ARGRAM 341 DEPARTMENT OF STATE

Pg. 3860384 (2)

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TO - AID/W TOAID A- 236

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DATE SENT
8/11/67

FROM - New Delhi

SUBJECT - PROP ~~&PPP~~ EXPORT PROMOTION

37p.

REFERENCE -

NON-CAPITAL PROJECT PAPER (PROP) & PRELIMINARY PROJECT PROPOSAL (PPP)

Country: India

Project No: 386-15-260-384

Submission Date: August 11, 1967

Original

Project Title: Export Promotion

U.S. Obligation Span: FY 1968 through FY 1971

Physical Implementation Span: FY 1967 thru FY 1972

Gross life-of-project financial requirements:

U.S. Dollars: [illegible]

~~Counterpart currency~~ $40,000,000 DL

U.S.-controlled local currency (Trust Fund): $817,000 (Equiv. of Rupees)

Cooperating country cash contribution: Not Applicable

Other donor: Not Applicable

Attachments (3)

PAGE 1 OF PAGES 25

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AID-6-39 (11-66)

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I. SUMMARY

A. Justification:

The U.S. Economic Assistance Program to India is addressed to meeting the deficit in Indian resources needed to achieve the developmental growth targets while the Indian economy strives to attain the "take-off" to self-sustained growth. Any increase in earnings by India from the sale of goods or services for foreign exchange (export and tourism) acts to reduce the gap in external resources and thereby either lessens the requirement for ~~xxxx~~ external aid or provides additional external resources to permit the achievement of a higher growth target.* The objective of this project is to encourage self-help actions by the Government of India to increase its own foreign exchange earnings, primarily in convertible currencies, thereby reducing its dependence on foreign aid.

B. Goals:

World exports totaled approximately $200 billion in 1966, an increase of almost 100% during the previous decade. While exports from the developed countries accounted for the lion's share of this increase, the developing countries (as defined by the U. N. Statistical Office) increased their exports from approximately $24 billion to $38 billion during this period -- an increase of 58%. During the same period, India's exports increased from $1254.60 million to $1692.14 million, or only 35%. Since India's foreign exchange requirements for imports and debt repayment increased from $1441.84 million to $3260.14 million during that same period, foreign aid disbursements to India rose sharply from $422.1 million in 1956 to $1631.74 million in 1966 to fill the gap.

This activity has as its goal establishment by the GOI of ambitious but realizeable export targets for the remainder of the IV Plan and encouraging the attainment of these targets. In more specific quantifiable terms, this project will attempt to encourage the Government of India to establish the following targets, and will assist them in achieving these targets by 1971 (for comparative purposes, actual dollar values for the year 1965 for each category are also provided):

	1965 (Actual)	1971 (Target)
	($ million)	
1. Exports to Hard Currency Area	1306	1764
2. Exports under Bilateral Agreements	386	591
Total:	1692	2355

* assuming adequate domestic savings are available.

C. Minimum Levels of Output:

As will be discussed under paragraph III "Strategy" U.S. and other cooperating countries' inputs in this area are catalytic in nature, to stimulate the GOI into taking certain actions more rapidly than might be the case in the absence of this activity, and thereby increase their foreign exchange earnings during any particular year over the level which would have been achieved without such stimulation. Thus, the establishment of minimum output levels as requisites for continued U. S. assistance to this project per se, is not meaningful.

D. General Approach & Plan of Action:

1. Diagnose the impediments to export expansion by performing objective analyses of problems affecting both production and marketing of specific commodities in which India seems to enjoy a comparative advantage, and making such findings available to the Government of India for their consideration.

2. To make available technical advisory assistance to the Government of India and other Indian institutions working in the export promotion field to improve the quality of services offered to the export community, and, as required, induce these organizations to introduce additional services to the export sector.

3. To assist in the development of soundly conceived capital investment projects (which may or may not involve U.S. financing) which would result in increased foreign exchange earnings through exports.

It should be clear that the U.S. inputs (or for that matter, all non-GOI inputs) to achieve these targets are very small when measured against the quantitative targets set in paragraph I.B. above. Thus, a determination of the benefit/cost ratio for this project ~~appears to be less than useful~~ do not appear to be useful.

E. Other Free World Assistance:

Although other aid donor nations and agencies are aware of India's needs for export and tourism earnings to increase, there are few active projects under the various bilateral assistance programs in this area. Probably the most active agency is the UNIDO (United Nations International Development Organization) which recently sponsored a survey of India's export potential in the engineering goods and chemical industries. A number of technical assistance projects are expected to materialize flowing from this survey, notably in the field of quality control, testing and certification. These are expected to be financed by the U. N. Special Fund.

Most other free world technical assistance donors do not have adequate technical staff in India to help the Government of India in developing suitable requests for assistance in this area (it is also noted that a number of these nations pursue rigid commercial policies -- as evidenced by their negotiations

As a result these nations have not been in position to
during the Kennedy Round. ~~With this has had a crippling effect on the formulation~~
~~of additional programs in this very sensitive area).~~ for private assistance programs
in this very sensitive area).

USAID will attempt to work closely with the consortium countries' representatives in the New Delhi Embassies and other nations which have an active bilateral technical assistance program in India (Switzerland, Sweden) to encourage them to provide some of the resources needed for the several projects in the export promotion field, with USAID performing the preparatory work in project development. It may be possible for USAID to undertake joint activities with other countries, i.e. for USAID to finance the rupee costs of a commodity survey and elicit the technical consultants from one of the other aid donor nations or the OECD, the U.N. or IBRD.

The Mission will have to exercise care in acting as a coordinator so as not to give concern to officials of the Government of India who regard it as their right and responsibility to coordinate all technical assistance to India. Indeed, there may be some danger to the U.S. from assuming a too aggressive role in this area in that we would receive adverse publicity for any and all actions by other nations in the conduct of these export promotion activities. It may be possible to induce the IBRD or the U.N. to assume the role of coordinator.

Since the initial, and perhaps major segment of this plan of action is the diagnosis of problems impeding an expansion of export earnings, it is not possible to outline the specific self-help actions needed to achieve the project goal. We can say, however, that an essential ~~expre~~ prerequisite for the success of this project is a suitable relationship between the AID Mission and appropriate senior officials of the Government of India and an implicit receptivity to consider carefully the information developed under this project.

