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Trade Facilitation in India: An Analysis of Trade Processes and Procedures

by

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Executive Summary

Moving goods across borders requires meeting a vast number of commercial, transport and regulatory requirements. Inefficiencies in complying with these requirements often create unnecessary delays and costs. A source of tremendous inefficiencies is associated with the preparation of transport and regulatory documents, unclear border procedures, and overzealous cargo inspection. We need to understand how much these add to the costs of doing business across border and which way they affect the growth in trade. Besides, estimating time and costs of the procedures and processes would help policy makers and other stakeholders to enhance the regional and global trade. This study undertakes Business Process Analysis (BPA) to help assess the trade processes and procedures. One of the research objectives in BPA is to identify administrative and procedural barriers that unnecessarily impede the participation of more firms and more countries in regional and global trade, and propose solutions.

Our BPA covers India's exports of cotton yarn to Bangladesh, fresh vegetables to Gulf and fruits to EU, and India's import of rubber tyres from Sri Lanka. The BPA maps show total time taken to complete the export procedures is about 31 days, which is very high compared to any international benchmark. The maximum time goes into getting payment from Bangladeshi importer, whereas transportation of goods comes next to it. The whole process costs an average of US$ 542 per container, of which insurance and inland transportation cost are the major components. This study also suggests that besides tariff, bottlenecks are in inland transportation, customs clearance and getting payment from importer.

Unlike export of cotton yarn, the export of vegetables to Gulf is not executed through letter of credit or advance payment. However, the export of fruits to EU is done on the basis of advance payment in our particular case study. It takes about 29 days for export of vegetables and 33 days for export of fruits till the payment is received from the importers. The maximum time goes into sending the goods from India to EU, whereas payment comes next to it. In case of export of vegetables, getting payment from importer takes the most of the time, whereas transportation time comes next to it. The whole process of exporting vegetables costs an average of US$ 1573 per container, whereas the average cost is US$ 2031 per container in case of export of fruits to EU. However, in both cases, transportation cost (domestic and international) has been the major trade barrier. The time-procedure charts show that total time taken to complete the trade procedures is about 29 days for vegetables and 33 days for fruits. It also suggests that bottlenecks are in transportation, customs clearance and getting payment from importer.

In case of import of rubber tyres from Sri Lanka, the trade processes and procedures are relatively simple. The import procedure of rubber tyres consists in placing order from Indian office to Sri Lankan subsidiary, clearing custom at Indian port, unloading the goods and inland transportation. It takes about 17 days to import rubber tyres from Sri Lanka including settling the payment. Contrary to popular belief, the maximum time actually goes into making the payment. Cost of inland transportation is also major barrier to trade. The whole process of importing rubber tyres costs an average of US$ 360 per container with a maximum and minimum range of US$ 393 and US$ 326, respectively. Overall, the time and cost of trade processes and procedures estimated in this study call for greater attention to trade facilitation.

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1. Introduction

Countries across the world have been affected by the outgoing global economic and financial crisis. India is no exception. India's exports have suffered a decline in the last one and a half years due to a contraction in demand in the traditional markets of Indian exports. Before the crisis turned severe, Indian exports witnessed a robust growth and reached a level of US$ 168 billion in 2008-09 from US$ 63 billion in 2003-04. India's share of global merchandise trade also increased to 1.45 percent in 2008 from 0.83 percent in 2003.[1] Indian agriculture sector could not escape the heat of the global financial crisis; its export decelerated by 23.46 percent in 2009, compared to 2008[2]. However, export of agriculture continued to play an important role. India still is one of the leading net exporters of agricultural products in the world. In 2009, India had an export of US$ 16.66 billion of agricultural products in 2009, sharing 1.43 percent of world exports in agricultural goods.[3] The share of agricultural exports in the country's total exports has marginally increased to 10.59 percent in 2009-10 from 10.22 percent in 2008-09. However, agriculture's share in country's total merchandise export has been hovering around 10-12 percent since 2004-05. The paradox is while India is a large, low cost agricultural producer, its share in global agriculture exports is minuscule. India produces nearly 11 percent of all the world's vegetables and 15 percent of all fruits, yet its share in global exports of vegetables is only 1.7 percent and in fruits a small 0.5 percent.[4] To reap the benefits of global market, a group of literature concludes that more efficient supply chains and better access to services will make Indian agriculture globally competitive and create the conditions for mutually beneficial trade negotiations. To a great extent, simplification of trade processes and procedures is envisaged as key to improving competitiveness of agricultural exports from India.

