companies for trading activities is Rs 5 crore, for those companies whose foreign shareholding is more than 40% — *Supplement, p.V, Associan Bulletin, Vol. VII, No.5, May 1982.*

2. *Ibid., extract from the Indian Institute of Public Administration Study.*
the operation of a large number of firms in the export field. At present there are 50,000 exporters. Many of these exporters are fair weather exporters out to make a fast-buck and have no long term commitment to exports. Their organizational base is inadequate and planning for exports is non-existent. About this situation, the Working Group on Export Houses commented: "while manufacturing on a small scale is possible in the area of production, it does not seem to be so in the matter of exports." ¹ The Committee on Export Strategy 1980's also said that a linkage should be found between the small scale exporters, and large exporters in order to harmonize the national export interests and the small exporters who have their production and enterprise.² The arguments above, point to the fact that there should be a restriction on the number of exporters allowed to export. Only such units be allowed to export which have the capacity to export, have consistent long term exports and possess quality control and managerial skills. Exports by selected units would effectively keep out the fair weather exporters. Secondly, it would lead to appreciable economies and export knowledge acquired through bulk handling. Thirdly, there would be greater co-operation between Export Houses and small scale supporting manufacturers, as the small

1  Working Group on Export House, 1979, Ministry of Commerce, Govt. of India, p.28.

2  Committee on Export Strategy 1980's, Ministry of Commerce, Govt. of India, p.86.
scale units unless they possess the requisite qualities would not be allowed to export directly. It seems that the system of incentives and control (in the form of criteria for recognition) has failed to evolve a system like the Soga Shosha in Japan, where the small manufacturer prefers to sell through the Trading Companies. In South Korea only licenced exporters having a consistent export turnover are allowed to export. It is no secret that a large number of units in India are exporting because of the import facilities like REP licences, Actual User Licence and other Export Incentives. Often there is a premium on the scarce imported products.

It is suggested that imports also should be on selective basis. As in South Korea only the selected or licenced exporters should be allowed to import. The Export Houses and the licenced exporters can buy in bulk and distribute the raw materials to other units. The Working Group on Export Houses, 1979, had also recommended bulk-buying by observing:¹ "The present system of actual user imports and ceilings on the value of imports of individual items against a licence has made imports costlier. By bulk buying cost of imports per unit can be brought down.¹¹ Bulk buying, furthermore, can also be used as a lever for exports. A large organization in international marketing

can also go in for "cross subsidization" i.e. an organization operating in many fields can use profits earned in the prospering sectors to subsidize loss in temporarily depressed lines of production. Since, international trade is subject to a lot of vagaries, this would be a useful device.

6) Exports through Different Channels

In its bid to boost exports through large organizations the Government has emphasized exports through large producers, producers' co-operative societies, State organizations, and Export Houses. The performance of producers and co-operative societies as export channels has not been satisfactory. State organizations have had a mixed performance. It is only the Export Houses which have shown results.

As already suggested, producers and co-operative societies, since they do not possess the marketing capability so very necessary in international trade, should be discouraged from exporting directly. State Trading and Export Houses would be important channels in India's export trade. Some of the state trading organizations have been recognized as Export Houses, but they cannot operate as such, because they are too pre-occupied with canalized exports. It is suggested that there should be
two separate organizations dealing with canalized and non-canalized exports.

Since there has been criticism of the canalized exports, the exports of these items should also be entrusted to some other agencies, preferably the Trading Houses. This would provide competition. Such competition in exports would help the producers to receive a fair price, and would also tone up the working of the State Corporations. The Committee on Export Strategy for 1980s, had recommended "that the State trading agencies' monopoly functions, should be reconsidered, with some natural or created competition by having more than one agency in the same area."\(^1\)

(7) *Regulation & Control of Export Houses*

There is a lot of delay in granting or renewing an Export House Certificate. This inconveniences the Export Houses and they have to utilize the import facilities in a very short period of time (even sometimes January to March). The Export House in the absence of a firm commitment about import facilities cannot plan for exports.

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\(^1\) Committee on Export Strategy 1980s, Ministry of Commerce.
Further, there is no system of visits or inspection, as required in the Import Policy, to oversee the resources and working of an Export House. There is no system of detailed organizational or operational plans submitted to the CCIE's office "The whole concept of development of specialized international marketing channels envisaged by the Mudaliar Committee has been buried, under the expediency of granting recognition."  

Thus the Government machinery should be energised and the administration and control of the Export Houses should be improved. The present structure in the CCIE's office or at FIA is inadequate and not specific for the Export Houses. A separate body should look into, not only the administrative and control aspects, but also the promotional aspects.

Further, the export documentation, in general needs to be simplified. In South Korea, for example, there is just a two-page customs clearance certificate, but in India there are a host of documents for customs formalities, and a still larger number for other activities.