NON-CAPITAL PROJECT FUNDING (OBLIGATION IN $000)

Table 1
Page 1 of 2

PROP DATE Mo/Day/Yr
Original July 31, 1967
Rev. No. --

COUNTRY: India PROJECT TITLE: Export Promotion Project No. 386-15-260-384

Fiscal Years	Ap	L/G	Total	Cont 1/	Personnel Serv. AID PASA	Personnel Serv. CONT	Participants U.S. Agencies	Participants CONT	Commodities Dir U.S. Ag.	Commodities CONT	Other Costs Dir & U.S. Ag	Other Costs Cont
Prior thru Act.FY1967	TC	G	-	-	-	-	-	-	-	-	-	-
Oper. FY1968	TC	G	348	109	-	43	109	193	-	-	3	-
	DL	L	10,000	-	-	-	-	-	10,000	-	-	-
Budg. FY1969	TC	G	339	81	-	60	81	194	-	-	4	-
	DL	L	10,000	-	-	-	-	-	10,000	-	-	-
B + 1 FY1970	TC	G	227	36	-	26	36	162	-	-	3	-
	DL	L	10,000	-	-	-	-	-	10,000	-	-	-
B + 2 FY1971	TC	G	-	-	-	-	-	-	-	-	-	-
	DL	L	10,000	-	-	-	-	-	10,000	-	-	-
B + 3 FY____												
All Subs.												
Total Life	TC	G	914	226	-	129	226	549	-	-	10	-
	DL	L	40,000	-	-	-	-	-	40,000	-	-	-

1/ Memorandum (non-aid) column

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NON-CAPITAL PROJECT FUNDING (OBLIGATION IN $000)

Table 1.- Page 2 of 2. Exchange Rate $1=Rs.7.50 2/ Project No: 386-11-360-284

Fiscal Years	AID-controlled Local Currency U. S.-owned	AID-controlled Local Currency Country-owned 3/ ($ Equiv.)	Other cash Contribution Cooperating Country	Other Donor Funds ($ Equiv.)	Food for Free or Commodities Metric Tons (000)	Food for Free or Commodities CCC Value & Freight	Food for Free or Commodities World Market Price ($000)
Prior thru Act. FY 1967		-					
Oper. FY 1968		419					
Budg. FY 1969		288					
B + 1 FY 1970		110					
B + 2 FY 1971		-					
B + 3 FY____							
All Subs.							
Total Life		817 4/					

2/ As of July 31, 1967

3/ Trust Fund Rupees

4/ Equivalent of Rs. 6,127 (thousand).

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II. SETTING (Environment)

The Program Memorandum sets forth in greater detail than is possible here the objectives and strategy of the United States Economic Assistance Program to India. A minimum acceptable rate of economic growth is postulated and calculations are made of the required levels of investment to achieve the growth targets during the Fourth Five Year Plan period (ending 1971). The achievement of these investment targets requires a given level of domestic savings as well as certain availabilities of foreign exchange. This project addresses itself to the foreign exchange needs and is designed to encourage and ~~facilitie~~ facilitate GOI efforts to acquire convertible currencies through an expansion of Indian exports.

Current estimates indicate that total foreign exchange requirements during the Five Year period of the Fourth Plan (including debt service) amounts to approximately $19,000 million. Of this amount, USAID's current projections of export earnings total US $8,912 million or only 47% of the total requirements. Some form of concessional financing is expected to make up the difference between availabilities and requirements (except for US $632 million projected as a receipt from direct private investment).

USAID projections in the Program Memorandum have been based on an assumption of a steady 8 percent increase in export levels. This assumption, coupled with a further assumption of no reduction in aid inputs, results in the projection of a modest rate of economic growth. If significant additional aid amounts are available, we have been able to project a phase-out of net aid under ~~conside~~ conditions of self-sustaining growth.

Even an 8 percent increase in export earnings cannot be achieved without a determined GOI effort. To the extent that export earnings must compensate for a short-fall in the additional aid availabilities, a dramatic GOI export promotion program will be required. Table I provides current projections of foreign exchange availabilities as against requirements for the Fourth Plan period.

TABLE - I

INDIA'S FOURTH PLAN FOREIGN EXCHANGE REQUIREMENTS

(Figures in million $)

	1966-67	1967-68	1968-69	1969-70	1970-71	IV Plan Total
I. Total Imports a/	2,858	3,240	3,619	3,573	3,431	16,717
a) Imports from Hard Currency Area	2,572	2,917	3,247	3,251	2,912	14,899
b) Imports from Bilateral Trade Agreement Area	286	323	368	322	519	1,818
II. Debt Service	347	385	493	544	605	2,374
a) Hard Currency Area	295	319	413	470	533	2,030
b) Soviet Bloc	52	66	80	74	72	344
III. Total Exports	1,557	1,640	1,760	1,900	2,055	8,912
a) Hard Currency Area	1,219	1,251	1,313	1,386	1,464	6,633
b) Under other Bilateral Trade Agreement Area	338	389	447	514	591	2,279

a/ Requirements under assumptions of no increase in aid commitments.

A. Historical Perspective

A review of Indian export performance since Independence does not present a very impressive picture. Export earnings in the first two plan periods were virtually stagnant, with earnings of $6361 million in the First Plan and of $6397 million in the Second. There was some improvement in the Third Plan with earnings reaching $ [illegible] million, but as outlined below most of this increase came from exports to non-convertible currency areas and the inclusion of Goan exports in the Indian statistics. Yearly figures have been as follows:

1960-61		$1348 million
1961-62		$1387 million
1962-63	$1439	[illegible] million
1963-64		$1665 million
1964-65		$1714 million
1965-66		$1692 million
1966-67		$1557 million

The sharp drop in 1966-67 earnings can not be attributed to any one factor. The drought and the foreign exchange shortage were in part responsible. Devaluation did produce temporary dislocations but available evidence, though sketchy, indicates that devaluation was not the failure its critics proclaim. Exports did increase for almost all items e.g. marine products, which obtained the full benefits of devaluation -- i.e. on which no export duties were placed. The export duties imposed with devaluation did apparently have an inhibiting effect but how much is unclear, primarily because the duties were placed on agricultural commodities affected by the drought (but not tea) and on traditional commodities whose problems are otherwise explicable.

Two features of India's exports deserve particular attention. First is the continued dependence of India on mineral and agriculture based commodities for the bulk of export earnings. For example, tea, cotton fabrics and jute manufactures accounted for 44% of export earnings in 1965-66, with jute manufactures alone constituting 22% of the total. Although in the last few years the Government of India's promotional efforts and public pronouncements have stressed export of the so-called non-traditional items, e.g. iron and steel, engineering goods, chemicals and allied products, exports of these products are still less than 10% of total exports.

Second -- and of equal concern -- is the extent to which the growth that has occurred in exports to Soviet Bloc countries more than tripled with the share of the East European countries in Indian exports increasing from 7.5% to 19.3%. Exports to the U.S. and Canada increased by approximately 40% in the same period but exports to West Europe, including the U.K. actually declined from Rs. 239 crores to Rs. 220 crores.

B. Basic Problems

The causes of the rather poor Indian export performance are not difficult to discern. Although various commentators have stressed almost every conceivable deficiency, there appear to be a number of basic problems which must be remedied before export performance will improve radically. These problems are:

(1) Dependence on Agriculture based exports -- The extent to which Indian exports rise and fall in accordance with the vagaries of the Monsoon is sufficiently illustrative of this problem. Tea, jute, cashew nuts, cotton textiles, oilcakes and spices represent approximately 50% of Indian export earnings. (When one adds the other two major export products, leather and leather products and iron ore we find that these eight commodities represent 2/3rd of India's export earnings.) Although maximization of traditional exports is essential and probably holds hope for achievement of major increase in earnings during the near term, we feel export development of engineering goods and other non-traditional products is the only long-term solution to this problem.

