Globalization, Trade Facilitation and Trade in Services

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'Liberalizing trade without facilitation is like freeing the prisoner but with handcuffs on'
Anonymous

1. Introduction

1.1 Past was festive: World trade (in agriculture, mining and manufacturing products) has grown at an average annual rate of 6.3 percent from 1950 through 2001. World output has grown at 3.8 percent annual average rate. During 1950 – 2001, there have occurred only four significant declines in world trade in the years of 1958, 1975, 1982 & 2001. In the latter 3 years it was due to the lagged effects of oil price hikes, collapse of the Exchange Rate Mechanism (ERM) and the 9/11 attack.

1.2 Three Perspective Phases: Globalization is not new to the world. It has been around since before Great Britain ruled the waves and waived the rules to conquer. The world today, is a smaller, vastly transparent and healthy place despite the 9/11 terrorist attacks and spread of terrorism. During Phase I (1860-1914) world income nearly tripled while trade grew by 4.5 times. Low, stable and non-discriminatory tariffs were the contributory factors. Phase II (1920-1939) reversed the reductions in tariffs etc. Tariffs, quotas, licensing controls and exchange controls – all discriminatory import restrictions – proliferated. During this phase both world income and trade increased by 40 percent only. During Phase III (1950 – 2001) stable trade arrangements under General Agreement on Trade and Tariffs (GATT) and World Trade Organization (WTO) provided a set of rules and institutional structure that encouraged gradual reduction in trade barriers. As a result, world income grew by five times and trade increased by eleven times.

2. Why World Trade Growth Can Outstrip World Income Growth

2.1 Convex Compositional Growth: Within Phase III, during 1950-1973, world income and trade increased in the ratio of one percent to 1.6 percent. During 1973-1984 the ratio stood at one percent each. During 1985-2001 the ratio was at one percent to 3.5 percent. The reasons for this faster growth include: (i) Significant lowering of tariff and non-tariff barriers, (ii) Part replacement of domestic products with foreign imported products due to rise in the demand for diversity and product variety and (iii) most importantly on account of the rise of vertical specialization and off-shore migration of manufacturing. All the trade theories of comparative advantage, increasing returns and the one by Michael Porter put together, do not entirely account for the surge in the trade during 1985-2001. Ownership-of-trade change or vertical specialization accounts for about 65 per cent of this surge. Vertical specialization involves splitting up of product manufacture into mutually exclusive stages, locating them in low cost (off-shore) countries, assembling them and then exporting to the world. This trend would accelerate in the next ten years.

2.2 Internet Connectivity: This phenomenon continues to grow at a phenomenal speed in the years to come. As a result, export performance accelerates in both manufactures and services, especially, much more so in services. This is significant even after controlling for recent technological and telecommunications advances and foreign

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ownership of firms. Computerisation of the customer and supplier industries has led to leap-froging of internet spillovers via B2B and B2C.

3. Why Trade Facilitation is Equally Important with Trade Liberalization

3.1 Trade Facilitation: Many developing countries have put up strong opposition to implementing trade facilitation measures and procedures. The reasons, perhaps, are: (a) simplified procedures require shouldering of more responsibilities and (b) the facilitation measures create adjustment costs and demand accountability. That is why the issue was not included, perhaps, for discussions in any of the ministerial meetings including the Cancun meeting. India, in particular, has reservations about including customs-procedure simplification in the trade talks due to the potential costs of adjustment and the burden of administrative reform rather than with trade facilitation in principle.

3.2 Repetitive Rigmarole in Customs Procedures: According to a UN study, it seems, customs procedures all over the world are rampant with the rigmarole of unnecessary repetition of the same information required to be reported again and again in customs applications. For instance, according to the study, an average customs transaction today involves: (i) about 20 to 30 parties, (ii) 40 documents to be routed in, (iii) some 200 data items to be filled in, 30 of which are to be repeated 30 times at least, (iv) re-keying in of 60-70 percent of all data at least once and (v) some 70 per cent of imported goods are, invariably, incorrectly classified, thus, leading to serious delivery delays and severe penalty payments. Automated systems to facilitate all this process are still not common place. For developing economies, inefficiencies in the area of customs administration constitute major road-blocks in their trade liberalization strategies.