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8) **Export Incentives and Assistance**

The Government policy of export promotion has basically been of providing export assistance facilities and incentives. This policy has been introduced in case of Export Houses also, and with great vigour. As a result, the export incentives available to Export Houses in India are comparable with those available to Export Houses in other countries. But export incentives, especially CCS, have attracted criticism both at home and abroad. A number of countries have also levied countervailing duties. It may not be out of place to recall that CCS compensates the Indian exporter for the high cost of infrastructure and freight, port delays, excise duties and local taxes, high cost of import content etc. The Duty Drawback Scheme, by itself does not compensate an exporter for the handicaps. The exporter has come to depend upon these export incentives, like 'crutches'. It seems he cannot do without them, although these measures were supposed to be of a temporary nature. It has been found that Export Houses have high cost of operations and they are not using their resources effectively and that they are able to earn profit only because of non-operating income (chiefly export incentives). In the circumstances it may not be possible to remove these export incentives right away, but in the long run the effort of the Government should be to remove
the bottlenecks for which these incentives are offered. These bottlenecks relate to infrastructural facilities and high tax structure. Possibly overcoming these problems may also lead to increased production for export. As indicated in Chapter VIII, the success of GTCs in South Korea and Sogo Shosha in Japan is mainly due to the excellent infrastructure for exports, and the emphasis on increased production.

In the short run the following changes need to be made:

a) Additional licences should be made more liberal for those Export Houses which show a high incremental export performance.

b) The procedural delays be removed. The whole purpose of the Duty Exemption Scheme is defeated if there are delays at different levels including DSTD.

c) The procedural delays for opening up of branch offices and warehouses abroad should be reduced for the Export Houses.

d) The Government should set up a centralized organization on the pattern of Korea Trade Promotion Corporation (KOTRA), with overseas offices, to conduct on a regular basis market surveys and exploration which would supply up-to-date and regular information to the exporters. This would supplement the information network
developed by the Export Houses themselves.

9) **Infrastructural Facilities**

The infrastructural facilities available to ETCs in South Korea and Sogo Shosha in Japan are much superior to those available to exporters, including Export Houses in India. Consequently, the Indian Export Houses have to pay higher freight rates and the cost of production increases because of unutilized capacity as a result of inadequate power and frequent strikes and lockouts.

It is suggested that the Shippers' Associations, Export Promotion Councils and the Freight Investigation Bureau should identify specific products where other countries have lower freight rates. This matter could then be taken up by the above bodies, with the representatives of the Conference Liners. In addition to this, adequate shipping service should be provided to all destinations and information about sailings and frequency should be constantly intimated to the Export Houses through the Export Promotion Councils. In order to reduce over-congestion at the important ports, especially Bombay, adequate handling, banking and customs formalities should be developed at other ports. Containers at the ports should be stuffed and destuffed at a particular place in the dock area. Facility for this could be provided by the Central Warehousing Corporation. The Central Warehousing
Corporation should also think in terms of opening up warehouses abroad for Indian exporters. It is also suggested that the port facilities and customs clearance be improved to avoid delay to the exporters, including Export Houses.

10) **Tax Incentives**

The Indian tax structure, direct and indirect, is not only cumbersome and complicated but the tax rates are one of the highest among the selected countries. (Chapter VIII). It discourages savings and investment, affects production adversely and consequently the exports. Other countries offer liberal tax benefits to exporters. For example, in South Korea, these include tax holiday up to five years, deductions from a company’s foreign exchange reserves, deductions for creating overseas market development reserves, deductions for creating export loss reserves and deductions for price fluctuation reserves. Accelerated depreciation and investment allowance are other benefits, available to exporters, including Export Houses in South Korea. In India also accelerated depreciation for plant and machinery and investment allowance are available, though at reduced levels. For exporters, in India, a standard deduction of 1 per cent of export turnover is...
allowed. In addition to this there is a further deduction of 5 per cent of the incremental turnover over the previous year.

The corporate tax rate in India should be reduced to encourage production and create export surplus. The present deductions in respect of exports are comparatively inadequate and further rebates should be available for creating reserves for export promotion, export loss and price fluctuations. For export-oriented industries a five year tax holiday should be allowed.

11) **Industrial Policy**

Exports are primarily a function of production. Unless we produce for exports — releasing enough exportable surpluses after meeting indigenous needs and requirements, we cannot sustain exports. Exports should form an integral part of the production strategy and this will call for creation of manufacturing facility of an efficient size to help derive economies of scale and improvising technology in the line with developments taking place elsewhere in the world. Efficiency and competitiveness in the world market ought to be the yardstick to judge the efficacy of a unit or the scale of operation. The question of large versus small house should not affect our investment policy.
The recent steps taken by the Government for liberalization in the investment policy, are welcome and will help in increasing exports. These steps include the re-endorsement of installed capacity to the extent of 33.3 per cent above the best year's production during the last five years; automatic growth in capacity of 25 per cent over a period of five years (for FERA and NRTP companies this facility is available for Appendix I items of the Industrial Policy Resolution 1956); increase in the scope of the Appendix I items, and the permission granted to NRTP and FERA companies to produce outside Appendix I areas if they export a substantial part of their new capacity.

12) Export Procedures and Documentation

Since time is a crucial factor in export business, export procedures and documentation need to be simple and less time-consuming. Further, speedy decisions need to be taken for clearance of investment proposals and execution of fiscal and other incentive schemes.

