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Impact of IT related Trade Facilitation Measures on SMEs: An Overview of Indian Experience

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Executive Summary

Following widespread economic reforms, India undertook focused and dedicated trade facilitation (TF) initiatives for improving infrastructure and the regulatory regime dealing with its external sector. Information technology (IT) and information technology enabled services (ITES) are prominently placed centre-stage of the trade process reforms. The Central Board of Excise and Customs (CBEC) spearhead the TF initiatives, supplemented by the Information Technology Act (2000) and *eTrade Initiative* of the Ministry of Commerce and Industry (MoCI). Wide coverage of the EDI/ICEGATE system and introduction of RMS are some of the key achievements, apart from new efforts to improve inter-agency connectivity through a centralized server of CBEC. These initiatives have contributed to a reduction in dwell time across ports and at air cargo points. The Systems Unit of the Customs Department periodically releases dwell time improvement details which helps the trading community in a major way. However, as this study and survey shows, the gains are not equally distributed across the trading community.

Despite of 'full' automation of the cargo clearance process, constant personal follow-up at various stages is still needed, which small and medium enterprises with a low volume of trade find it difficult to pursue. This leaves SMEs with very little option but to rely on CHAs, which has its own implications for transaction costs. Moreover, in India some of the key legislations are also not SME friendly, for instance, the customs automation programme does not distinguish between small and large players, despite SMEs contribution in India's trade being consistently above the 30 per cent mark. At present, in certain schemes the requirements are so structured that SMEs are kept out of the purview of the legislation. For instance, the recently introduced accredited clients programme (ACP) focuses on the requirements of only large firms. The criteria for designation of SMEs in India is from Rs 2 million (USD 0.04 millions) to Rs. 100 million (USD 2.25 million) while the minimum turnover required for ACP programme is Rs. 100 million (USD 2.25 million). Even the duty payment criteria required to qualify for ACP is of Rs. 10 million (USD 0.22 million), which barely any SME is able to pay. The CBEC has support programmes for CHAs but if a similar facility can be extended to atleast select SMEs, it may probably inspire and encourage other SMEs to directly file their own trade documents and thereby transfer the advantages of automation to SMEs as well.

I. Introduction

In the early nineties, India launched a comprehensive economic liberalization programme which was supplemented by the introduction of various trade facilitation (TF) measures, including efforts to improve cargo clearance, through the introduction of automation-related initiatives. The introduction of the Information Technology Act (2000), which proposes institutional support to ensure commitment for e-governance and provided a major policy impetus for TF. This led to the establishment of a Certificate Authority for accepting electronic signatures and boosted the growth of Information Technology services and IT Enabled Services (ITES) in the trade sector. Further thrust for trade facilitation in India, came through the Budget Speech of the Union Finance Minister (1999-2000) that articulated the necessary political will for launching various TF measures. The Minister announced the setting up of a Task Force on Indirect Taxes chaired by Mr. Vijay Kelkar (Kelkar Committee). The Task Force, in its report, suggested a major automation programme for the customs department. The Information Technology Act 2000 has empowered the Central Board of Excise and Customs (CBEC) to issue digital signature certificates which would make it possible to provide legal validity to the electronic declarations.¹ The Ministry of Finance later in 2004 constituted a Working Group headed by Jayanta Roy on Trade Facilitation (WGTF) to suggest a roadmap for developing a comprehensive action plan for trade facilitation. It suggested evolving specific policy instruments that related to dwell time, greater automation and other issues to improve the efficacy and effectiveness of the Indian trade facilitation measures. Since October 2004, when the WGTF gave its report, the CBEC has implemented several measures.