(2) Attractiveness of the domestic market -- India's domestic market, large and insulated from most foreign competition, by GOI import policy, has an inherent attractiveness to Indian producers, accentuated by price differentials between sales at home and abroad. For a large number of products, particularly non-traditional items, net realization per unit is substantially higher for domestic as opposed to export sales.

(3) Production and Marketing structure -- The difficulty Indian companies confront in offering export goods competitive in price and quality with those from Japan, etc., can in large part be traced to problems of cost and scale of production. Production units are often of small size and unable, even if working at capacity, to obtain the same economies of scale available to competitors. Moreover, and perhaps even more important, exporting industries have generally found it difficult to obtain sufficient quantities of raw materials, spare parts and modernizing equipment, or, when obtained, at internationally competitive prices. Full capacity utilization is thus an ideal rarely attained, while raw materials costs are normally substantially higher than the costs of overseas competitors.

Institutional and marketing problems also inhibit exports. The lack of many large scale production units -- and the failure of significant trading houses to develop -- has heavily penalized Indian exporters. Indian companies have been unable to meet large orders, establish meaningful quality control arrangements, achieve economies of scale in output, freight, or overseas marketing or develop diversified product lines.

(4) GOI Overcontrol -- As continually documented, the plethora of forms, controls and governmental export regulations places a heavy burden on, and discourages, even larger exporters, much less the small fry. To control abuses by certain exporters, the GOI has introduced extreme control systems which burden the entire export

community and add to the existing disincentives to export. Export liberalization is essential.

(5) Direction of Exports -- At the present time exports to the United States, United Kingdom and the Soviet Union represent 45% of India's total export earnings. A sharp shift has occurred in the direction of exports from the convertible currency area to the Soviet Block under their bilateral agreements. This has resulted in decreased availability of hard currencies to purchase necessary raw material and maintenance imports. Furthermore, insufficient attention has been given to the possibilities for regional trade, whereby India would take advantage of its industrial base to export to its less developed neighbors.

C. GOI Policies

The GOI has sought to meet these problems and increase Indian exports by a series of shifting policies. Prior to devaluation, the GOI had in effect a variety of promotional measures, including import entitlement schemes, tax credit certificates and rail freight concessions. Devaluation brought with it the abolition of most of these export incentive measures, but bit by bit new incentives have been added to the system.

Post-devaluation policies include:

(1) Tax adjustments -- There are now only two types of tax adjustments. One is the drawback of import duties, which include variations such as the free port and the manufactures in-bond concept. The second is a refund of Center government (bot not State Government) excise taxes for almost all products except tea.

(2) Duties -- In order in part to restrain domestic demand, excise taxes have been imposed on a variety of products, e.g. tea, cigarettes, etc. Conversely export duties have been imposed on twelve export commodities, e.g. jute manufactures, tea, manganese, to prevent a decline in foreign exchange earnings for commodities by maintaining unit prices and to give to Government rather than exporters windfall profits from devaluation.

(3) Subsidies -- Cash subsidies of 10% to 20% based on FOB export values, are being given to exporters of a wide range of engineering goods, chemicals, steel, sugar and woolen carpets. The Marketing Development Fund provides grants of 50-75% of the costs of certain market development activities abroad. Railway freight concessions for some 19 items have been continued.

Finally the Government recently agreed to supply iron and steel at international prices for export purposes, absorbing the difference between international and Indian prices.

(4) Non Price Allocations

(a) Foreign Resources

(i) Registered exporters in 15 categories receive non-saleable import licenses for raw materials, components and spares equal to the value of the import component in exported goods. This is in addition to licenses available to those exporters in the 59 priority industries.

(ii) Imports of jute, cashew nuts, wattlebark and hides and skins have been placed on Open General License.

(iii) An interministerial committee allots licenses to certain exporters for the import of capital goods, equipment, dies, jigs and tools.

(b) Indigenous Resources

(i) Exporters receive priority in obtaining indigenous raw materials.

(ii) Exports of certain raw materials, e.g. jute, are banned.

The current policies can be criticized from a number of perspectives. We, however, wish to outline only four problem areas.

First, much of GOI policy is predicated on the assumption that export performance can be improved by discrimination among products. There is obviously some substance in the argument that individual products face individual problems, and policies should be differentiated accordingly. But there are important disadvantages which are too often obscured. Discrimination facilitates arbitrariness and increases the possibility of successful industry pressure. Perhaps more important, discrimination permits the continuation of uneconomic industries and the utilization of scarce resources in what may be an uneconomic manner. Finally, in part because many incentives are given to maximize short-term opportunities, discrimination obscures the areas of Indian comparative development and inhibits the development of those industries which have long term growth potential.

Second, Indian export policy has been characterized by the frequency of its change. Because of this, entrepreneurs cannot plan ahead and make long term commitments, foreign buyers cannot rely on Indian price or supply stability, and businessmen often believe their efforts will be more successful if directed at winning GOI concessions than developing overseas markets.

Third, GOI policy has wavered between the "stick or the carrot" -- whether to establish conditions more or less forcing exports or whether to create incentives which encourage exports. Emphasis in the past has been on incentives. In recent

months, however, there has been public discussion of rather extreme forms of the stick approach which obscure areas of comparative advantage and the real problems facing Indian exports. These forms include compulsory exports, a variant of the "export of 10% of production" rule laid down for public sector corporations in 1965, and penalties for failure to export. The excise tax proposals in the budget message are a more positive reflection of the stick approach, but as outlined below we do not believe excise taxes alone -- or the stick approach -- will substantially affect export performance.

Fourth, and perhaps most important, we do not believe the current policies will lead to maximum potential export earnings. The Mission has made a forecast of export earnings in its Program Memorandum. This forecast which assumes continuation and in some cases acceleration of existing policies, shows exports of $2045 million and a growth rate from the current of 4% per year over the Fourth Plan period -- although the growth rate from the current depressed period is higher.

The Big Three earners are expected to increase at about the average, while big percentage increases -- though the amount is small in absolute terms -- will come from non-traditional items such as engineering goods. The extractive industry's exports are not expected to increase substantially with the exception of iron ore and marine products.

We believe that India, with a maximum effort and bold policies, can attain substantially greater export earnings in 1970-71 than those indicated in our forecast contained in the Mission's Program Memorandum. This maximum effort could lead to earnings of $2355 million, with a Fourth Plan average annual growth rate of slightly over 7% (See Appendix III).

We recognize that the attainment of this figure would entail the adoption of more radical policies than India may be able to digest at present, and that it depends not only upon improved export policies, but also upon the success of agricultural development and other policies. We therefore suggest that the $ 2355 million figure be a "working objective" towards which the Mission would help move Indian policy.

III. STRATEGY

A. General

This activity addresses one of the prime variables in the aid "equation"; i.e. foreign exchange earnings. It is undertaken by USAID to encourage exploitation of the full potential of foreign exchange earnings, thus helping to minimize the requirement for external assistance. This activity does not fit into the usual pattern of institution-building technical assistance project. No effort is being made to build a new institutional organization which will have continuity after the technicians have left the scene.

