

Some Export Advice

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India's growth strategy and the budget for 2000-01 should focus heavily on exports. Export-led growth in services is one of the most interesting developments of the Indian economy. But export led growth in manufactures, the more traditional textiles and apparel, in electronics and other labour intensive operations remain areas where India could do a lot more than in the past.

India's export environment suffers from several institutional weaknesses. India's labour laws, noted unfavourably in the 1999 Global Competitiveness Report, make it very costly to sack workers in enterprises of more than 100 workers. The result is that formal sector firms — those that are registered and pay taxes — are loath to take on new employment. The vast majority of India's employment is informal in small, tax evading, inefficient enterprises.

Equally remarkably, India's legislation continues to restrict the entry of medium or large firms, or the growth of small firms into medium or large firms, in several areas of potential comparative advantage. Thus garments, toys, shoes and leather products continue to be reserved, to a varying extent, for small scale producers.

Such restrictions virtually assure China's dominance in these sectors compared with India. India's tax and tariff structures similarly remain anti-export biased. India's high overall tariff rates, especially tariffs on intermediate products that are used by exporters, impose a heavy indirect tax on export competitiveness.

Furthermore, the Union budget for 1998-99 imposed an additional levy of eight per cent on imports, which was later reduced to four per cent. There are duty drawback systems to reduce this anti-export bias, but such programs are administratively burdensome and often too costly to use effectively.

Finally, the regulatory attitude to foreign direct investors, who could be the fuel for India's export drive, continues to be ambivalent. The government promotes FDI on the one hand, but then maintains regulations against full foreign ownership or insists on lengthy approval processes, on the other.

The development of industrial parks for exports should be greatly intensified and enhanced. Private developers need the freedom to acquire urban and semi-urban land to develop privately financed infrastructure in support of exports.

The government must take urgent measures to reduce export costs, including private sector provision of port services, zero tariff ratings on capital and intermediate goods imports used for export (based on an effective duty exemption scheme), enhanced export oriented infrastructure — especially roads to the airports, reliable power supply and telecommunications facilities to support export zones.

As suggested by the Abid Hussain committee, the reservation of labour intensive sectors to small scale enterprises should be scrapped. This will give India a chance to provide stiff international

competition in labour intensive exports to countries such as China.

The government should actively encourage inward investment in export oriented sectors, allowing 100 per cent foreign ownership without administrative interference, and with the provision of generous tax holidays as necessary to attract internationally mobile capital from other locations.

China has achieved a lot more in manufactured export production than India and for no particular reason. India has the resource base, the entrepreneurship, a coastline, a vast labour force. It has everything coastal China has had except the interest of government which neglected this for a long time and which even today under-emphasizes the role of industrial facilities, under-emphasizes the role of infrastructure, of land area, of the effective port facilities that one needs to compete with China.

But it is a place where one could find tens of millions of jobs over the next few years in real, significant, foreign exchange earning private sector activity.

It is important to mention, in addition to labour intensive manufacturing exports, India's clear and growing capacity in service sector exports based on information technology. Here, as in labour intensive exports, Indian government policy could do much more to spur export growth.

On the plus side has been the government's long term commitment to the Indian Institutes of Technology. More recently has been the government's support for software technology parks in Chennai, Bangalore, Pune and other cities. These are the information technology industry equivalent of the export processing zones for manufacturing industries. There are serious negatives however. The continuing state monopoly of Videsh Sanchar Nigam Limited in international telephony seriously raises the costs of telephone and information technology services in India.

VSNL is doing considerable damage to India's international competitiveness in the infotech sector. India's telephone density is abysmally low — 1.3 per hundred in 1995 compared with around 62.6 per hundred in the United States. Charges for domestic long distance and international telephone calls in India are among the highest in the world, largely due to lack of competition. Physical infrastructure for data transmission within India, like fibre optic cables, remains underdeveloped despite some recent progress.

India is becoming one of the most important players of the world in the infotech sector and it is the fastest growing foreign exchange earner for India. The government could do more for this industry, not through direct subsidies necessarily, but through liberalization of telecommunications. The latter would mean lower priced telecom services by allowing new entry of major international players in telecom who would lay down a tremendous fibre optic network in India, increase bandwidth and put India more closely in line with the international scene.

The government should find resources to support basic science and research and development in this sector to some extent. India has world class engineers and scientists who have already brought India up in an important way in this sector and could keep India in the forefront of this

new technology.

Exports are part of what the budget must address to further reform, attain and sustain higher rates of gross domestic product growth. Others include a general greater openness of the economy, taking off items from the small scale sector reservation list, deregulating India's private sector — including liberalizing labour laws and exit policies, demonopolizing infrastructure and decentralizing economic policymaking.

The fiscal deficit remains high. Ominously, the ratio of internal public debt to GDP has continued to rise and the debt service burden has risen even faster because of rising interest rates. The expenditure-GDP ratio needs to be brought down considerably. The composition of government spending is skewed towards unproductive, current expenditures and away from basic infrastructure and vitally needed spending on human resource development, including primary health and education.

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