The present study indicates that a majority of the Export Houses (87.5%) considered procedural delays as an important problem in increasing exports. These delays related to the industrial regulatory framework, import licensing, customs formalities, export incentives, finance
for exports, settling of claims of the foreign buyers and amendment in the L/C. The Export Houses also feel that there is uncertainty in regard to the Government's Export Policy. As already indicated in the countries like South Korea only a two-page customs clearance form is required to be completed. On the other hand, Indian exporters have to pass a tedious rigmarole and complete 75 forms.\(^1\)

It is recommended that, in order to increase the exports by the Export Houses, we must have a time-bound clearance of investment proposals, and import-export formalities be brought down to a bare minimum. If possible only one master document seeking relevant information in a simple manner should be introduced.\(^2\)

SECTION B

Specific Aspects Related to the Working of the Selected Export Houses

1) Growth and Share of Export Houses in Exports

The number of Export Houses in India totalled around 1600 by March 1983. A sample study of 913 Export Houses by the Federation of Indian Export Organizations (FIEO)

\(^1\) This information is according to the Committee on Export Strategy 1980's, Interim Report, p.14.

\(^2\) A number of organizations like the Bombay Chamber of Commerce and the Indian Institute of Foreign Trade have suggested such measures to the Government, but these have remained in cold storage — Economic Times, March 14, 1981.
reveals, that a large number of Export Houses (57.73%) are small scale manufacturer Export Houses. The Trading Houses totalled nine and had the highest share in the total exports by the Export Houses. The overall share of the Export Houses in the country's exports has increased steadily and by March 1982 stood at 37 per cent, indicating that the growth in the exports of the Export Houses has been higher than the growth in the country's exports.

2) Diversification Policies

The import policy is not consistent in regard to the objective to be pursued by the Export Houses for the export of new products to new markets. It is not clear whether the objective of Export Houses is product development (export of new products to existing markets) or market development (export of existing products to new markets) or diversification (export of new products to new markets). The concept of diversification should be distinguished from product development and market development, and it should be made clear as to what is expected of the Export Houses and Trading Houses. Viewing diversi-

\[1\] In the new Import Policy (1984-85) the Government has taken a couple of steps to encourage 'diversification' by Export Houses and Trading Houses. Firstly, in determining the eligibility of an Export or Trading House exports of new products and/or to new markets made during 1983-84 will be reckoned at twice the f.o.b. value of such exports. Secondly, in the case of Trading Houses the minimum required sales turnover of ₹ 15 crore should be spread over at least three product groups, the value of exports from each product group should be less than 15% of ₹ 15 crores — Import Policy, 1984-85, para. 176(2)(b) for Export Houses and para. 177(b) for Trading Houses and para. 197(c). According to these steps also,
fication in the sense of new products to new markets, as it is generally understood in management literature, the present study brings out the fact that no diversification has been undertaken by the Export Houses and Trading Houses. Further, product development, in the sense of new products to existing markets, has been taken up only by Trading Houses, and some Central Government Export Houses—Projects and Equipment Corporation (PEC) and Handicrafts and Handlooms Export Corporation (HHEC). The total exports of these Export Houses are spread over a large number of products, assuming them of flexibility in international markets. The other Export Houses have generally been concentrating on the export of one product line to a number of established markets. In the case of State Government Export Houses there is no consistent export of any item and the markets also vary frequently. Every year some old customers are lost and no attempt is made to regain them. Another notable feature of product development by Export Houses, is the preoccupation of the Central Government Export Houses, like STC and MMTC, with canalized exports, and hence these Export Houses have achieved limited success with product development. In the case of market development (introducing existing products to new markets), also, the position is not encouraging. Though new markets have

(1 from pre-page contd).
the Government is still not clear about the objective of diversification, product development or market development, for Export Houses.
been developed by the Trading Houses the share of these markets in their total exports is negligible. Central Government Export Houses PEC and STC have also exported to a large number of markets in developed countries, but the share of any such market is not more than 1 per cent. These Export Houses on the other hand, have spread their resources over too many markets.

Clearly the objective of diversification has not been achieved by the Export Houses; at best the Trading Houses and Central Government Export Houses, like PEC and HNEC have gone in for product development.

The Government should clearly define the objective of the Export Houses, whether it is product development, market development or diversification.

Secondly, the Trading Houses should have a stipulation with regard to new markets, similar to the one for new products, which they are not having at present. This means that their exports should be spread over at least some minimum markets.

Further the meaning of "new product" should be clearly defined as at present its meaning is confusing.\(^1\)

\(^1\) It is not clear whether a product is treated new only if it is exported to specific markets, which is the meaning attached to Ministry of Commerce Public notices dated 1st Feb, 1984- Appendix 24, Import Policy 1984-85; or a new product is one which is from a different product group which was the meaning before the above notices, and as defined in Appendix 17 of the Policy.
It is also suggested that like the GTOs in South Korea which are recognized only if they have the minimum exports of US $ 100 million, spread over at least 10 to 15 products and having offices in at least twenty markets, the Export Houses in India should also be recognized on the basis of product and market coverage.

3) **Small Scale Industry Exports**

The share of SSI manufacturers in the total exports of Export Houses, including Trading Houses, was 28.7 per cent in 1979-80 which increased to 41.3 per cent in 1981-82. Compared to this the share of SSI manufacturers in the total exports of the country was 23 per cent in 1981-82.

