

Problems and Solutions of Export Promotion Measures in India

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Abstract

In the global economic environment of today, developing countries, including India, are facing throat-cut competition in international market. If India is to become a major player in the world trade, she needs to take a comprehensive view for the overall development of its foreign trade. Foreign trade policy and other economic policies must be coherent and consistent so that they may make maximum contribution to achieve the object. Importance of foreign trade policy and economic policies is duly recognized but without appropriate institutional support, these policies also may not bring the desired results. The process of economic reforms (Liberalization, Privatization and Globalization, collectively known as LPG model) and the increasing role of WTO have transformed almost all the sectors of Indian economy, including external sector. The rules of foreign trade game are being redefined, international business practices are changing and competition is becoming more intense. In this scenario, role of export promotion measures gets manifold. Thus, the support of export promotion measures and institutions becomes very important. Present study covers a study of export Promotion Measures in India. Objectives of these organizations and institutions have been studied and their working has been analyzed in the light of these objectives. How far these objectives been achieved and how far not, has been the main theme of study. Problems being faced by these organizations have also been studied. Sincere efforts have been made to give some practical suggestions to improve the working of these organizations.

1. INTRODUCTION

In the global economic environment of today, developing countries, including India, are facing throat-cut competition in international market. If India is to become a major player in the world trade, she needs to take a comprehensive view for the overall development of its foreign trade. Foreign trade policy and other economic policies must be coherent and consistent so that they may make maximum contribution to achieve the object. Importance of foreign trade policy and economic policies is duly recognized but without appropriate institutional support, these policies also may not bring the desired results. Thus, the support of export promotion measures and institutions becomes very important.

To encourage the growth of exports, Governments should provide business communities required support in various ways. Governments may have many different policies, programmes and activities

to help in developing competitive products and increase export sales.

2. ROLE OF EXPORTS IN ECONOMIC DEVELOPMENT

Economic prosperity of a country depends to a large extent upon its foreign trade and more particularly upon exports. Foreign trade is the foundation of economic structure of a country, particularly in the changing economic environment of today. It has become a necessity of the present day economic order. There are two legs of foreign trade: Exports and Imports. Imports are necessary to get what a country does not have and exports are necessary to pay for imports.

Both the developed and developing countries of the world stand on the same platform as regards the importance of exports. For a country of the size of India, exports are as important as blood for a human

being, For India, speedy industrialization is a must to solve her twin problems of poverty and unemployment. For speedy industrialization and transformation of economy, India requires an increasing inflow of essential imports such as raw materials, intermediaries and capital equipments. Imports are to be paid, in terms of foreign currencies and the easiest and natural way of earning foreign currencies is exports. Thus, for all reasons and by all means, exports are necessary. The countries like India have to adopt the strategy of export-led growth.

Export led growth is an appealing strategy for developing nations. In the early stage of development, a country needs to import real capital (machines), which often entails borrowing in a foreign currency. Exports allow the borrowing nation to earn the foreign currency required to service its external debt. This strategy is often successful—the USA is perhaps the best example that followed such a strategy in its early stages of development, at least over the short-run.

3. NEED OF EXPORT PROMOTION MEASURES IN INDIA

Increase in exports provides several benefits to exporters as well as the Nation. Export sector has been termed as a priority sector for Indian Economy. It is treated as an engine of economic growth and an instrument for employment generation. Government has made every possible effort to increase both the volume and value of exports. Better export performance leads to do industrial development, economic development, increased foreign exchange reserves, favorable balance of payments, etc. All these benefits may be available only when exports are made at large scale.

In the early 1960s, the slogan “Export or Perish” was coined by the then Prime Minister of India Pandit Jawaharlal Nehru. It is applicable even in the present economic conditions of India with a little change i.e., “Globalization or Perish”. Therefore, export promotion has been rightly accepted as a national challenge and is attracting top priority in the country to take effective steps in the right direction to achieve the object of economic growth and prosperity.

4. REVIEW OF LITERATURE

In the present era of economic liberalization and globalization, scenario of foreign trade is changing rapidly and continuously. Competition at international level is going to be more and more though. In such situations, all the countries, particularly developing countries like India, have to create and sustain the strategies and measures that may accelerate the rate of growth and development and promote exports.