3.3 Some Estimates of Benefits of Trade Liberalization: According to the World Bank estimates, complete liberalization of merchandise trade and elimination of subsidies by all members of the WTO could add about $1.5 trillion more to incomes of the developing countries. This, if distributed properly, could reduce poverty for 300 million by 2015. The global income would rise by as much as $2.8 trillion. Even if these estimates are grossly biased upwards, the truth remains that the benefits of trade liberalization would be substantially great.

3.4 Some Estimates of Benefits of Trade Facilitation: The case for streamlining of customs procedures has been gaining in consensus for inclusion in one of the forthcoming ministerial meetings of the WTO because the benefits are immense. Simplified customs and trade procedures would result in big savings in time, money and human resources for every member of the WTO. Some estimates by the Asia Pacific Economic Cooperation Forum suggest that through customs streamlining the gains will be double those that arise from trade liberalization. It seems, the gain factor is more than double for developing countries. These gains accrue mainly to small and medium size enterprises which account for upto 60 percent of GDP creation in many of these countries. In sum, the promised benefits of trade liberalization are difficult to realize if customs procedures are not simplified as it amounts to 'liberalizing trade but leaving the goods in handcuffs.'

3.5 What should be done? Ministers of the Free Trade Area of Americas (FTAA) have, recently, adopted a comprehensive facilitation package designed to reduce customs transaction costs. And it creates a more consistent and predictable customs process with simplified procedures for business. This has, already, been taken to the WTO for adoption by all the member countries. The issue should be included on a priority basis in the agenda for the next ministerial meeting. All those members who have not adopted the trade facilitation package should be pressurized to adopt it and implement it at the earliest. This would be highly facilitated if customs organizations are made a major player in international trade. After all, trade facilitation constitutes a basic corollary of globalization.

4. A Rising Star in the Trade Horizon

4.1 Relatively a New Phenomenon: Trade in services is still relatively a new phenomenon 'both conceptually, statistically and diplomatically' as services are considered inherently non-tradable as they are intangibles. Known as "invisibles", services trade accounts for one -fifth of total world trade in 2002 despite the 9/11attack due to which there is a break, though, in the trend. The General Agreement on Trade in Services (GATS) has achieved only a limited success in persuading countries to effect tariff barrier reductions. This slow progress is largely due to severe entry barriers, political sensitivity of the national regulatory attitudes etc.

4.2 What Services are Traded: Trade in commercial services, though accounts for only one-fifth of world trade, is a fast growing and fast rising star in the horizon. This trend bodes well for services exporters of the world. The first decade of the 21st century will see substantial progress in trade of the following services:

Table 1: Trade in Services

• Travel	• Financial Services	• Install, Maintenance and Repair of Equipment
• Passenger Fares	• Insurance, net	• Legal Services
• Other Transportation	• Tele Communications	• Management Consultancy and P R Services
• Royalties and License Fees	• Computer and Data Processing Services	• Medical Services
• Services to Affiliates	• Construction Engineering Architecture and Mining Services	• Operational Leasing
• Education	• Database and other information services	• R&D Testing Services • Other Services