India announced the Foreign Trade Policy 2009-2014 (FTP), and the country aims to arrest and reverse the declining trend of exports and to provide additional support

[1] Calculated based on Export – Import Databank, Ministry of Commerce & Industry, Government of India.
[2] Refer Table II.15, International Trade Statistics 2010, World Trade Organisation (WTO).
[3] Ibid
[4] Refer, for example, World Bank (2007)

especially to those sectors which have been hit badly by recession in the developed world. By 2014, India expects to double its exports of goods and services in the world market (Government of India, 2009). In order to bring down transaction costs, two important policy measures undertaken through FTP 2009-2014 are procedural rationalization and improvement in infrastructure related to exports. Nonetheless, importance of trade costs in enhancing India's trade is thus realized by the policy makers, perhaps for the first time ever since India embraced to globalisation process (see Box 1).

Box 1: Report of the Task Force to Reduce Transaction Costs

Exporters incur transaction costs not only in transportation of goods to various destinations and dealing with banks, but also in complying with various laws and procedures, besides meeting onerous documentation requirements. Government of India constituted a task force to rationalise trade process in India. The report of the task force to reduce transaction costs in exports, released in February 2011 by the Commerce and Industry Ministry, Government of India has recommended certain measures that are expected to save Rs 210 billion (about US$ 450 million) for exporters every year. This amount represents about 0.02 percent of India's exports where exporters suffer transaction costs to the extent of 7-10 percent of exports. The task force report identified 44 issues, where closure has been achieved on 23. Some of these relate to standardisation of charges across ports, rationalisation of freight rates charged by the Container Corporation of India, single-window facility to business users in place of the present method of going to the independent systems of each partner agency in the e-Trade project, extension of single-bond facility for Customs, upgrade of facility at plant quarantine stations and its availability round-the-clock at select Customs stations, reduction in screening charges for air cargo and express cargo, reduction in charges for booking foreign currency, pre-shipment credit in foreign currency at lower rates, etc.

Source: Ministry of Commerce and Industry, Government of India

While India's exports are directed to traditional developed markets, emerging developing countries have become India's major trade partners (e.g. China). There has been a compositional change in India's trade during the last decade and a half in terms of commodity groups and trading countries. India's exports in 2008-09 were primarily driven by machinery and mechanical appliances including electrical machinery and equipment (8.32 percent), iron and steel and their products (8.11 percent), apparel and clothing (7.61 percent), and organic chemicals (4.40 percent), if we keep aside minerals and gems and jewellery.[5] On the other, India's imports are driven by intermediate and finished goods, keeping aside minerals and gems and jewellery. For example, machinery and mechanical appliances including electrical machinery and equipment (11.43 percent), iron and steel and their products (4.69 percent), organic and inorganic chemicals (5.36 percent), and plastic and articles (1.41 percent) were the major commodity groups imported by India in 2008-09.[6] India's trade is likely to witness a major shift in the short to medium term, perhaps due to burgeoning global demand. At the same time, sustaining the trade needs lower trade costs. What is important is how India could bring down those trade costs elements which are critical to India's trade.

Moving goods across borders requires meeting a vast number of commercial, transport and regulatory requirements.[7] Inefficiencies in complying with these requirements often create unnecessary delays and costs. A source of tremendous inefficiencies is associated with the preparation of transport and regulatory documents, unclear border procedures, and overzealous cargo inspection. We need to understand how much these add to the costs of doing business across border and which way they affect the growth in trade.[8] Therefore, there is a need to conduct a detailed analysis of procedures and processes involved in India's trade with South Asia and Southeast Asia. Besides, estimating time and costs of the procedures and processes would help policy makers and other stakeholders to enhance the regional and global trade. Business Process Analysis (BPA) is one such technique which helps assess the trade processes and procedures.