In the Indian context several studies like Chaturvedi (2007), Taneja (2004) and Sengupta (2003) have assessed the adoption of TF measures on the government's functioning from various stand-points. There are apparently no studies on the implications of TF measures for the private sector, particularly, for small and medium enterprises (SMEs). In 2006, the Committee on Infrastructure chaired by the Prime Minister constituted an Inter-Ministerial Group (IMG) to suggest ways and means for reducing dwell time for cargo clearance² but its focus was not on how SMEs or the private sector for that matter cope-up with the new working environment vis. a vis. customs and other agencies. In this context, the debate at the WTO negotiations becomes equally interesting. The European Communities and Switzerland have been raising the issue of equal and transparent treatment for customs brokers, particularly for the new entrants.³ The EC in another proposal with Mongolia delineated specific criteria for authorised traders such as, an appropriate record of compliance with customs requirements; a system of managing records to allow for necessary controls; financial solvency (including, where appropriate, provision of a sufficient security/guarantee); and an appropriate system of security and safety standards.⁴

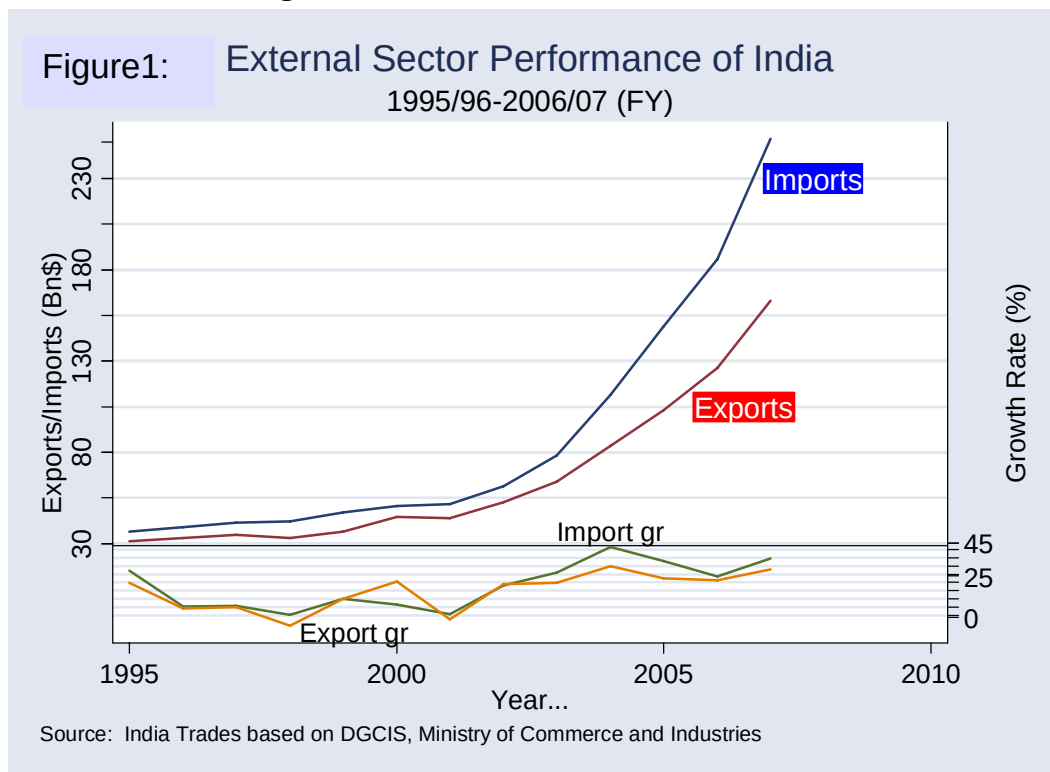
Some of these issues are discussed in the following sections. The second section deals with the role of SMEs in exports while Section III details evolution in the use of IT

for cargo clearance. Section IV examines the impact of IT trade facilitation measures on SMEs. The final section draws the discussion to a conclusive point/culmination.

II. External Sector and Role of SMEs in India

The Indian economy embarked on a high growth path since the beginning of its reform programme in the early nineties. India's external sector performance has been robust since the beginning of the economic reforms, and received further impetus during the early part of the new millennium. The overall growth performance of the sector was more profound in the present decade as shown in Fig. 1. The external sector expanded at an average rate of 25.6 per cent during 1999-01 over 2005-07 in dollars terms, and at the rate of 20.9 per cent in rupee terms during the same period. The value of merchandise exports reached US \$ 162 billion in 2007-08 (see Fig. 1). Similarly, merchandise imports grew by 24.5 per cent to US \$ 251.5 billion in 2007-08.