The Export Houses thus seem to show a better performance with regard to exports from the small scale sector. The high share of SSI exports in total exports of Export Houses and Trading Houses is due to the Trading Houses. The SSI exports have a share of 73 per cent in the total exports of Trading Houses. The other Export Houses have a small share of SSI exports in their total exports, except the State Government Export Houses which are generally trading organizations, dealing with exports solely from the small scale industry. The Central Government Export, except HHEC have also a comparatively low share of SSI exports in their exports. The Export Houses have not generally been
able to involve themselves in the export of the products of small scale industry. They are also lacking in providing assistance to them by way of imported raw materials, export consultancy, information inputs etc. The Trading Houses, on the other hand, have been able to increase their share of SSI exports and they are providing the SSI sector with the above help. Both the State and Central Government Export Houses have also not been able to build an enduring relationship with their small scale units. For example, in the case of State Government Export Houses, the entrepreneurs feel that the Export Houses emphasize more on the profit margin than rendering service. Thus, despite the Government's effort to encourage the export of products from the SSI sector, through the Export Houses, the Export Houses have not been able to evolve a lasting relationship with their supporting small scale units. Another reason why the Export Houses have not been able to increase SSI exports is that the small scale units after acquiring some power, leave the umbrella of the Export Houses and start exporting on their own. Hardly, any of these small scale units are successful. This discourages the Export Houses from developing any more small scale units.

The Government has done away with the stipulation of a certain minimum level of exports from the SSI sector, by the Export Houses. Since, the Government never enforced
this stipulation, it is good that a redundant clause has been excluded. In its place the Government is offering greater incentives to those Export Houses which export SSI products, and have a lasting relationship with the SSI manufacturers. Although it is too early to judge the effect of the new policy, it is obvious that the Government is keen that the Export Houses should involve themselves in SSI exports.

It is suggested that in order to build a lasting relationship between Export Houses and the SSI sector the following steps should be taken: (i) The Central Government Export Houses should involve themselves more in SSI exports. Their role and objectives in this respect should be defined clearly. (ii) The Export Houses should be given liberal financial help so that they in turn can help the small scale manufacturers in product development, modernization of technology and export promotion, (iii) Exporters which do not possess the requisite capabilities should not be allowed to export directly. In other words, there should be a measure of selectivity in exporting units. Selectivity would also increase dependence of SSI units on Export Houses and may lead to increased co-operation between the two.
Third Party Exports

The manufacturer Export Houses are content to market their own production and have not involved themselves in the exports of other manufacturers. Previously, in the eligibility criteria for an Export House, there was a stipulation with regard to a minimum level of exports from other manufacturers. But, this was hardly enforced. The Government policy now seems to be to give more incentives to those which involve themselves in third party exports.¹

The Export Houses were expected to export products of other manufacturers who were not in a position to export directly. As a result, the Export Houses were expected to benefit by economies of scale in export marketing. Export in bulk by these Houses was expected to improve their bargaining position with buyers abroad. But, these objectives have not been achieved.

The manufacturer Export Houses should work as true Export Houses and should involve themselves in third-party exports. These manufacturer Export Houses should set up separate trading companies which are totally involved in the marketing function. Over a period of time these trading companies can develop capabilities to compete in the international field. These trading companies can

¹ See for example the new Import Policy 1984-85, which has given more incentives to Trading Houses which enter into a long term agreement of at least five years with supporting manufacturers- para. 204.
utilize the recent Government incentives for also better those Export Houses which enter into a long term commitment with supporting manufacturers.

5) Quality Control Measures

In spite of the efforts of the Export Inspection Council, quality control still remains a major problem with Indian exporters. Foreign buyers frequently complain of substandard products, lack of standardization and actual shipment not conforming to the sample. The Export Houses are expected to see that not only their own production but also the supplies of their supporting manufacturers conform to the quality control standards. This implies that the Export Houses should have testing laboratories and quality control know-how. However, the analysis of quality control measures in vogue in the Export Houses reveals that the Export Houses are only able to cater to the quality of their own production but lack the facilities for testing the quality of the products supplied by the supporting manufacturers. They have not been able to develop these facilities because a majority of the Export Houses, which are Small-Scale Export Houses, lack the resources. Further, till recently, the import policy had placed restrictions on the import of testing instruments and equipment. The Export Houses, including Trading Houses thus have to depend on the facilities provided by the Export Inspection Agencies which themselves have inadequate facilities in this regard.
It is also found that Export Houses like other exporting units in the country have not developed any system of quality control for packaging. Packaging in India lags far behind international standards in terms of correct design, quality and modern form.

The Export Houses being important channels in India's export trade should develop quality control facilities to test the quality of products supplied by their supporting manufacturers. The Import Policy also is now flexible enough to allow import of testing instruments and equipment. Not much can be expected of small scale Export Houses in this regard but the Large Export Houses and Trading Houses have the resources to set up quality control facilities. The Trading Houses, in particular, can emerge as important centres of quality control, because they can now also avail of the Self-Certification Scheme of quality control.

Export Houses and Trading Houses should have extensive promotion and education for the small scale units regarding the need for quality control. As in Japan, the Export Houses and Trading Houses in India should conduct shop floor training programmes for their supporting manufacturers. The emphasis in quality control should be on in-process quality control rather than compulsory pre-
shipment inspection. Export Houses should not only themselves develop a quality control attitude, but should also make their supporting manufacturers quality conscious.