4.3 Modes of Services Trade: All the above 19 categories of services in trade are classified into three broad groups: (i) Transportation, (ii) Travel and (iii) Other commercial services. All these services are traded in one of four ways or "Modes" as specified in Article I of the GATS. They are: (a) Cross-border services, (b) Consumption abroad, (c) Commercial presence and (d) Temporary presence. Services in the first mode include those provided across the border like sale of electricity, telephone services, transportation services, insurance, banking etc. The second mode includes services of tourism, medical treatment abroad, education abroad etc. For some services, cost and other strategic considerations dictate that only a physical presence through subsidiaries, branches etc., would be the optimal mode of provision and consumption of the services. These include, banking, hotels and restaurants, legal and accountancy services, retail merchandise chains etc. In many of these cases direct shipment becomes an expensive substitute for commercial presence either through own branch/subsidiary or through alliances/partnerships. The fourth and final mode involves trade in services during temporary presence abroad of an individual or group of individuals. This includes services of visiting entertainers, consultants, short-term construction projects etc. The last item may result in foreign direct investment in the host country by the home country.

4.4 Some Services Trade Statistics: The latest position of World Trade in Services is reported in Tables 2 and 3 by region. World exports and imports of commercial services stood at $ 1570 and $ 1545 billions respectively in the year 2002. World major region-wise, Europe dominates the position both in exports and imports in magnitude followed by Asia and North America. Latin America and Africa are only distant participants to services trade. In travel services, all the developed regions of the world occupy net importer position while in the other two categories, developing regions end-up as net importers of services.

Table 2: Region-wise World Exports and Imports of Services in 2002 ($ billions)

Regions	Exports	Imports
1. North America	309	248
2. Latin America	56	65
3. Western Europe	763	716
of which EU (15)	686	669
4. Africa	31	40
5. Asia	322	367
of which Japan	65	107

Source: WTO, World Trade in Services Statistical Tables, 2003

Table 3: Region-wise Share of Travel, Transportation and other Commercial Services, Exports and Imports in 2002 (%)

	Travel		Transportation		Other Commercial Services	
Region	1	2	1	2	1	2
1. North America	31.1	29.4	17.2	27.3	51.7	43.3
2. Latin America	54.6	28.6	18.0	28.8	27.3	42.6
3. Western Europe	28.7	30.0	21.8	22.5	49.5	47.5
of which EU (15)	28.1	29.7	21.2	21.8	50.7	48.5
4. Africa	47.9	20.9	26.2	37.7	25.8	41.3
5. Asia	28.3	26.9	25.8	31.5	45.9	41.6
of which Japan	5.4	25.0	37.0	29.6	57.6	45.4

Note: 1= exports share (%), 2= imports share (%).

Source: WTO, World Trade in Services Statistical Tables, 2003.

4.5 Double Trouble for Travel Services: World travel services declined during 2001-2003. One reason is, the US economy is still not out of recession. The other is the 9/11 attack and the subsequent declaration of war on terrorism. Thus, the conditions for international travel remain unfriendly even beyond 2005. Export and import of services as a percentage of total world exports and imports in 2002 stood at 14 and 24 percent respectively. North America and Western Europe are net exporters and Asia, Africa and Latin America are the net importers in the year 2002.

4.6 Some Behavioural Trends in India's Services Trade: The price elasticity of tourist services is estimated to be around 0.7 in the long-run indicating the impervious nature of tourist traffic to cost conditions in India. However, the income elasticity is around 6.0 in the long-run and 2.7 in the short-run, boding well for tourism in India. Transportation and Insurance services move in tandem with merchandise exports and their income elasticity turns out to be a highly encouraging 2.7. Miscellaneous exports are closely linked with merchandise export activity with an elasticity of slightly greater than unity. All these trends were subject to exchange restrictions and other regulations. The data coverage underlying all these numbers is 1970-1996 (Patra, 2000). Even updates upto 2002 do not indicate any significant deviations in the above mentioned trends.

The six numbers in Table 4 below report that India's share of services trade is marginally better than its share in world merchandise trade.

Table 4: India's share of Exports and Imports of Services Trade since 1990 (%).

	1990	1995	2002
Exports Share (%)	0.6	0.6	1.2
Imports Share (%)	0.7	0.8	1.4

Source: WTO, World Trade in Services Statistical Tables, 2003.