The strategy on the export side, then, is to:

(a) diagnose major impediments to increase export earnings by financing objective analyses of institutional problems affecting both production and marketing of the commodities in which India enjoys a comparative advantage;

(b) making the findings available to the Government of India for their consideration;

(c) subsequent to such diagnosis, we would hope to provide such assistance as the U.S. is competent to provide, either in the form of technical advisory services, training abroad or capital financing to facilitate the GOI's efforts to overcome the impediments to increased export performance.

The goal of this project, then, is to increase foreign exchange earnings by [illegible] (8%) percent per year during the period 1968-71 from the base period 1965 so as to reach the following levels for 1971:

Foreign exchange earnings from exports to Hard Currency Areas:	$1,764,000,000
Foreign exchange earnings from exports to ~~Soviet Bloc and Eastern~~ countries under bilateral agreements:	$ 591,000,000
Total earnings from exports:	$2,355,000,000

A detailed commodity breakdown of these export earnings projections appears in Appendix III.

Development grant funding required through completion of this activity (FY 1971) (including funding under tech. support) totals ~~$260,000~~ $914,000.

D. L. funding estimated to be required through completion of this activity totals $40,000,000.

Rupee funding estimated to be required through completion of this activity totals Rs. 6,12[illegible],500 ($817,000).

The Mission's strategy for export promotion is very much dependent upon the GOI's strategy. Two aspects of that strategy are of prime concern to us:

(1) Long-term versus short-term interests -- At the present time, a preponderance of Indian exports are agricultural based. (See Section II.B.1) For the long-term, it is clear that India must achieve a diversification of its exports so that its foreign exchange availabilities are not so totally

dependent upon the vagaries of the monsoon. At the same time, the objective of this project is primarily short term (i.e. to obtain increased foreign exchange financing during the Fourth Five-Year Development Plan). It is the Mission's view that in the short run the greatest potential for export earnings lies with the traditional exports. Indeed, tea, cotton fabrics and jute comprise 44% of India's 1965-66 export earnings. Thus, a relatively small percentage increase in earnings from these commodities will result in a substantial increase in overall export earnings. Furthermore, similar problems in production, supply and marketing may exist for both non-traditional and traditional exports and the immediate diagnosis and solution of these problems for traditional commodities may result in a significant improvement in non-traditional export areas as well. Thus, while attention must also be given to the non-traditional exports, the highest priority for concentrated effort for the next year or two must rest with the traditional exports.

(2) Hard currency earnings versus bilateral trade -- The only appreciable increase in India's export earnings has come from increased trade with the Soviet Bloc. From 1960-61 to 1965-66, exports to Soviet Bloc countries more than tripled, with the share of East European countries in Indian exports increasing from 7.5% to 19.3%. This trend is expected to continue with exports to Bloc countries increasing at 15% per annum to account for 25% of India's foreign trade by 1970-71. The Mission believes, however, that the increased dependence on bilateral trade is not in India's interest, particularly since the critical inputs needed for execution of the Fourth Five-Year Plan will be coming from the hard currency area. Thus, despite the trend to the contrary, greater emphasis must be placed on directing exports to the hard currency area.

B. Alternative Approaches or Techniques

In addressing the relative stagnation of Indian exports, the Mission could assume varying degrees of interest and involvement. We simply could monitor Indian export performance; we could offer traditional technical assistance; we could provide capital assistance; finally, we could perform analyses of the impediments to increased export earnings and press for the adoption of policy measures to remove these impediments. In view of the magnitude of the problems involved, and the importance of foreign exchange to India's development effort, the Mission intends to combine these approaches and take a diagnostic and policy-influencing stance. We believe this will have the greatest possible effect on increasing India's foreign exchange earnings.

The Mission's strategy is to provide for the Government of India, through the Export Promotion Division, a "problem probing and solving unit", that is, an organization which has command over resources that it can bring into play to analyze specific problems having relevance to Indian export earnings during the next three to four years.

A strategy designed to increase India's foreign exchange earnings cannot be simply composed of one policy, one action, or one scheme that will be the panacea for the problems besetting the export industry. The problems are too manifold and their relationships too complex for the introduction of any one scheme which can be expected to cure all export ills. Instead, each tentacle of the

ic problem area for each commodity export sector must be dealt with individually through surveys, consultants, training and loans, while the [illegible] probed and prodded with export incentives and liberalizing policies such as the credit retention system.

C. The problems discussed in Section II above can be grouped into 3 categories:

(1) Inadequacy of Monetary Incentives -- Under this heading we ask the question, "what adjustments in the price relationships are necessary to increase the flow of Indian goods abroad?" We will include here questions dealing not only with domestic versus foreign prices for Indian exportable goods, but also price relationships between exports accomplished under bilateral agreements and barter trade as against normal commercial trade. We want to know on a commodity-by-commodity basis whether there are any distortions which impede the sale of Indian exports for hard currency; the extent of the distortions; and, the most suitable corrective measures to increase the export flow of goods in which India seems to enjoy a comparative advantage. Particularly, we would want to look at the existing tax structure (including excise taxes for domestic consumption) to see how it affects exports.

(2) Institutional Disincentives -- Here we would deal with obstacles or impediments to exports, taking the existing price structure as given. A careful analysis is needed to see whether there exist some "man-made" market imperfections limiting the flow of exports. We are confident that non-price institutional impediments exist to block the flow of exports. The recent cutback in industrial production resulting from reduced domestic demand did not result in any significant increase in the availability of these goods for export. Instead, substantial cutbacks in production were in evidence. Thus, we believe ample room exists in the direction of perfecting market mechanisms to facilitate the flow of goods to the export market when domestic demand dries up.

Some of the areas to be looked at would be:

(a) GOI regulatory and control measures (such as procedure for payment of subsidies to exporters, export price controls, availability of foreign exchange for imported components, availability of foreign exchange for business travel abroad, nuisance taxes, etc.)

(b) Cumbersome commercial procedures (adequacy of insurance, adequacy of procedures for making adjustments on export transactions, awkward banking and financing procedures, communication difficulties, adequacy of shipping facilities within India, at theports and ~~XXXXX~~ international shipping.)

(c) Other disincentives -- there are other disincentives of a broader nature which probably are outside the Mission's scope of operation but for the sake of completing a list they should be included in this list:

(i) The attitude of the governmental personnel dealing with the export community -- primary attention ~~XXXXX~~ should be given to increase export earnings rather than control of profiteering.

(ii) Greater certainty and predictability of governmental actions effecting export trade ~~[illegible]~~ (perhaps a system of special guarantees could be introduced).

(iii) Other actions to decrease the degree of uncertainty regarding delivery of goods to the buyer.

(3) Supporting Services to the Export Community -- There are a number of service functions which the Government of India can perform for the export community. Some of these are:

(a) Establishment of quality standards and a simple but objective system of testing and certification.

(b) Developing a greater flow of information concerning activities and opportunities in foreign markets (prices and other indicators of demand, and directories of potential buyers abroad, directory of Indian exporters, directory of Indian manufacturers indicating production capacities, etc.).