The Export Houses and Trading Houses should also develop facilities for package testing, and this should form an integral part of quality control.

The Government can also help the Export Houses, by generally improving the quality standards in the country. This could be done by toning up the working of the Export Inspection Council, by involving more private agencies in quality control, and accepting international standards as 'Quality Markings'.

6) Export Marketing and Planning for Exports

Export marketing generally is considered to be a marginal and transient activity by the Export Houses, except the Trading Houses. The marketing operations of the Export Houses are characterized by ad-hocism and there is no long term planning. The major emphasis by the Export Houses is on operational details like documentation, incentives for exports, financing for exports etc. Only, the Trading Houses have both short-term and long-term plans extending up to a time span of three years.
The data on the basis of which marketing decisions are taken are inadequate. The Export Houses mostly depend on company records which are poorly organized and inadequate for purposeful decision-making. The Trading Houses, on the other hand use a variety of data inputs.

With regard to the adoption of marketing skills, it is seen that product planning is limited to product modifications and prices are higher than that of competitors and non-price factors are not given due importance. The products are generally sold through agents, rather than distributors or branch offices. Despite complaints about packaging, no attempt is made by Export Houses to understand new packaging techniques, and use new packaging materials. Service level by the Export Houses is poor as warehousing and inventory policies are not properly organized. Advertising and promotion are generally limited to the company brochures, which are considered to be of poor quality by the buyers.

With regard to Trading Houses, the adoption of marketing skills is also limited, though better than Export Houses.

It may be suggested, that in order to be successful in the overseas markets, Export Houses and Trading Houses must adopt a marketing approach, and evolve a long term strategy to increase exports. In order to compete with foreign organizations the Export Houses should develop a reliable up-to-date information network and should
emphasize the non-price factors like the delivery schedule, after sales service etc. The Export Houses should strive to develop warehouses at important cities and entreports, and should use the Free Trade Zone facilities in other countries.

The Government, should also contribute towards export marketing by taking suitable measures for market information, warehousing and shipping facilities. It should adopt a flexible policy with regard to opening of offices and warehouses by Export Houses\(^1\) in other countries.

Indian Export Houses should follow the example of GTCs and South Korea with regard to marketing. The GTCs are large trading companies, totally committed to marketing. They have built up a unique information base through their 2000 offices spread all over the world. The GTCs also get financial support from the government for warehousing their merchandise abroad.

7) **Profitability of Export Houses**

The profitability of Export Houses, in terms of net profit margin, is showing a declining trend, since 1979-80. Whatever net profit margin is there, is only due

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\(^1\) Unless otherwise stated Export Houses, include Trading Houses.
to the non operating income, because most of the Export Houses have an operating loss. The non-operating income as a percentage of total revenue (Net sales + Non-operating income) increased from 4.6 per cent in 1977-78 to 6.10 per cent in 1981-82. A major portion of this non-operating income is due to the export incentives. In 1981-82, the share of export incentives in the total non-operating income was around 31 per cent. The Cash Compensatory Support (CCS) is a major part of the export incentives. The income from other export incentives is due to the duty drawback and premium on import entitlement.

The operating loss is due to a number of factors. The cost of goods sold as a percentage of total revenue increased from 83.4 per cent in 1978-79 to 84.7 per cent in 1981-82. The cost of goods sold has increased due to a rise in all components of costs like purchase price of finished goods (in case of merchant Export Houses), manufacturing costs, repair and maintenance costs. The operating costs, like selling and distribution costs, salaries and allowances, and freight have also increased.

The profitability in terms of return on investment, measuring the efficient use of resources, for the selected Export Houses is low compared to the profitability in the domestic market. It also shows a declining trend during the period 1977-78 to 1981-82. There are a number of reasons
for the low return on investment in the case of Export Houses. One of the important reasons is the decline in the net profit margin of the Export Houses. Further, certain Export Houses, like PEC and Tata Exports, have high capital locked up in Sundry Debtors. Tata Exports further has a high inventory.

It is thus observed that the Export Houses have high operating costs, and have also not been able to use their resources efficiently. Thus, they have to increasingly depend on export incentives, to earn any profit. But incentives especially CCS would invite further criticism from other quarters, both domestic and international. So, the Export Houses need to improve their revenue through increased sales, by adopting a marketing approach. Further, they should control their costs. The Export Houses should also use their resources efficiently; particularly they should have realistic inventory and credit policies.

8) Financial Aspects

Export Houses, like other exporters, can also obtain Export Credit. Generally, the commercial banks provide short-term export credit and the long-term export credit is provided by the EXIM bank (previously by IDBI). Finance

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from the commercial banks is available at pre-shipment stage by way of discounting or purchase of import bills. The packing credit schemes provide finance for the purchase, processing, manufacturing or packing of goods meant for exports usually on the strength of either a letter of credit or an export order. But, the general complaint by the Export Houses is that the commercial banks insist upon collaterals in the form of deposits, securities, or mortgages. Further it is seen that the banks provide packing credit against a credit limit established for every customer. This credit limit, sometimes has no correlation with the value of the export order. The time span for packing credit is also inadequate. It is, at present, generally for 90 days. In regard to post shipment finance also there are delays in getting finance when there is no letter of credit. For long term export finance also, it is found that the export credit is inadequate and the list of the products for which it is available is not exhaustive.

