CHAPTER FIVE

INSTITUTIONAL APPROACH TO EXPORT ORIENTATION IN INDIA

Institutional structure relating to Indian exports consists of:

(1) Export Promotion Councils and Commodity Boards
(2) State Trading Corporation of India and its subsidiaries
(3) Private Export Houses
(4) The Ministry of Commerce and its various Divisions looking after India's Export Trade and
(5) Other Bodies created by the Government of India.

An analysis of the functioning and their limitations with regard to the export efforts in our country is made in this chapter with a view to suggesting measures for streamlining the work done by these various bodies.

Export Promotion Councils

The Export Promotion Councils are registered as nonprofit organisations under the Co.'s Act. They perform
both advisory and executive functions. The Councils have been set up to secure the active association of growers, producers and exporters, in the country's drive for export promotion. The Government's role is to guide, encourage and stimulate the councils in their work. Some of the councils have set up regional centres at important places in India and in some other countries.

### Export Promotion Councils

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<thead>
<tr>
<th>Council Name</th>
<th>Address</th>
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<tbody>
<tr>
<td>1. Cashew Export Promotion Council</td>
<td>M. Gandhi Road, Ernakulam-6</td>
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<tr>
<td>2. Chemicals &amp; Allied Products Export Promotion Council</td>
<td>14-B Ezra St, Calcutta-1</td>
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<tr>
<td>3. Cotton Textile Export Promotion Council</td>
<td>26, Landsdowne Road, Bombay-1</td>
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<td>4. Engineering Export Promotion Council</td>
<td>14-3 Ezra St, Calcutta-1</td>
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<td>5. Leather Export Promotion Council</td>
<td>3-38 Vepery High Road, Madras-3</td>
</tr>
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<td>6. Marine Products Export Promotion Council</td>
<td>M. Gandhi Road, Ernakulam-6</td>
</tr>
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<td>7. Mica Export Promotion Council</td>
<td>14-B Ezra St, Calcutta-1</td>
</tr>
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<td>8. Plastic and Linoleum Export Promotion Council</td>
<td>68, Tardeo Road, Bombay-34</td>
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<tr>
<td>9. Shellac Export Promotion Council</td>
<td>14-B Ezra St, Calcutta-1</td>
</tr>
<tr>
<td>10. Silk and Rayon Export Promotion Council</td>
<td>78 V. Nariman Road, Bombay-1</td>
</tr>
</tbody>
</table>
11. Spices Export Promotion Council
M. Gandhi Road, Ernakulam-6

12. Sports Goods Export Promotion Council
Jhanewalan, New Delhi

13. Tobacco Export Promotion Council
183 Mount Road, Madras-6

14. Processed Foods Export Promotion Council
119 Jorbagh, New Delhi

15. Basic Chemical Pharmaceuticals & Soaps Export Promotion Council
Ashok Chambers Brouch St. Bombay-1

16. Export Promotion Council for Finished Leather and Leather Manufactures
14-69 Civil Lines Kanpur

17. Wool and Woollens Export Promotion Council
27 New Marine Lines Bombay-1

18. Handloom Export Promotion Council
Madras-1

Commodity Boards

1. Central Silk Board
95-B Marine Drive Bombay-2

2. Tea Board
22-Brabourne Road, Calcutta-1

3. Coir Board
Ernakulam

4. Rubber Board
Kottayan

5. Coffee Board
Vidhana Vidhi, Bangalore

6. All India Handicrafts Board
Willingdon Barracks New Delhi
An Export Promotion Council as an institutional set up has responsibilities with respect to the following groups of interests:

A Council has a relationship with and responsibilities towards:

1) The industry as a whole
2) The Indian Government
3) The individual members of the council and
4) The buyers in foreign markets

The primary objective of an export promotion council is to facilitate the Indian industry on entry into and exploitation of foreign markets. It encourages a sense of discipline for the industry with respect to quality control and delivery performance. The council provides a forum for the industry to discuss and seek solutions to common problems.