(c) Technical Assistance -- a consultative service for manufacturers of export goods to improve quality of production, maintenance and servicing of their equipment, packaging, etc., and possibly some assistance in industrial engineering to bring about lower production costs. It might also do research into the possibilities of substituting domestically produced components for imported components.

(d) Perhaps cooperative marketing agencies can be established to assist the small exporter in marketing his goods.

(e) Credit facilities to the manufacturer/exporter as well as to the overseas purchaser.

The Mission intends to undertake initially a series of commodity surveys in an attempt to diagnose the specifics of these three categories of impediments. The studies will be performed by reputable Indian research organizations, to the extent possible according to a commodity survey outlined ~~[illegible]~~ prepared by USAID (see Appendix I). Subsequent to completion of these ~~[illegible]~~ commodity surveys, we would undertake a cross-section analysis of these studies to identify across-the-board impediments to export performance.

In addition to these major surveys, additional surveys will be performed by various contractors and consulting firms to analyze other problems which may be impediments to increased export earnings (see Appendix II).

Furthermore, technical advisory assistance, training programs, and financial assistance are envisioned which would facilitate adoption of the recommendations in the commodity surveys, assist in their implementation and encourage increased exports.

Further detailing of these various projects occurs in Section V of this paper, "Course of Action."

Possible Policies -- For a detailed discussion of GOI policies in the export sector, please see the Export Promotion section of the Program Memorandum submitted August 1967.

Cooperating Country Leadership -- Most sovereign governments consider the area of export promotion to be an important policy matter and look with suspicion on the involvement of officials of other nations in this very sensitive area. India is no exception to this rule. Nevertheless, senior officials of the Government of India have indicated their willingness to utilize the assistance offered under this program with a general injunction to concentrate on specific problems facing India's exports, on a commodity-by-commodity basis rather than become involved in broad sweeping matters of general strategy and policy. The degree to which this Mission will be successful in influencing Indian policy is related, in part, to the rapport which we are able to develop and the confidence we are able to instill in our recommendations and, in part, to the degree to which our representations for policy reform are linked with any discussion of general aid levels through the consortium mechanism.

The stagnancy of Indian exports during the first three Five Year Plans can be attributed to the general development strategy followed by the Government during that period. Emphasis was placed on rapid industrialization (to the detriment of agriculture) and concentrated on import substitution. Consequently, export promotion enjoyed a low priority. To some extent some elements in the GOI would still wish to continue this policy in the Fourth Plan. These groups, however, are in the minority and greater emphasis is now being placed on export performance. The degree to which the GOI is willing to pay the price necessary to achieve its export targets, however, has yet to be determined.

Within the business community there is considerable concern with exports but little real action because in most casesthese producers are incurring a sizeable profit from the domestic market. Before the wholehearted support of the business community can be gained for the Indian export promotion drive, the international market must be made more attractive to the potential exporter, either through increased profits or by making it easy to export.

The GOI counterpart organization to the Export Promotion Division is the Ministry of Commerce. To some extent the Mission will alsowork with the Reserve Bank of India, the 21 Export Promotion Councils, trade associations, Director General of Commercial Intelligence and Statistics, the Indian Institute of Foreign Trade, the Ministry of Finance and the Ministry of Industry.

C. Cross Relationships:

This activity bears little relationship to other technical assistance projects. It is very closely related to the total aid strategy for India, both in terms of assuring financing for Fourth Plan developmental targets and also because over-zealous pursuit of export targets might, to some extent, impair or hinder domestic industrial expansion in priority areas. For example, assuming India has a capability to produce pumps which are competitive on the world market, if an export promotion drive is launched for the export of all available pumps in India, this would severely impinge on other developmental efforts such as irrigation project and consequently would affect agricultural production. We believe, however, that the dangers of such a conflict are minimal and will, of course, continue to coordinate our efforts to assure that problems of this nature are quickly detected.

Since the bulk of Indian exports derive from the agricultural sector, the degree to which agricultural production targets are met and the extent to which the weather is favorable, will have an important bearing on achievement of the export targets. It should be noted, however, that the Indian agricultural strategy is concentrated on foodgrains while exports require an increase in jute, tea, ground-nuts, cashews and other agricultural cash crops. To the extent that irrigation permits double cropping of jute and rice in eastern India, and to the extent the irrigation also affects production of cash crops, these activities will of course support the export target.

IV. PLANNED TARGETS, RESULTS AND OUTPUTS

We have ~~xxxx~~ selected 1971 as the completion date of the project because we are concentrating on gaining increase in the short-run to obtain financing for the Fourth Five Year Plan. Furthermore the variables begin to exceed a reasonable range when projecting export performance more than four years into the future.

As indicated above, the project is not of an institution-building character; rather, it is designed to encourage and to facilitate self-help actions by the GOI to increase its own foreign exchange earnings primarily in convertible currencies, thereby reducing its dependence on foreign aid. Appendix C provides a projection of export targets year-by-year through 1971 on a commodity-by-commodity basis.

In addition to these quantitative targets, we have selected the following objectives or targets as interim steps:

a) a radical improvement in the collection and publication of export data and statistics,

b) an improvement in the flow of market information to the export community;

c) an increase in the flexibility permitted to the exporters, both with respect to the acquisition of raw materials and components at world market prices and with respect to the procedures to which he must adhere in order to export (export liberalization including the adoption of some form of currency retention scheme);

d) a qualitative improvement in the functions of semi-governmental and private organizations and associations which serve the export community, such as the Indian Institute of Foreign Trade, export promotion councils and the various trade associations;

e) improvement in the facilities available to the export community to assure quality control of exports;

f) increase the level of expenditures on research and development of new products and new uses of the major export commodities, (i.e. 22% of Indian exports are in jute for which only $80,000 to $100,000 in foreign exchange is spent yearly on research and development);

g) liberalized policies by the Reserve Bank for allocation of foreign exchange for promotional activities and expenses of exporters and potential exporters;

h) the development of a strategy to facilitate regional trade between India and her neighboring countries to capitalize on the existing Indian industrial base to supply materials needed by other developing nations in their development programs;

i) the establishment of a suitable export credit institution to provide the many financial services now lacking for the export community;

j) the fostering of trading companies, separate from production units, who would specialize in large-scale international trade movements, thereby achieving greater efficiencies and economies of scale;

k) minimizing the role of the State Trading Corporation and the Minerals and Metals Corporation, or other public sector corporations in the export sector (limiting their functions primarily to execution of bilateral trade agreements).

V. COURSE OF ACTION

The export promotion activities envisioned in this project are not of an institution-building nature and do not lend themselves readily to the outline suggested for the PROP. It is premature to discuss problems, diagnosis, action, accomplishment, with the precision this report would seem to demand until the actions suggested below are undertaken. In general, however, the actions of the Mission will involve: an initial phase of intensive commodity surveys on which to base recommendations; the provision of technical advisory assistance for the life of the project as specific areas of need are found; functional surveys for the life of the project in specific areas of concern, continued effort at marketing training and exposure to foreign markets throughout the period envisioned, and strengthening of the existing facilities in support of exporters. A more detailed explanation may be found below.