Further it is observed that presently export finance means packing credit, post-shipment credit and deferred payments credit. No funds are available for product development or setting up of quality control measures or upgrading technology etc.
Since both long term and short term export credit is inadequate, Export Houses look to other sources of finance. The principal source of finance for short-term requirements is the trade credit, followed by long term sources like debentures, long term loans, retained earnings. (Increasingly long-term sources of finance are being used for working capital). The liquidity position of the Export Houses is satisfactory indicating that with the available sources of finance, they can meet their current obligations. It is with regard to the long term credit that there are problems. The principal source of finance for long term requirements are the financial institutions. It is becoming increasingly difficult for the Export Houses to raise term loans from the financial institutions. This is so because the debt/equity ratio of the Export House is generally high and the debt-service capacity is declining. Further there is a convertibility clause in the borrowings from the financial institutions which adversely affects the availability of finance for some Export Houses. The other long-term sources of finance are also inadequate. These include Reserve and Surplus and Paid-up capital. It is seen that with a high rate of corporate tax in India (Chapter VIII) and increasing costs (both operating and cost of goods sold), the Export Houses are not in a position to set aside adequate profits for plough back. Taxation and the declining profit has not only eroded the total
resources available for investment, but has also led to shrinkage or stagnation of own funds, (shareholder's equity). With a high debt-equity ratio, and the promoters contribution being negligible (no fresh issue of capital was there by the Export Houses during 1977-78 to 1981-82) and the plough back that is possible, it is seen that an automatic ceiling is placed on the growth of the Export Houses.

With the limited financial resources available, the Export Houses are not in a position to provide finance to supporting manufacturers. The financial support to these manufacturers is limited to providing back-to-back L/C facility. Compared to this the Sogo Shosha in Japan provide financial help to their supporting manufacturers for buying raw materials and components. The Sogo Shosha also give guarantees on behalf of their suppliers, and also import and lease out major equipment. The supporting manufacturers prefer to borrow from Sogo Shosha, rather than the banks. The Sogo Shosha themselves are not starved of finance as they have close links with financial institutions.

To overcome the financial problems of the Export Houses the following changes are indicated:

a) The time span for packing credit should be extended to more than 90 days.
b) For overcoming the problem of post-shipment credit, it is suggested that factoring on the lines prevalent in U.S.A. may be introduced. In U.S.A., factoring firms purchase receivables and take it upon themselves to realize the bank proceeds. In India factoring companies can be set up as bank subsidiaries.

c) The packing credit should be available against a L/C or an export order, preferably for the value of the export order.

In the case of Trading Houses additional facilities should be provided so that they not only promote their own products abroad but like the Sogo Shosha in Japan can finance the needs of the supporting small scale manufacturers.

These facilities are listed below:

a) Export finance should be made available for setting up of quality control measures, product development and upgrading of technology.

b) Since the Trading Houses already have a high debt/equity ratio and their debt-servicing capacity is going down, it is difficult for them to generate more finance from the financial institutions. The Trading Houses because of low profitability have not created new reserves. In such a situation,
loans should be provided to the Trading Houses for their equity capital. Separate investment companies or subsidiaries of banks (as is done in Brazil) should be set up for the purpose.

c) Trading Houses (like the GTC's in South Korea) should also be allowed to raise funds abroad. For this suitable guarantees should be provided by the commercial banks.

9) Effect of Ownership and Size of Export Houses on their Export Performance.

On the basis of ownership the Export Houses can be divided into private and public sector Export Houses. The public sector Export Houses may further be divided into Central Government Export Houses and State Government Export Houses. With regard to size, an important measure of the size of Export Houses is their export turnover. Export Houses having exports of at least 10 crores per annum are termed as Trading Houses.

The analysis of export performance on the basis of ownership of Export Houses shows that the performance of Export Houses within each category of private and public sector is not uniform. Thus, it is difficult to draw

1 (from previous page)

precise conclusions with regard to inter-category (private Vs. public) comparison. But, the analysis of performance as indicated in Chart 9.1 reveals that the Central Government Export Houses have a better overall performance than the State Government Export Houses. Their performance is also slightly better than some private sector Export Houses, like the Small Scale and Large Export Houses. But, their performance is not as good as the performance of the Trading Houses in the private sector. Further the performance of the State Government Export Houses is really poor.

There seems to be no correlation between export performance and size of Export Houses, up to an export turnover of Rs 10 crore per annum. But, Export Houses having a turnover above Rs 10 crore show a distinctly better performance.