Figure 1: External Sector Performance of India



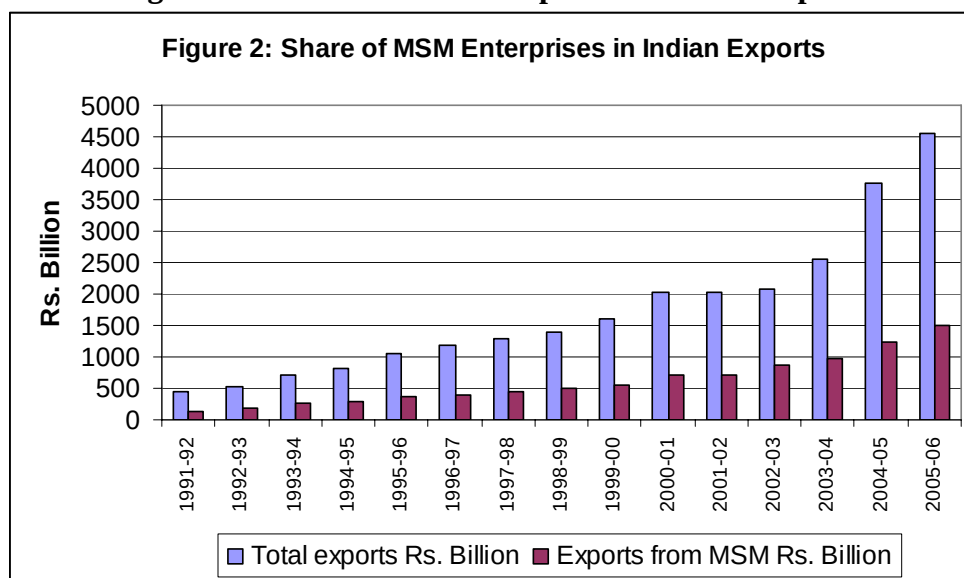
In the Indian economy, SMEs play an important role in the country's economic growth and trade. Recently, the Indian government has restructured the ministries dealing with small and medium enterprises by amalgamating the Ministry of Small Scale Industry and the Ministry of Agro and Rural Industries.⁵ The new establishment is known as the Ministry of Micro, Small and Medium Enterprises (MMSMEs). As is clear from Table 1, the micro, small and medium enterprises are defined differently for the manufacturing and services sectors under the Micro, Small and Medium Enterprises Act, 2006.

Table 1: Definition of MSM Enterprises

	Investment in plant and machinery/equipment (excluding land and building)	
	Manufacturing Enterprises	Service Enterprise
Micro	Up to USD 0.056 million	Up to USD 0.02 million
Small	More than USD 0.056 million and up to USD 1.12 million	More than USD 0.02 million and up to USD 0.45 million
Medium	More than USD 1.12 million and up to USD 2.25 million	More than USD 0.45 million and up to USD 1.12 million
Source: Government of India, Ministry of Small Scale Industries, Annual Report (2006-07).		

The Micro, Small and Medium Enterprises are playing an important role in the Indian economy. It is estimated that in terms of value, the sector accounts for about 39 per cent of the manufacturing output and around 33 per cent of the total export of the country.⁶ It has also shown a higher growth rate compared to the overall industrial sector.⁷ A major advantage of the sector is in terms of employment potential, as it is estimated to have 31 million persons spread over 12.8 million enterprises. As is clear from Fig. 2, the MSM enterprises have continuously contributed towards expansion of exports from these units.

Figure 2: Share of MSM Enterprises in Indian Exports



Source: MoF (2008) and MSME (2007).