Initially we propose to promote (and, as necessary, finance) eleven comprehensive studies of specific commodities which are important foreign exchange earners for India. These are:

1. Fresh and Processed Fruits & Vegetables
2. Spices
3. Seafood
4. Machine Tools
5. Mineral Ore and Semi-Processed Materials
6. Leather and Leather Products
7. Textiles and Made-Up Garments
8. Jute
9. Tea
10. Cashews
11. Oilcakes

These surveys would examine the world trade of the particular commodity and India's position in that trade. The analysis would include the examination of the world demand for the commodity, recent and projected trends, price elasticities, the development of substitutes and any other factors affecting total demand. The supply side of the equation would also be examined, not only with respect to the cost structure of the industry in India, but also to analyze the cost structure and elasticity of supply in competing supplying countries and give us some idea of the possibilities for new product development. These commodity surveys should answer two questions:

1) What policy decision, if any, could improve the competitive advantage of Indian industry in world trade for that particular commodity?

2) What investment decisions would improve the Indian industry's position in world trade?

Each of these commodity surveys is to be performed by a reputable Indian research institution, such as:

1. National Council of Applied Economic Research
2. Economic and Scientific Research Foundation of the Federation of Indian Chambers of Commerce and Industry — 1090
3. Indian Institute of Foreign Trade 386-1058
4. Indian Institute of Management, Ahmedabad
5. Indian Institute of Management, Calcutta
6. Gokale Institute (Poona)
7. Indian Institute of Economic Growth, New Delhi
8. M. N. Dastur & Co. Priv. Ltd.
9. Associated Chambers of Commerce, Calcutta (Economic Research Department)
10. United Planters Association of South India
11. Delhi University, Department of Economics
12. Tata, Department of Economic Research
13. Hindustan Motors, Department of Economic & Market Research
14. Bengal Chamber of Commerce, Calcutta
15. Marketing Research Corporation of India, New Delhi
16. Marketing Advertisers Associates, New Delhi

While we have tested out the interest and ability of some of these organizations to perform the research we have in mind, we cannot at this stage state which organizations this Mission will finally select to perform these surveys. We are satisfied, however, that there is adequate competent research capacity in India to perform most of the research in question.

Much of the work of the survey team would be in the field, performing original research both in the markets as well as in the competing supplier countries. The time period for each commodity would be approximately six months. Each of the contractors would be asked to follow, to the extent possible, the commodity outline prepared by USAID so as to provide a standard format for the survey report, assure that all relevant information desired by the Mission is included in each of the survey reports, and permit a greater degree of comparison between the various commodity survey reports once they are completed.

Subsequent to the completion of some portion of these surveys, the Mission will begin work on a cross-section analysis of these studies in an effort to identify major across-the-board obstacles which seem to affect exports.

The first phase of each of these commodity studies will involve the review of all existing pertinent literature dealing with the export of that commodity. The review will evaluate the adequacy of existing information and should provide the contractor with sufficient background to prepare a study outline and scope of work for the second phase of the study.

By following this procedure, we will not duplicate research that has already been done, rather than we will attempt to fill the information gaps and, where earlier studies are of dubious reliability, will attempt to verify their findings.

Most of the research institutions listed above enjoy a fair to good reputation with respect to their competence in performing economic research. However, in almost every case (except for Dastur Company) they do not have staff who have qualifications in the commodity to be surveyed. We will therefore attempt to supplement their staff with foreign consultants and, where feasible, with an Indian commodity specialist. We are looking to the Indian contractor for competence in economics and the basic research techniques needed to perform the analysis. However, to assure that suitable quality standards are achieved in the conduct of these studies, commodity specialists who have a working knowledge of the particular industry and who have personal experience and knowledge of the markets and market developments must be made available to the contractor.

In short, we believe the contractor's knowledge is lacking:

(a) with respect to the technical aspects of the particular commodity in in question (both production and marketing), and

(b) in terms of the knowledge needed concerning the trading of this commodity outside of India.

Since the survey will also attempt to gain some insights into the organization of the industry and cost of production of the competing suppliers, the foreign consultant should be able to provide some support in this area, as well.

This Mission believes that such consultants are essential to assure that the Missions's quality standards are met by the contractor. The Export Promotion Division, working as a problem-solving unit for the GOI, must be able to provide the GOI with findings and recommendations fully supported by sound analysis if we hope to have these recommendations receive proper consideration. These surveys should point the finger at specific actions that the Government of India might take to improve the position of Indian industry in world trade. Submission of a less than adequate analysis to the GOI would discredit the USAID's credentials and might conceivably lead to the adoption of ill-advised actions by the Government.

We estimate that dollar cost associated with each of the foregoing surveys will be in the range of $8,000 to $10,000. Rupees costs are estimated to run at a level of approximately 300,000 rupees each. Total cost $104,000 and Rupees 3,200,000.

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Functional or Institutional Surveys:

Without awaiting the results of the commodity surveys, there are certain areas which already show evidence of requiring further attention (for example, there is some evidence to suggest that inadequate financing facilities are available for the export sector). The Mission proposes to undertake specific studies of these subjects and make the results available to the Government of India. A listing of such possible areas for further research and study is provided in Appendix XIX Appendix II. The list of possible studies (Appendix II) is merely provided for illustrative purposes. Further review will certainly disclose that all of these studies need not be taken. Conversely we may find that some additional studies need are required on subjects not listed in the attachment. These surveys should involve a minimal expenditure of $12,000 and Rs. 100,000 each. (Total cost $100,000 and Rs. 900,000).

Technical Advisory Assistance:

Without awaiting the results of any of the foregoing studies, certain deficiencies are already known to require remedial action. These are:

(a) The quality of export statistics prepared for use by the policymakers of the Government of India leave much to be desired. We also know that market information and commercial intelligence is not readily available to the export community and therefore tends to discourage industry from venturing into the foreign markets. We proposed to undertake a program of technical assistance to improve the quality of export data and market information so as to permit its more timely compilation and dissemination. Three FASA technicians for two years each at a total cost of $129,000 and Rs. 417,000.

(b) We also propose to stimulate middle-level executives in industries which are just beginning to export or which we believe to have a potential for further exports by exposing them to the markets in Western Europe, United States and Japan (the hard currency area) in the hope that they would develop a better appreciation of the quality standards and tastes prevailing in these markets and additionally develop contact with distribution organizations so as to facilitate their entry and expansion of exports in these markets. This would involve twelve week tours of fifteen executives four times a year for 3 years at a cost of $426,000 (Rupees 0).

(c) Groups of buyers from the convertible currency areas and from neighboring countries will be brought to India to expose them to India's production facilities, permit them to develop contacts among the Indian export community and help to improve India's image abroad as a supplier of industrial goods. Total cost Rs. 1,350,000 and $10,000.