The Council provides a link between the industry and the Government officials the latter having the primary responsibility for the functions with respect to many vital controls required in a developing economy.
An Export Promotion Council is a source of information. It provides information with respect to general market conditions and opportunities. The council also serves as a source of information on individual problems confronting individual exporters.

For the buyers abroad an export promotion council can build up a sense of confidence in India's industry. It keeps interested buyers in touch with reliable member suppliers. It intercedes in trade disputes which may arise. A council therefore acts to protect the Indian industry's name abroad. A council helps to some extent in curbing abuses of less reliable exporters.

The above functional roles of export promotion council in India are however handicapped by two factors (i) The organisational frame work by which the councils may coordinate their activities with other export promotion councils is inadequate and (ii) the resources available to the council to finance their operations are limited.

The existing organisational structure is inadequate to permit full coordination between one council and other
export promotion council, and its agencies. There are about 20 commodity export promotion councils in India. The performance of these councils is found to be of uneven quality. They are loosely bound together by the Federation of Indian Export Organisation. The activity of the Federation has not been adequate enough to meet the overall needs of the export community. Many problems cut through individual commodity lines because they are common to more than one commodity. Problems of transportation, credit, tax rebates and quality inspection do not have a forum or a spokesman. A high level body—the Board of Trades—no doubt has been reconstituted for this purpose, but the agency needs proper staff work.

**Autonomy of the Export Promotion Council:**

Last year the Ministry of Commerce made a move to abridge the autonomy of these councils ostensibly designed to provide for closer supervision of the councils work by the Ministry. But such a move is ill advised and wrongly conceived. It impairs the effectiveness of the councils. The councils and their apex body, the Federation of Export Organisations would be reduced to a bureaucracy-ridden sub-department of the Ministry.

The export promotion councils are run by personnel with a professional background training and
competence. They can perform their tasks more efficiently provided they remain free from influence and interference of the Ministry's bureaucracy and are not bound down to departmental rules and procedures.

The Councils receive grants from Marketing Development Fund administered by the Ministry and the Ministry is naturally entitled to subject them to its broad guidance and supervision. The Councils are also subject to government audit of their finance. The existing arrangement provides for sufficient safeguards against misuse of government grants or misdirection of the work of the Councils.

The organisational structure of export promotion councils should be rather patterned on the lines of similar organisation in countries like Korea or Taiwan where they have export promotion bureau to handle all matters relating to export promotion and to provide a host of services to exporters and would be exporters. They are adequately staffed by professional officers. Such bureaus are headed by a senior officer who would be comparable in rank to a government secretary in India. The bureau in
those countries acts as a spokesman for the exporter in any difficulty he may be experiencing with various departments of the government. These agencies receive high priority in terms of budgetary allocations to cover their operations with regards to local currency as well as foreign exchange. It would be useful here in India to have similar arrangements which might be useful to bring about the existing export promotion councils together.

The inadequate resources of the councils is also a factor which reduces their capacity to organise and staff adequately and to be competitive not only with respect to price and delivery but also with respect to salesmanship and method of doing business. The sales material must be slick, the responses to trade inquiries must be timely, thoughtful and accommodating. The council must be in a position to apply most modern means of communication such as cables for messages and air cargo for samples to and from the overseas offices of the councils. A council must have an expanded budget which can permit it to publish and mail to each of its members a daily report on all trade inquiries received by the council.
An Export House

Combined efforts of all agencies, both official and private are needed to mount a massive reeducation campaign to promote our export trade. Such a campaign involves co-ordinated dissemination of information about India's industrial progress, an active and intelligent participation in fairs and exhibitions abroad allied with any other forms of publicity that are suitable. There is a need for a specialised agency to handle all the business of exporting which should be ready to undertake all the functions of selling associated with a product. An export house, a merchant company, as it is called is suitable as a specialised agency or an institution in the field of exporting.