Further, MSM enterprises have continued to enjoy exclusive manufacturing rights over several items since the last several years. However, over the period of liberalization the list with exclusive areas for MSMEs has been reduced. Initially, there were more than 800 items listed but now this has been reduced to 21 items which include items such as PVC pipes, rolling shutters, steel furniture, padlocks, laundry soaps and utensils.⁸

III. Evolution in the Use of IT for Cargo Clearance

The Central Board of Excise and Customs (CBEC) is the nodal agency under Ministry of Finance, which is spearheading the customs' automation programme in a major way. The CBEC maintains a comprehensive website which contains detailed information on all the acts, rules, regulations, circulars and CBEC notifications issued from time to time. Over 30,000 pages covering these details are posted on the website. Apart from this, there is a powerful search facility for extracting relevant information made available on the site. The CBEC released a 'Vision and Strategy Document' in 1998, emphasizing commitment to TF through a practical and pragmatic approach. Adoption and application of information communication technology (ICT) is the major plank of the Indian Customs' initiatives to expedite the clearance of import and export cargo and provide a fool-proof paperless system of assessment and clearance. India has launched trade enabling policy reform. In this context, it has initiated various efforts including the setting up of 'ICEGATE', 'eTrade' and 'eBiz' under the National e-governance programme (see Table 2).

Table 2: Various Trade Automation Initiatives in India

S.N.	Initiatives	Parent Department	Year	Coverage
1	ICES	CBEC, Ministry of Finance	1992	Specific customs locations
2	ICEGATE	CBEC, Ministry of Finance	1995	Integrated customs network
3	eTrade	Ministry of Commerce and Industry	1997	Compatibility between various trade agencies
4	ACP/RMS	CBEC, Ministry of Finance	2005	Compliant large traders
5	PCS	Indian Port Association, Ministry of Shipping	2008	Integrates all the major ports and all the major actors at the port

Source: Compiled by Author.

III.1 Initiatives by CBEC

The CBEC has received approval in December 2007 from the Cabinet Committee on Economic Affairs (CCEA) for a major IT consolidation programme. This approval of USD 134 million is for the creation of a consolidated computing infrastructure for Customs, Central Excise and Service Tax applications, which would lead to the establishment of a centralized server, instead of separate servers for each of the automated centres.⁹ At present there are 40 automated centres. The scheme envisages the

establishment of central servers and storage area networks along with disaster recovery infrastructure with the capacity to handle all transactions relating to customs, central excise, service tax and a data warehouse. The benefits of the scheme include better service levels to trade and would also help CBEC in maintaining a more comprehensive information system. This project would be implemented by December 2009. The new system will integrate different agencies for example, the Directorate General of Foreign Trade (DGFT), Directorate General of Commercial Intelligence and Statistics (DGCIS), Container Corporation of India (CONCOR), Central Board of Excise and Customs, carriers and custodians for ports/ airports/ ICD's, etc.

Indian Customs EDI System (ICES)

The Custom's automation programme was initiated in 1995 with the launching of the Indian Customs EDI system (ICES) at Delhi and later (1996-97) was extended, as a stand alone facility at 23 locations. At present, it is functioning at 40 customs' locations covering over 85 per cent of country's foreign trade. These include customs stations at various airports, sea ports, land customs stations and Inland Clearance Depots (ICDs). At the automated locations, 96 per cent of the export and 97 per cent of the import documentation is processed (submitted and approved) electronically. According to the data provided by CBEC more than 6.5 million documents are being processed annually on the system which constitutes almost 85 per cent of the total trade transactions. There are several novel features which have been introduced as a part of the ICES programme. For instance, the filing of a separate drawback claim by exporters is not required as the drawback claim is credited to the exporter's bank account anywhere in India.

Indian Customs and Excise Electronic Commerce/Electronic Data Interchange Gateway (ICEGATE)

CBEC further took steps to improve connectivity and achieve compatibility within the custom's stand alone locations by launching ICEGATE in 2002. This facilitates remote filing of import and export declarations by the importer/exporter/ CHA through the ICEGATE portal.¹⁰ On an average, about 18000 to 20000, import and export declarations are being filed daily using the ICEGATE facility. All the airlines are filing their import and export manifests using this system. Further, Consol manifests are also being filed by forwarders. The facility of 'round the clock' electronic filing of custom's

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