(d) Private or semi-government institutions involved in providing service to the export sector may also be recipients of U.S. technical assistance. Specifically, we refer to the Indian Institute of Foreign Trade, the Federation of Indian Export Organizations, including their 21 export promotion councils, and various industrial organizations. This assistance may take the form of providing specific services for these organizations and to undertake specific short-term training programs for them as well as financing training abroad for personnel of these institutions. Rs. 750,000 and $63,000

(e) Central staff of Export Promotion Division (Tech. Support) $150,000
Rs.1,500,000

(f) Discussions are currently underway with the Government of India for the establishment of a loan to provide balancing equipment to export industries to facilitate increased productivity through modernization and expansion for certain industries deemed to have a potential for exportation of a significant portion of the output. Such loans might also contribute to quality control of output, thereby making the product suitable for sale in the world markets. Testing equipment to facilitate quality control would also be eligible for financing under this loan.

One possible beneficiary of such a loan would be the sports goods industry which is currently hampered by the numerous small scale units with varying degrees of reliability concerning the quality of their products. Testing equipment might be administered by the Sports Goods Export Promotion Council or by an association of producers.

Another beneficiary might be the Indian Spices Industry. Indian spices are often exported in bulk and are subsequently processed by the importing country into a higher value product (oleo-resin). Some modern processing plants made available in India to the exporter would substantially increase the value added to this product.

A third example would be equipment for tea packaging which could permit Indian teas to be prepared for retail sale rather than to export them in bulk as is now the case.

We estimate that as much as ten million dollars per year for the next four years might be made available to the export industry under this program. It is doubtful whether financing for this activity will be provided as a discrete loan, more likely it will be included as a portion of a sectoral or program loan for balancing equipment. Nevertheless, we will attempt to assure priority allocations to the export sector.

APPENDIX I

OUTLINE FOR COMMODITY SURVEY

General

The commodity survey should describe the worldwide supply and demand situation for the commodity and pay particular attention to India's position in the total world trade picture, and conclude with specific proposals for a) investment in the industry which would result in making the product more competitive for export, and b) policy actions which would aid the industry in exporting larger amounts and earning higher returns.

1. Bibliography:

As a first step in performing the commodity survey, the survey team must pull together a complete bibliography of all relevant reports and surveys available on this commodity. The bibliography will be reviewed by the Export Promotion Division of USAID during the initial stage of the study to be sure that important pieces of information are not overlooked and that the survey will not duplicate work already completed.

2. Description of the Commodity:

This section should contain a relatively concise statement, understandable to the layman, describing the commodity, how it is grown and processed, what its major uses are, and describe the most recent technological developments and innovations.

3. Supply:

We would analyze, for the industry of each major exporting nation, the production cost structure, where appropriate, for the raw material and for the processing. We would analyze the location of the industry and its suitability, adequacy of the size, age, technology of the production units, availability of spare parts and balancing equipment, adequacy of cost accounting, and mechanized planning (i.e. warehousing -- computer solution to DuPont's warehousing problems) and analyze the relative advantages enjoyed by each of the major exporting nations. How does the tax structure affect production and marketing costs? We should attempt to explain the basis on which the relative market shares for each supplier have been determined. We should also examine the relative cost of inland transport, ocean shipping and insurance, and analyze the suitability of banking and financing arrangements for the Indian exporter. Where appropriate, we would also discuss such factors as quality control. We should also describe the investment which has taken place during the past five years.

(d) Private or semi-government institutions involved in providing service to the export sector may also be recipients of U.S. technical assistance. Specifically, we refer to the Indian Institute of Foreign Trade, the Federation of Indian Export Organizations, including their 21 export promotion councils, and various industrial organizations. This assistance may take the form of providing specific services for these organizations and to undertake specific short-term training programs for them as well as financing training abroad for personnel of these institutions. Rs. 750,000 and $63,000

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APPENDIX I

For India, we would describe the foregoing in greater detail, and analyze the production cost structure with respect to price of raw material (world price vs. domestic price of raw material), availability of raw material, and stability of raw material prices.

4. Demand & Prices:

This section would include a market analysis of the major importers, examination of the recent trends to determine elasticity of demand and to make projections for anticipated future demand for the commodity. This section should analyze the price relationships among the various users (compare prices in the hard-currency markets vs. the soft-currency markets) and describe import restrictions and tariff walls around the various markets. Where possible, pricing data for the past five years should also be included for each of those categories and a trend analysis undertaken. Describe any linkages between suppliers and consumers. Is there a vertical integration of the industry? If so, what are the ramifications of such integration. The survey team should pay particular attention to the availability of substitutes and their relative price. This section should contain a listing of the leading buyers in the foreign markets.

5. New Product Research & Development:

Examine the new innovations and product modifications which have materialized during the past five to ten years, make some prognosis of likely product development and project demand for such products. Indicate who is doing the research and what R&D investment is being made. The team should also consider the existence of substitutes and the possibility of new substitutes being developed.

6. Marketing & Promotion:

Describe the marketing arrangements currently in use by the various suppliers. Is there a suitable information flow to provide the Indian exporters with market intelligence? Is this better or worse than the information flow existing for the competitive suppliers. Describe the relationship between the producer in India and the seller abroad. What are the communication facilities available to the exporter (adequacy of telex, etc.)? Are Indian exporters able to deliver on commitments? Do they enjoy a reputation for dependability or for sharp trading? Are there adequate standards and testing facilities? Are there adequate credit facilities or is there a need for export credits? What are marketing costs in relation to the cost of the product? Can some economies of scale be introduced into the marketing so as to lower the marketing and promotion costs per unit sold?

APPENDIX I

7. Governmental Control & Regulatory Functions:

For each major exporting country, indicate area of governmental control and regulation of production and of export trade. For India, this analysis must necessarily be in greater detail. We must know something about the function as it is theoretically applied, as well as its actual administration. This section should contain a step-by-step description of the procedure ~~following~~ ~~regarding~~ followed re. production, processing and exportation of the commodity and record the degree of government control at each step of the way.

8. New Investment:

On the basis of the foregoing analysis, what, if any, investment decisions need be made with respect to:

a) production of raw material;

b) processing facilities;

c) packaging facilities;

d) marketing arrangements (including, where necessary, direct investment by India in distribution facilities in the overseas markets).

If further investment is recommended, what kind of investment should it be, what magnitudes, and where should it be located?

9. Financial Incentives:

This may well be covered under paragraph 2. - Supply. In calculating the production costs, however, if any incentives exist either in India or in the other supplier countries, these should be described. The incentives may take the forms of cash, import entitlements, preferential credit, guarantees, tax ~~rebates~~, rebates, or preferential tax rates on export earnings.

10. Conclusions:

Indicate here the specific recommendations involving governmental policy actions, procedural modifications and investment decisions for any and all aspects of production, distribution and marketing of the commodity.

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a) production of [illegible] material;

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10. Conclusions:

Indicate here the specific recommendations involving governmental policy actions, procedural modifications and investment decisions for any and all aspects of production, distribution and marketing of the commodity.

APPENDIX II

POSSIBLE AREAS FOR FURTHER EXPORT STUDIES

1. Regional Trade: -

A thorough analysis of potential for Indian export expansion within its own region seems warranted. Possible approaches to the study might include:

A. An examination of the development plans of various countries within the region to see what investment is likely to materialize (India might do well to export its engineering skills in the form of turn key contracts).