Vohra (2001) showed the relationship between the exports and economic growth in India, Pakistan, Philippines, Malaysia, and Thailand for the period 1973 to 1993. Raju and Kurien (2005) analyzed the relationship between exports and economic growth in India over pre-liberalization period 1960-1992, and found strong support for unidirectional causality from exports to economic growth. Anwer and Sampath (2001), also found evidence against the ELG hypothesis for India. Sharma and Panagiotidis (2005) tested the export-led growth hypothesis in the context of India, and the results strengthened the arguments against the export-led growth hypothesis for India.

The process of economic reforms (Liberalization, Privatization and Globalization, collectively known as LPG model) and the increasing role of WTO have transformed almost all the sectors of Indian economy, including external sector. The rules of foreign trade game are being redefined, international business practices are changing and competition is becoming more intense. In this scenario, role of export promotion measures gets manifold. All the organizations and institutions engaged in export promotion activities, must evaluate: where they are, where they have to go, what are their strengths and weaknesses, how can they adopt the changing opportunities. No known literature is available covering all these aspects of export promotion measures. No systematic effort has been made to study and analyze export promotion measures from this angle. Therefore, there is a need that a systematic study should be made on the topic.

5. DIRECTION OF INDIA'S EXPORTS

By direction of export trade, we mean the countries to which we export goods and services. India

has trading relations with a large number of countries. The process of liberalization and world trade dynamics have brought out major shifts in the directional pattern of India's foreign trade. For the purpose of direction of exports, the countries to which India exports, are broadly divided into five groups that is—

- ❖ Organization for Economic Co-operation and Development (OECD) comprising of USA, Canada, European Union, Australia and Japan.
- ❖ Organization of Petroleum Exporting Countries (OPEC) which includes Kuwait, Iran, Iraq, Saudi Arabia, UAE and others.
- ❖ Eastern Europe which includes Russia, Georgia and others.
- ❖ Developing countries of Asia, Africa, Latin America and Caribbean.

6. EXPORT PROMOTION INSTITUTIONS IN INDIA

India has a wide network of institutions and organizations engaged in export promotion activities. Important ones are as follows—

- ❖ Ministry of Commerce, Government of India—To formulate and implement trade policies, to develop Commercial relations with other countries, and to Promote State Trading, etc.
- ❖ Export-Import Bank of India (EXIM Bank)—To Co-ordinate the working of institutions engaged in financing exports and imports and to facilitate the foreign trade in India.
- ❖ Bureau of Indian Standards (BIS)—To prepare and promote Indian Standards (ISI, AGMARK, etc.), to inspect the articles or processes under certification, to undertake laboratory testing and international activities relating to quality Standards.
- ❖ Export Inspection Council (EIC)—To develop exports through quality control and reshipment inspection.
- ❖ Indian Institute of Packaging (IIP)—To improve the standards of packaging of Indian export goods and to sustain appropriate improvement in the standards of packaging.

- ❖ Federation of Indian Export Organization (FIEO)—To provide the direction and thrust to India's exports and to represent the Indian export promotion efforts in their entirety and to represent the exporters across India.
- ❖ Federation of Indian Chamber of Commerce & Industry (FICCI)—To protect and promote the interests of Indian business community, to work as an interface between the industry and Government and to help India in becoming a major international player.
- ❖ India Trade Promotion Organization (ITPO)—To provide broad spectrum of services to trade and industry so as to promote Indian exports, to organize trade fairs and exhibitions, and to ensure the representative participation of trade and industry from different parts of country at its events in India and abroad.
- ❖ Indian Institute of Foreign Trade (IIFT)—To strengthen the country's foreign trade through Human Resource Development (HRD), and to undertake research and consultancy in different areas of international trade.
- ❖ Marketing Development Assistance (MDA)—To Stimulate and diversify the Country's exports, to assist individual exporters for export promotion activities, and to assist consortium marketing approach abroad.
- ❖ Commodity Boards—To produce, develop and export their respective commodities, to advise Government of India on export matters, and to assist the exporters.

7. EXPORT PROMOTION COUNCILS (EPCs)

The EPCs are non-profit organizations registered under the Companies Act or the Societies Registration Act, as the case may be.