The analysis also indicates clearly that the Central Government Houses, despite the vast resources at their command have not shown export performance comparable to the Trading Houses. They have not fully exploited their potential. In order to improve their working the following steps should be taken:

1) Their role and objectives need to be clearly defined.¹

¹ This factor has been mentioned in a number of seminars and Standing Committee on Public Enterprises' Meetings. At a recent convention of the Chief Executives of public sector undertakings, Dr D.K. Dhaon also mentioned this aspect — Economic Times, April 6, 1983.
<table>
<thead>
<tr>
<th>Category of Export Houses</th>
<th>Marketing Development</th>
<th>Product Development</th>
<th>Small Scale Exports</th>
<th>Quality Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Large Export Houses</td>
<td>Generally no market development</td>
<td>No product development</td>
<td>Only 7% share. No close relationship.</td>
<td>Units are mostly export worthy units. No facilities for supporting manufacturers.</td>
</tr>
<tr>
<td>2 Small-Scale Export Houses</td>
<td>No market development</td>
<td>Limited product development by STC, PEC, and HHBC</td>
<td>25% share, items bought out. No close relationship.</td>
<td>Lack testing facilities Cannot help supporting manufacturers.</td>
</tr>
<tr>
<td>3 Central Govt. Export Houses</td>
<td>These Export Houses have developed new markets, but have spread their resources too far.</td>
<td>Product development by STC, PEC, and HHBC</td>
<td>20% share, high success.</td>
<td>Lack testing facilities for products of supporting manufacturers.</td>
</tr>
<tr>
<td>4 State Govt. Export Houses</td>
<td>No fixed Markets.</td>
<td>No consistent export of any item.</td>
<td>100% share but no proper relationship with SSI sector.</td>
<td>No awareness and attitude with regard to Quality Control.</td>
</tr>
<tr>
<td>5 Trading Houses</td>
<td>Limited market development. Share of new markets negligible.</td>
<td>Product development is clearly evident.</td>
<td>73% share, have built up close relationship.</td>
<td>Self-Certification possible but still lack facilities for supporting manufacturers.</td>
</tr>
</tbody>
</table>

contd...
### CHART 9.1 (Concluded)

<table>
<thead>
<tr>
<th>Category of Export Houses</th>
<th>Sale Growth</th>
<th>Export Marketing Research</th>
<th>Marketing Skills</th>
<th>Planning for Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Large Export Houses</td>
<td>Annual Average Growth rate, 1976-77 to 1981-82, is 30.9%</td>
<td>Mostly Company records. Few have separate Export Marketing Research Department.</td>
<td>Use of marketing techniques by very few Export Houses.</td>
<td>Short term planning mostly limited to procedures and documentation.</td>
</tr>
<tr>
<td>2 Small Scale Export Houses</td>
<td>Growth rate 63.8%</td>
<td>Company records that too inadequate for decision making.</td>
<td>Marketing skills are lacking.</td>
<td>Short-term planning.</td>
</tr>
<tr>
<td>3 Central Govt. Export Houses</td>
<td>Growth rate for Non-canalized exports 31.9%</td>
<td>Branch offices abroad; company records. STC has separate Export Mark. Res. Dept.</td>
<td>Marketing only paid lip service. Orientation is lacking.</td>
<td>Mostly short-term, though in case of STC &amp; NHBC also upto three years.</td>
</tr>
<tr>
<td>4 State Govt. Export Houses</td>
<td>Growth Rate negative (-24.3%)</td>
<td>Company records and outside secondary data.</td>
<td>Marketing orientation and skills completely lacking.</td>
<td>Ad-Hocism is the main characteristic.</td>
</tr>
<tr>
<td>5 Trading Houses</td>
<td>Average Growth rate 37.9%</td>
<td>Those use variety of data information. Separate Export Marketing Research Department.</td>
<td>The use of some marketing skills is evident.</td>
<td>Both short-term and long-term planning upto five years.</td>
</tr>
</tbody>
</table>

**Source:** Summary of the data and analysis done in the previous chapters.
organizations, fulfilling all the criteria listed in this.

Study, should be recognized as Trading Houses. The
Trading Houses should be operated as envisaged much earlier
in the Export House Scheme of 1960. Such Trading Houses
should be provided with all the help they need to increase
exports. The performance of Small-Scale and Large Export
Houses in the private sector does not show much difference.
Hardly any one of the Export Houses in these categories has
operated as a true Export House. It would be administrati-
vely difficult to de-recognize a large number of Export
Houses in these categories. So, the present system of
recognition of these Export Houses should continue, in
the short-run. But, in the long run these Export Houses
should also be expected to fulfill other criteria besides
the sales turnover criteria. Since, the Small Scale Export
Houses were set up to increase exports from the small scale
sector, and since their performance is comparable to the
large Export Houses, it is suggested that the lower turnover
criterion of recognition should continue in their case.

To sum up, the concept of Export Houses is well
thought of, but the Export Houses have not realized their
full potential. To improve their performance the Govern-
ment and the Export Houses themselves should adopt
the following steps—

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official, should not arise. Instead, audit based
on performance budgeting should be encouraged.
ii) Greater autonomy should be given to them.¹

iii) The system of public accountability in their case should be restructured.²

iv) The canalized and non-canalized functions should be performed by different organizations, and only the exports of non-canalized items should be considered for eligibility as an Export House.

The State Government Export Houses greatly need to improve their performance and in their case there should be a proper selection and training of the top and the operational level staff. A single corporation for exports, in a state, may be set up. These Export Houses also need to adopt marketing skills and techniques.

It is also recommended that the public sector Export Houses, with the above changes, should be required to fulfil a minimum criteria like other private Export Houses.

With regard to the private sector Export Houses it is recommended that only specialized marketing organi-

¹ Refer to the Committee on Export Strategy 1980's, Final Report, December 1980, Ministry of Commerce, Govt. of India.