B. An examination of the import lists of neighboring countries to see in which areas demand currently exists and to determine whether India can competitively supply these commodities. In this connection, it may be well to consider possible Indian investment in neighboring countries for establishment of assembly plants or distribution facilities. In some of these countries, there are reasonably large numbers of Indian expatriates.

C. A regional trade study should include an analysis of the trade balances of neighboring countries to determine which of these countries are of greatest interest to India. In the case of those countries enjoying a favorable balance of payments (Kuwait) a more intensive market survey might be conducted to see how India's exports to those markets might be expanded.

2. Shipping - International Freight:

Is there freight rate discrimination against India? Are India's interests served by membership in the Maritime Conference? Is an expansion of India's Maritime Fleet at this time in her interest? Is India taking full advantage of free world commercial financing facilities for her ships?

Allied to this study can be a survey of Indian port administration and possible investment in additional facilities, storage, modification of customs clearance procedures, etc.

This study (or perhaps a separate one) might also examine domestic shipping costs (both rail and road) for exportable commodities.

3. Marine Insurance: Adequacy of coverage, relative costs and settlement procedure.

APPENDIX II

4. International Finance Procedure: Its suitability for export trade and the adequacy of obtaining adjustments because of discrepancies in shipment.

5. Inter-country comparison of export controls and export incentive schemes.

6. Inter-commodity comparison of GOI export controls and export incentives (i.e. coffee exports are handled by GOI but tea is not).

7. Review of all Indian R&D for export commodities. Who is responsible (Ministry of Agriculture or Ministry of Commerce?).

8. Analysis of domestic vs. world prices of certain basic raw materials (steel, aluminium, etc.). What is the magnitude of the difference and what effect does it have on prices of finished goods?

9. Management study of the operations of the office of Chief Controller of Exports and Imports.

10. [illegible] Debt Repayments: Can a mechanism be established whereby these debt repayments can be linked to additional exports?

11. Analysis of the operations of State Trading Corporation and Minerals and Metals Trading Corporation. Do these organizations facilitate Indian exports. Can these organizations be modified to serve as a more effective marketing tool for the Indian export community?

12. The effect of the industrial licensing system on export industries. Should export industries be exempted from the industrial licensing system?

13. The operation of the Kandla Free Port.

14. Study of international trade balances. Which countries are in deficit on payment accounts? Which countries have trade restrictions against other countries? What are the implications for Indian exports?

15. Export Data - statistical information with respect to:

a) actual export shipments; and

b) actual foreign exchange earnings from exports

leave much to be desired in India. We need an analysis to see

APPENDIX II

precisely what data is now being collected and to consider what short-term and long-term improvements and modifications can be instituted to [illegible] quantitative export and export earnings (since the export promotion division needs to have a flow of information readily available to it and simplified filing system for such data, perhaps our efforts to establish an information system for ourselves can be linked with a technical assistance effort to improve Indian export statistics).

16. Market information - What market information is currently available to the Indian exporter? Is this adequate or can modifications and improvements be instituted? Is there some way of obtaining current price information and sales opportunity data through wire services in the U.S. and Europe to be disseminated in a simplified fashion, such as through a daily or weekly bulletin to exporters and an export supplement to financial newspapers.

17. Customs procedures - are the procedures imposed by the Department of Customs in India impediments to exporters? What functions does Customs perform for export goods? Can modifications be instituted to streamline these procedures.

18. Minimum price policy for exports - government establishes minimum export price for a number of export commodities. How effective has this policy been (leading Madras mica, shellac)? Is this a desirable practice? If so, is the proper organization administering the system?

19. Test & Certification facilities:

a) are they properly equipped?

b) are they properly managed?

c) Is the system now employed the most effective way of assuring adequate quality control for Indian exports.

Recourse

20. ~~Resort~~ to Legal Action for Settlement of Trade Disputes - In the Indian Judicial system what provision is there for expeditious settlement of trade disputes both within India and between international parties? For example, if an Indian supplier breaks his contract with an export house because his raw material prices have increased since signature of the contract, or if he does not meet acceptable quality standards or delivery time, how can the aggrieved party either enforce performance or obtain restitution?

APPENDIX II

21. Promotion of Indian Export Trading Companies. The Japanese have done remarkably well in turning over the export trade to specialists thereby leaving the manufacturers to do the business of production while the trading companies concern themselves with market development, marketing, shipping, etc. Can this be done in India? In this connection, the system of import controls, whereby import licenses are issued to "actual users" or manufacturers, works against the development of trading companies. Further liberalization whereby the trading companies do general importing to service the manufacturing companies strengthens the development of trading companies.

22. Merchant Traders. The export trade requires middlemen. What are the restrictions and limitations in India like on merchant traders (either Indian nationals or foreign merchant traders who wish to set up purchasing operations in India?). What sort of taxes are they subjected to? How difficult is it for them to get export licenses? What procedural problems do they encounter? etc.

APPENDIX III

(Figures in million $)

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
A. Food	508	475.3	521	577	608	638
Tea	241	214.7	220	250	261	275
Coffee	27	21.2	26	29	31	32
Oil Cakes	73	67.3	74	80	85	88
Cashews	57	61.3	63	68	72	75
Sugar	25	24.1	25	25	25	25
Pepper	22	20.7	22	22	22	22
Other Spices	27	18.5	26	24	23	22
Fish	13	22.9	29	41	50	59
NES	23	24.6	36	38	39	40
B. Tobacco, Beverages	46	30.3	33	36	37	38
Tobacco, unmanufactured	41	28.8	31	33	34	35
NES	5	1.5	2	3	3	3
C. Raw Materials (except Fuels)	284	278.7	315	348	398	420
Hides & Skins, raw	20	22.0	24	27	28	30
Cotton, raw and waste	27	23.3	21	20	20	20
Iron Ore	89	93.5	112	132	157	176
Mica	24	19.0	24	28	33	35
Manganese Ore	23	19.1	24	28	34	37
Lac	9	10.7	10	9	9	9
NES	92	91.1	100	104	117	123
D. Lubricants and Fuels	19	16.8	18	21	23	25
E. Vegetable Oils	8	3.8	6	8	9	10
F. Chemicals	24	19.9	18	23	27	30
G. Manufactured Goods	721	661.4	718	800	860	909
Art Silk	16	4.6	20	27	34	43
Textile Yarn and Thread	32	27.5	29	33	34	35
Leather	59	83.0	82	85	88	90
Woolen Carpets	9	10.6	12	13	14	15
Cotton Textile Fabrics	120	102.7	110	120	120	121
Jute Manufactures	370	333.8	355	401	441	470
Semi & Precious Stones	31	31.6	32	35	39	40
Iron and Steel	26	34.1	26	25	25	25
NES	58	33.5	52	61	65	70

APPENDIX III

	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
H. Machinery and Transport	24	21.2	70	127	170	200
I. Miscellaneous Manufactures	40	37.1	51	60	68	75
Clothing	13	9.3	14	15	18	20
Footwear	11	11.7	13	16	18	20
MES	25	16.1	24	29	32	35
J. Re-exports and "Items not classified"	9	12.5	0	0	0	0
Total:	1,692	1,557.0	1750	2,000	2,200	2,355