The EPCs shall be autonomous and regulate their own affairs. However, if the Central Government frames uniform bylaws for the constitution and/or for the transaction of business for EPCs, they shall adopt the same with such modifications as Central

Government may approve having regard to the special nature or functioning of a particular EPC. The EPCs shall be required to obtain the approval of the Central Government for participation in trade fairs, exhibitions, etc. and for sending sales teams/trade delegations abroad. The Ministry of Commerce and Industry/ Ministry of Textiles of the Government of India, as the case may be, would interact with the Managing Committee of the Council concerned, twice a year, once for approving their annual plans and budget and again for a mid-year appraisal and review of their performance.

In order to give a boost and impetus to exports, it is imperative that the EPCs should function as professional bodies. For this purpose, executives with a professional background in commerce, management and international marketing and having experience in Government and industry, should be brought into the EPCs.

8. EXPORT PROMOTION AND RELATED ISSUES

- ❖ 'Foreign Trade Policy, Known as EXIM Policy, governs exports from and imports into the country. It is an important tool of economic development, especially in the post-reforms period. It provides a direction to Government, trade and industry. Till March, 1985, India's EXIM Policy used to be announced on yearly basis. For the first time, a three year policy was announced for 1985-88. Five year policy was announced on March 31, 1992 for the first time. Latest policy in this series is the EXIM Policy 2009-14.
- ❖ Special Economic Zones (SEZs) are being set up with a view of enabling free manufacturing and trading activities for the purpose of exports. These zones are free from rules and regulations governing exports and imports. SEZs are treated as if they are outside the custom territory of the country.
- ❖ Export Oriented Units (EOUs) are the 100 percent export oriented units. Government announced a scheme in December, 1980

offering various facilities and incentives to such units. These units are offered single-point clearance regarding industrial licensing, foreign collaborations, etc.

- ❖ Export Processing Zones (EPZs) have been set up to facilitate free imports and exports. The first EPZ was set up at Kandla in 1965. Each zone provides basic infrastructural facilities so that they may meet and face international competition in terms of price, quality and delivery, etc.
- ❖ World Trade Organization (WTO), evolved under GATT, started functioning since 1st January, 1995 with the primary object of promoting international trade. Several agreements have been signed by the member countries of WTO. India, being the founder member of both the GATT and WTO, cannot remain unaffected by these agreements. Export potential of India has been and is being significantly influenced by WTO agreements.

9. PRESENT PROBLEMS FACED BY INDIAN EXPORTERS

At present, Indian exporters face a number of problems / difficulties. These problems demotivate the business firms to enter into foreign markets. Important problems/difficulties faced by Indian exporters in exporting their goods and services are as follows:

- (a) **Recession in World Market**—The world market faced recession in 2008 and in the first half of 2009. The recession was triggered due to sub-prime crisis of USA in September 2007. Due to recession, the demand for several Indian items such as Gems and Jewellery, Textiles and Clothing and other items were badly hit. During recession, exporters get low orders from overseas markets, and they have to quote lower prices. Therefore, exporters get low profit or suffer losses.
- (b) **Technological Differences**—Developed countries are equipped with sophisticated technologies capable of transforming raw

materials into finished goods on a large scale. Less developed and developing countries, on the other hand, lacks technical knowledge and latest equipments. Therefore, they have to use their old and outdated technologies. It leads to lopsided development in the international market.

(c) **Reduction in Export Incentives**—Over the years, the Govt. of India has reduced export incentives such as reduction in DBK rates, withdrawal of income tax benefits for the export of a number of products, etc. Reduction in export incentives demotivates exporters to export in the overseas markets.

(d) **Severe Global Competition**—Export marketing is highly competitive. This competition relates to price, quality, production cost and sales promotion techniques. Indian exporters face throat-cut competition while exporting. This includes competition from domestic exporters, local producers where the goods are being exported and finally from the producers of competing countries at global level. Such competition is a special problem being faced by Indian exporters.

India is facing stiff competition from China in the world markets, especially in OECD markets. As a result, India's share of exports in OECD countries has declined from 53% of total exports in 2000-01 to about 38% in 2007-08. Some of the Indian exporters have lost their overseas contracts due to cheap Chinese goods and supplies. This is also a major problem of exporters.

(e) **Problem of Product Standards**—Developed countries insist on high product standards in comparison to developing countries like India. The products from developing countries like India are subject to product tests in the importing countries. At times, the importing countries do not allow imports of certain items like fruits, textiles and other items on the grounds of excessive toxic content. Therefore, Indian exporters lose markets especially in developed countries.