The Size of the Export House

An export house must be big and specialised to survive in an extremely competitive international market. It must be able to offer a whole range of related products with spares and service to buyers all over the world. An export house must be prepared to undertake ware housing, transportation, insurance and other marketing services. It must offer generous credit terms either by itself or through associates.
and subsidiaries to the buyer. An export house in India must be able to persuade manufacturer to spurn the easy domestic market even in times of domestic scarcity and go after the vital overseas market. An export house is a trading organisation operating in an extremely vulnerable market. Such a market demands the highest quality of goods and services at the lowest possible cost. The size of an export house is an important factor for its success. The successful export houses are those which survive on the strength of their size. C.Itoh for instance employes over 7500 seasoned exports in 85 key spots all over the world. It is capable of arranging finance, warehousing, transportation, insurance and a host of other marketing services. The concern participates in the equity capital of companies whose exports it is willing to sponsor. It will lend the necessary credit facilities to a host of industrial companies. It can even set up joint ventures abroad provided its sales commission is assured. Itoh trades between third countries and supplies market information from its 101 offices.

In India there are about 137 recognised export houses serving about 22000 exporters. They do not have any fair amount of export trade
particularly of non traditional items. The reasons for such a state of affairs are (1) low volume of export trade compared to those in advanced nations, and (2) the existence of a multiplicity of exporting agencies. Some of the recognised export houses are operating on what is considered by international standards as a ridiculously small turnover. This results in their restricted profitability. Each manufacturer is an exporter in our country. Manufacturers instead of setting up their own exporting organisations should consort together to set up large scale export agencies in related products. They should try to avail themselves of economies of scale and efficiency generated thereon. They should not try to survive on government subsidies or aid. An export house is essentially meant for providing an economic overhead service to hundreds of different units, each of which would find exporting both difficult and costly since overseas marketing is a specialised function.

Government of India has been promoting export houses since 1958. Rigid standards were set in the initial stages and only three houses were recognised till 1962. Conditions for Government
recognition were liberalized since August 1962 and a spate of export houses sprang up and were permitted. The annual turnover of one-third of about 100 such organisations was less than 50 lakhs. The Government has now revised upwards the minimum turnover required for recognition. It is unwise to promote scores of export houses under the lure of fiscal and non-fiscal incentives since such small houses are not likely to obtain the economic of scale. This situation is very much in operation in our country. There is, therefore, all the need for effecting savings in the marketing of exports through a common set of export institutions and the present tendency of companies to set up their own export division should be curbed. Individual manufacturing units should be permitted to have their own export units where they have a very large scale of operations or where the peculiar nature of the production necessitates an intimate knowledge which an export house cannot acquire. It is argued that Indian goods realise low profit margin in foreign markets and it would be further reduced by the export house's commission. This is a superficial fear based on short term considerations. Dealing through an export house would be actually less expensive to an industrial unit. Such a unit cannot provide as many marketing
services as a large export organisation. International marketing is highly specialised and it responds to economies of scale in a marked manner. These advantages cannot be availed of by all the exporters who do not have the resources to provide or the turnover to justify the services asked of an exporting agency in international markets.

Export houses in India can play a big role as the Jetro of Japan, in professionalising international trade drawing long range plan to improve market resiliency of Indian goods. They can plan the market strategy and promote exports from small and medium industries. The recent trends in the canalisation of various sectors of exports have made it difficult for export houses to undertake long term planning with confidence. It is not advisable to disturb this normal trade channel on ideological grounds. Government must assure the export houses that their existence is not at stake.

Public Sector and Indian Exports

Public sector has been the king pin of all our developmental efforts. Its role cannot be
marginal or peripheral. It has to be all pervasive. Its growth has been spectacular during the plan period. The number of units in the public sector rose from five with a total investment of Rs.29 crores in the First Plan to 77 units in 1966-67 with a total investment of Rs.2841 crores. Any judgement of the public sector cannot be confined to a mere arithmetic totalling of our investment in this sector but to contribution in real terms in providing the sinews of future growth. The highlight of the growth of public sector during the plan period has been the big push it has given to import substitution during the first three plans and an export orientation from the fourth plan onwards. In fact there is no inherent conflict between the twin objectives of import substitution and export promotion in a country like ours. Indian economy will have to develop the requisite dynamism to integrate itself in global expansion of trade. We will have to continue imports while promoting exports.