² K.B. Lal, former Chairman, STC, "Business India", March 30 - April 12, 1981. Similar views were also expressed by Prakash Tandon in the same journal.

Their opinion is that the motivation of each and every action of the executives should not be questioned. If the objective of a decision is developmental, the need for explaining the basis to a CBI
A. Steps to be taken by the Government

1) The criteria for recognition of an Export House should not only be based on sales turnover, but should also consider other criteria like diversification policies of Export Houses, their involvement in small scale industry and third-party exports, the extent of quality control facilities set up by them, the level of planning for exports and their profitability. The above criteria should be laid down in concrete and specific form.

2) Only a handful of the existing Export Houses would be able to fulfil the above criteria. It would be difficult to de-recognize a large number of existing Export Houses. Thus, in the short run, the existing criteria for recognition of small scale and large Export Houses should continue. But, the criteria should be based on average exports for at least three years, rather than just one year's exports. Also, for renewal of the Export House Certificate the prescribed export sales growth rate should be strictly enforced. In the long run, all the Export Houses should be expected to fulfil the other criteria also, besides sales turn-over and renewal of the Export House Certificate should be based on consistent performance on the above criteria.

3) The Public Sector Export Houses should be treated at par with other Export Houses and a minimum
export performance should also be prescribed for them. For improving the performance of Central Government Export Houses, it is suggested that their role and objectives need to be clearly defined; greater autonomy should be given to them; the system of public accountability should be restructured and their canalized and non-canalized functions should be performed by separate organizations. The State Government Export Houses have a very poor performance, which can be improved by proper selection and training of the top and the operational level staff. A single corporation in the state should deal with exports. The Export Houses should adopt marketing skills and techniques and above all, develop an export culture.

4) Considering the complexities of export trade, it is necessary to have specialized international marketing organizations whose principal function is export marketing. Thus, it should be the endeavour of the Government to develop in the long run such trading organizations, and it should encourage the present Export Houses to set up separate trading organizations.

5) All the five Trading Houses studied (4 trading organizations and 1 subsidiary of a manufacturing concern) have shown a distinctly better performance than other Export Houses. However, there should be no dilution of criteria in the case of Trading Houses, as has
happened in the case of Export Houses since 1960. The Trading Houses should be given liberal support including:

a) Export finance should be available to them for setting up of quality control measures, product development and up-grading of technology.

b) Long-term capital on equity basis should be available to them.

c) Trading Houses should be allowed to raise funds abroad, with suitable guarantees from domestic commercial banks.

d) Priority in allocation of communication facilities be accorded to them.

e) Permission should be granted to them to trade in third countries.

f) Facility to import and export canalized items be extended. This would also provide a measure of competition to State Trading Organizations.

6) In order to improve the working of Export Houses, the Government should reduce the procedural delays relating to the industrial regulatory framework, import licencing, customs formalities, export incentives, finance for exports, settling of claims of foreign
buyers and amendment in the L/C. The time for obtaining and renewing the Export House Certificate should be reduced.

7) There should be a modification in the Export Policy so that only selective exporters like Export Houses and Trading Houses are allowed to export. Imports should also be channelized through these exporters rather than through a large number of fragmented, tiny units, as at present.

8) The infrastructural facilities like shipping services, freight charges, port handling facilities, warehousing facilities and telecommunication services need to be improved.

9) The corporate tax rate in India should be reduced to encourage production and create export surplus. Rebates for creating reserves for export promotion, export loss and price fluctuations should be available to Export Houses.

10) A high-powered body should be set up, consisting of the Chief Controller of Imports and Exports, Export Commissioner, Development Commissioner, Small Scale Industries, Officials of the Commerce Ministry and other concerned Ministries, representative of FIEO and some
experts. This body should constantly review the Export House Scheme and supervise the working of the Export Houses.

11) Other steps which need to be taken up by the Government are:

a) The setting up of a centralized information organization.

b) Involvement of FERA and MRTP Companies in the Export House Scheme.

B. Steps to be taken by Export Houses

Indian Export Houses should make use of liberal import facilities and incentives provided by the Government for export promotion. They, themselves, should take the following steps to improve their performance:

1) The Export Houses should work as true Export Houses and they should involve themselves in SSI and third party exports. They should provide raw materials, export consultancy, information inputs and financial help to their supporting manufacturers.

2) The Export Houses should set up quality control and testing facilities. The emphasis should be on in-process quality control. Further, the Export Houses need to develop facilities for package design and testing.

3) The Export Houses should adopt conscious diversification policies and should have a long-term perspective
plan for exports. They should develop an export culture and follow the marketing concept for exports.

4) The export houses also need to improve their profitability. This would enable the Export Houses to create reserves for export promotion and development.

The Draft Approach paper to the Seventh Plan recently approved by the National Development Council has emphasized that since "the country's net earnings from invisible items in the balance of payments have declined substantially from the peak level touched in 1980-81, it would therefore be necessary to depend largely on faster growth in exports". The potential for export of engineering goods and non-traditional items should be fully exploited. To achieve a higher growth rate in exports and to increase the exports of engineering goods and non-traditional items, the Export and Trading Houses would have an important role to play and every effort should be made to improve their export performance.

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1 Draft Approach paper to the Seventh Plan, Planning Commission, Government of India, p.3.
2 Ibid., p.3.