(f) **Fluctuations in Exchange Rate**—Every country has its own currency which is different from international currencies. Dominant international currencies are US dollar or Sterling Pound. From the point of view of Indian exporters, we are interested to realize the payment in international currency. Foreign exchange earned by the operators is converted into Indian Rupees and paid to exporters in Indian currency; this exposes the exporters to the danger of fluctuation in foreign exchange rates.

(g) **Problems of Sea Pirates Attacks**—A major risk faced by international trade is the possibility of attack by pirates in the Gulf of Aden. More than half of India's merchandise trade passes through the piracy infested Gulf of Aden. New exporters and importers are facing problem, because of increased pirate attacks as they find it difficult to get insurance cover.

(h) **Problem of Subsidies by Developed Countries**—A number of developed countries like USA provide huge subsidies to their exporters. For example, in case of agricultural exporters, USA, UK and other countries provide huge subsidies to their exporters. Therefore, the exporters of developing countries like India find it difficult to face competition in world market.

10. SUGGESTIONS FOR IMPROVING EXPORT PROMOTION MEASURES

(a) States should play active role in promoting exports. State Governments should co-ordinate with Central Government on all the issues related with foreign trade. Also there must be real and effective partnership between public and private sectors.

(b) Government should activate Embassies as key players in export strategy for real time trade intelligence and enquiry dissemination.

(c) Attempts should be made to unshackle exports from redundant procedural controls in a bid to

reduce the transaction cost. The community of status-holding exporters should be broadened by lowering the threshold for being a status holder exporter.

- (d) Effective integration and co-ordination between the institutions engaged in export promotion is quite necessary and so must be fostered. Not only there must be such integration between the institutions within the country but also be associated with apex international organizations to learn from the success stories of others. It may provide a platform for professional exchanges.
- (e) Institutions engaged in export promotion must periodically and systematically evaluate the results and effects of export promotion programmes initiated by them. They must assess what impact, their export promotion programmes have on the export performance of companies and India as a whole. Also they must assess whether the assistances provided by the programmes are directed so as to best meet companies' needs or not. For example, British Overseas Trade Board (BOTB) is the umbrella organization which guides and supervises Government export promotion. Its services are most comprehensive of all industrialized nations. Programme evaluation is done periodically at BOTB to indicate, how export services can be provided more cost effectively and how the allocation of resources to services can be improved etc. Eight of BOTB's 18 main services are evaluated by independent consultants.
- (f) Export promotion programmes should focus on the type of users, whether a particular user is 'first time exporters' or 'expanding exporter' or 'continuing exporter', etc. Since many a times 'first time exporters' need more assistances as compared to the existing exporters, so the programme must be directed accordingly. To facilitate this, concerned institutions should maintain an authentic and reliable data-base which can be shared between different export promotion institutions.
- (g) Tax incentives should be provided for innovations and exports.
- (h) Export support programmes should place greater emphasis on the needs of small firms as many such firms are unaware of programmes run by different institutions.
- (i) The National export goal must be explicitly stated. A permanent National Export Council should be established.
- (j) Co-operation among exporters must be fostered so as to check unethical practices and to minimize the risk of insolvency. For example, if healthy cooperation exists among exporters, information about the fraud buyer can be communicated easily to all and this will save other exporters from becoming the victim of same.
- (k) Training Programmes should be prepared for exporters. Training on various dimensions of exports and international trade should be imparted to entrepreneurs. Special training programmes should be prepared for traditional exporters and small exporters as the awareness about latest and current export practices is very low among them.
- (l) Institutions engaged in export promotion activities should strengthen their network. Wherever required, they should establish their offices and should recruit agents or representatives for providing the services efficiently, effectively and on time.
- (m) Institutions should encourage and help the exporters to get quality certification (ISO 9000) and other common certifications (like ISO 14000, ISO 18000, etc.).
- (n) Buyer-Seller Meet must be organized for small exporters regularly.
- (o) The process of release of MDA grant takes almost 6-8 months. This time should be reduced. Equal benefits should be provided to both the merchant and manufacturer exporters.

- (p) Local authorities and local promotional agencies should improve their work process to help exporters and to avoid unnecessary delays.
- (q) Indian institutions engaged in export promotion should learn from success stories of institutions abroad.



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