One of the research objectives in BPA is to identify administrative and procedural barriers that unnecessarily impede the participation of more firms and more countries in regional and global trade, and propose solutions. As the growing body of research and surveys of those engaging in trade have made it clear, the situation varies greatly across products traded, as well as trade route, origin and destination of these products.

[5] Data taken from Export Import Databank, Ministry of Commerce and Industry, Government of India.
[6] Ibid
[7] Refer, for example, Duval and Utoktham (2009)
[8] Refer, Duval and Utoktham (2011) which attempted to asses the trade facilitation benefits in Asia and the Pacific region.

Undertaking deeper analysis of the processes small and large firms face when engaging in international trade in various industries may provide useful insights and more practical and specific policy recommendations.

Given above, we propose to conduct the BPA for trade in intermediate and final products of India's exports of cotton yarn, and vegetables and fruits, and import of rubber tyres. The reason for selecting the aforesaid major commodity groups is that the trade in these commodities is very likely to be facilitated by tariff liberalization. Therefore, it is important to understand the detailed procedures and processes including time and costs involved in trade of these major commodity goods, on which India has been gaining comparative advantages.

The UNNExT/UNESCAP/UNECE Business Process Analysis (BPA) Guide to Simplify Trade Procedures has been used as the core methodology for this study.[9] We have attempted to provide a detailed outlook of the process mapping of how each of the documents involved in the transaction are processed [and the various actors involved in the process] and the amount and type of time and cost associated with them.

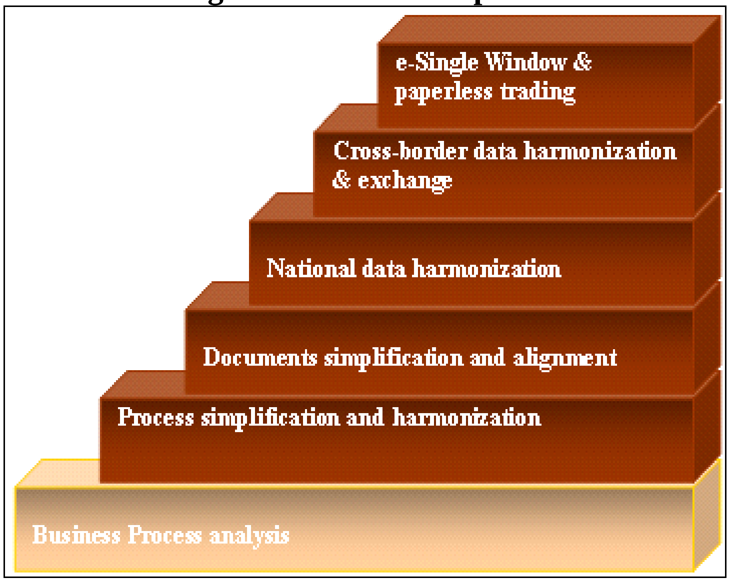
As noted in UN (2009), to reduce the complexity of the international trade transaction and thus costs related to it, UN/CEFACT recommends the implementation of the following measures:[10]

- The simplification and harmonization of trade procedures and where possible, eliminate unnecessary ones;
- The simplification and coordination of administrative procedures at border crossings;
- The simplification of payment systems;
- The simplification, standardization and harmonization of documents required for a trade transaction;

[9] For further technical details of BPA, please refer UN (2009).
[10] See, for example, UNECE (2006).

- The facilitation of flow of information that controls the movement of goods throughout the transaction (e.g. by applying information and communication technology); and
- The enhancement of trust assessment through a better exchange of information.

Figure 1: Electronic Single Window and Paperless Trade Environment



Source: UN (2009)

International trade transaction encompasses several activities related to trading across border. In one hand, it covers trade procedures relating to commercial, transportation, financial and regulation, while, on the other, it deals with actors and stakeholders engaged in international trade such as traders, government agencies and services providers, to mention a few (UN, 2009). A smooth and simplified trade operation needs wholehearted cooperation among all the actors and stakeholders. As