Participation in the export field opens up new markets and introduces an element of efficiency in the entire working of the participating units. The export effort of our public sector units has to
be assessed from the point of view of (a) industrial units in the public sector engaged in manufacturing, and (b) concerns running services which can earn foreign exchange.

The Government policy since Independence has been to expand progressively the role of state agencies in the foreign trade of the country and to develop necessary experience within these agencies for this purpose.

A number of items have been canalised through the State Trading Corporation (STC), The Minerals and Metals Trading Corporation (MMTC) and other public sector agencies.

State trading agencies are handling about 70 per cent of import and about 15 per cent of export trade of the country. The STC alone handles import of 103 and export of 12 canalised items; MMTC handles import of 46 other items and export of seven items.

The Export Policy Resolution 1972-73

The Export Policy Resolution 1972-73 maintained that the role of the public sector in the development
and expansion of our foreign trade will be expanded progressively and substantially. Public sector agencies will provide leadership for the country's commercial effort and will co-operate with other export houses and agencies actively in attaining a standard of commercial efficiency comparable to the best in the world.

New Agencies

The State Trading Corporation set up in 1956 has been further expanded and several subsidiary agencies have been set up to handle important sectors of India's foreign trade.

1. The Handicraft and Handloom Export Corporation (HHDEC),
2. Project and Equipment Corporation,
3. Cashew Corporation of India,
4. Indian Motion Pictures Export Corporation,
5. The Industrial Raw Material Assistance Centre (IRMAC).

The last one IRMAC is an agency to help the small scale industrial units to obtain quickly certain types of raw material 'off the self'. It is functioning under the egis of the STC.
The Government has set up new agencies like,
1. Cotton Corporation of India,
2. Tea Trading Corporation, and

Trade Development Authority, which has been set up recently by the government, provides a package of services to the small and medium units to help them export a selected range of industrial products mainly to the markets in the affluent countries. Some non-commercial organisations for export promotion have been recognised by the Government. The Federation of India Export Organisations, Indian Council of Arbitration, Export Inspection Council, the Indian Institute of Packaging.

The Indian Institute of Foreign Trade is primarily concerned with promotion of exports. Its activities relate to training, general research and marketing research including market area surveys and commodity studies. Marine Products Export Development Authority is set up at Ernakulam for further development of the marine products industry with a view to making it export oriented. Export Processing Zone has been set up at Santa Cruz, Bombay. It aims at promotion
of exports of electronic equipments and components. The units admitted to the Zone are obliged to export cent percent of their production. The free trade zone at Kandla port is another institutional measure at making Indian exports more competitive in the world markets by bringing about a reduction in overhead costs through eliminating customs and excise duties and to stimulate the growth of processing industries for exports in that zone.

**STC's Organisational Structure - A Case Analysis**

These various institutions both commercial and non-commercial have been responsible in promoting the interests of our export trade. But there is need for some structural changes in the organisation of an important agency like the State Trading Corporation of India. Such changes relate to the trading techniques and practices of the STC in relation to the exports and imports. The organisation programmes and methods of work of its foreign offices, the administrative and organisation arrangements at the headquarters and its regional offices. Changes in the organisational structure involve a four fold approach of (1) Structural reorganisation, (2) A resystematisation, (3) A review of its boundary constraints and relations, and (4)
An operational policy philosophy. Changes in these directions will further enhance its ability to consolidate its achievements in various fields, viz., (1) Diversification of her exports both productwise and marketwise, (2) Innovation activities in arranging special trading arrangements, (3) As a pace setter in moving fast in tune with the times and in achieving a higher rate of growth, (4) As a prudent organiser in cutting across all sectors of the economy, (5) In efficient operation with larger turnover, lower but economic margins and optional costs, (6) In functioning as a search light for information through her 23 overseas offices, (7) As an international trader of repute and reliability in building up resources and development. In all these respects STC has made great strides.

Her trade turnover has increased manifold as is clear from the following figures (vide next page).
The expansion of STC's activities requires that it should make a continuous review of its organisational structure, its communication and accountability systems and its boundary relationships with government, Industry and the public at large. A regular internal review committee is quite essential. STC is continuously making efforts in starting off

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<td><strong>EXPORTS</strong></td>
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<td>STC</td>
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<tr>
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<td><strong>TOTAL TRADE</strong></td>
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<td>2976</td>
<td>3210</td>
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<tr>
<td>STC</td>
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<td>210</td>
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<tr>
<td>%</td>
<td>2.1</td>
<td>5.3</td>
<td>6.6</td>
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newer activities at divisional level. It must try to decentralise her activities by creating new subsidiaries instead of overburdening the activities of its divisions. The subsidiaries should be autonomous managed by their own boards, but they must be made responsible to the STC. STC should provide them policy guidelines, finance, common services, including specialist services in economies, operations research and market research.

The divisional activities of the STC also need reorganisation. It should provide increased operational delegation to branches, reserving policy and co-ordination to headquarters. STC should try to group its foreign offices under well defined regions from where they will receive guidance and specialist assistance. STC has been very practical in so far as it has shaped a system of performance budgeting giving trade and expense targets by divisions. The system is further refined to provide a commoditywise and territorial breakup to assist effective implementation. STC's system of renewing performance through a management information system including daily, weekly and monthly reports has earned appreciation from all.
Ministry of Foreign Trade

In our country the Ministry of Foreign Trade is the main government agency responsible for evolving and directing trade policies and efforts. The Ministry consists of the following eight divisions:

1. International Trade Policy Division,
2. Foreign Trade Territorial Division,
3. Export Products Division,
4. Export Industries Division,
5. Export Services Division,
6. Policy Planning and Co-ordination Division,
7. Personnel and General Administration Division,
8. Finance Division.

International Trade Policy Division

This division deals with the broad aspects of India's trade policy in relation to various international bodies like GATT, UNCTAD, ECAFE, etc. It also deals with regional groupings like ECM, EFTA, etc. The work pertaining to internal and international tariffs is also looked after by this division.

The Foreign Trade Territorial Division

This division looks after the work pertaining
to the development of trade with different countries and regions of the world.

Exports Products Division

The main task of this division is to attend to the problems connected with production, generation of surpluses and the development of markets abroad for different manufactures and commodities. This division keeps in close touch with different Ministries who are responsible for the different products in administrative terms. It tries to ensure that production is sufficient to realise the full export potential as also basic home consumption.

The Export Industries Division

This division deals with the development and regulation of those industries which have been entrusted to the Ministry under the Allocation of Business Rules. Textile industry for instance includes wool, silk, fibres, jute, coir, handicrafts and plantation industry includes tea, coffee, rubber and cardamom, etc.

The Export Services Division

It provides a variety of services to assist the exporters. These services include assistance and
incentives to exporters, quality control and preshipment inspection, exhibitions, publicity, market surveys, etc.

The Policy Planning and Co-ordination Division

This division occupies an important place in the evolution of policies, periodical evaluation and the review of policies. It also maintains co-ordination and contact with other divisions and other organisations which have been set up under the Ministry to assist the export drive.

The Personnel and General Administration Division

This Division deals with personnel and establishment functions. It also deals with allied functions such as career management, vigilance and security, protocol, welfare and public relations.

The Finance Division

It handles work relating to the budget and accounts of the Ministry, internal financial advice, organisation and management and work study.
The composition of the divisional structure of the Ministry of Foreign Trade shows a well thought out decentralisation of the foreign trade functions. This set up ensures a greater amount of efficiency and helps in identifying the appropriate areas for making them export oriented. The role of policy planning and co-ordination division particularly is more important since the entire range of work, viz., formulation of export policy, planning of export strategy and bringing about proper co-ordination between various divisions is entrusted to it. Specially trained experts are put on the staff of these different special divisions.