5. The Future of Services Trade

5.1 Crystal Ball Gazing: There are atleast four reasons why the future of trade in services is firmly planted in fertile grounds with the globalization process as the fertilizer to sustain it. Firstly, services, naturally, have a substantially greater than unity income elasticity of demand. As a result, the trade in services (in particular cross-border trade in services) is going to grow very substantially. Secondly, technologies underlying many of these services are advancing at an exponential rate, as a result of which their servicing costs are set to crash to crumb levels, thus, pushing the demand and supply forces on to a higher plane of progress altogether. Thirdly, advances in telecommunications have both a direct and indirect beneficial impact especially on cross-border trade in services. Finally, as part of the globalization process aided by the WTO, both political sensitivity to regulation of and government barriers against services trade are set to come down dramatically and kick services trade on to a hyper plane of growth. The recent US protests against corporate BPOs are only an aberration, as otherwise they backfire as opined by Alan Greenspan. The Tobin tax, even if imposed, would not be able to impede the growth of world trade in services especially after 2007.

5.2 Can GATS Get the Bind Conclusively? The signing of the GATS by the WTO members brought it into being on January 1, 1995, to regulate trade in services. The GATS commits the member countries to specify the services schedule along with the liberalization rules to be followed in the specific sectors of their choice. There is also a binding on their part to complete the negotiations process in a time-bound manner and as mutually agreed upon. A binding gives the trading partners the right of retaliation in the event of the members going back on their own commitment. In this sense binding means progress. Starting here, the negotiations - road ahead is lengthy and bumpy too for several reasons. Firstly, the subject itself is complicated. Secondly, the regulatory barriers to trade in services are far more subtle and highly sensitive-prone politically, especially when different levels of government are required to participate. Thirdly, with services as input links to merchandise trade, negotiations with respect to services only become opaque. Nevertheless, unnecessary pessimism is unwarranted. In view of the tremendous benefits that accrue from product variety being on the rise and variety necessitating accompaniment of complementary services for meaningful consumption, the pace of progress on the negotiations front has, indeed, accelerated. Technological diffusion might temper the asymmetry in the world economy to relegate it to a background. But the impact of being increasingly inserted into the global economy would reduce the policy space for developing countries and make them more dependently cooperative than earlier. Nevertheless, light at the end of the tunnel is visible.

5.3 Can Three be Company too? With the GATS, three international institutions- the IMF, the World Bank and GATS- in all, impinge upon world trade in services. Dependence on the "policy permission" of these global institutions does not decline and on the contrary will be on the increase. The IMF approach to liberalization of trade in services is rooted in the institution's responsibility to see to it that both internal and external stability is maintained by the member countries. The World Bank focus, on the other hand, is linked with the design of sector specific policies of the member countries. On the other, the GATS provides the regulatory framework for trade in services. The question is: Can all the three institutions work in coherence if not in congruence and avoid potential conflicts of policy-driven jurisdictional overlaps? The answer is that not only they can but, more meaningfully, they should. The scope for conflict of policy jurisdiction exists whenever commercial presence and cross-border trade, especially, involve capital movements. Other potential scope for conflict arises from the sequencing of and complementarity with various reforms in the developing countries. The emergence of the Internet, as a convincing channel for services delivery, has created enormous structural change in the channels of delivery of services. The pace of change has, indeed, accelerated. Whether all the three institutions work in tandem and coherence to facilitate trade in services or spoil the broth as the proverbial cooks did, time alone will unfold the solutions manual.

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What Is New About The New Trade Policy?

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Section I: Introduction, Objectives and Strategy

1.1 A Brief Background: Prior to the 1991 crisis the foreign trade sector of India suffered heavily from highly restrictive bureaucratic control. Thus, on 13 August, 1991 the Government of India (GoI) made a statement on Trade Policy. The main purpose of the statement was to reduce controls, simplify procedures and to create a congenial environment for trade. This ushered in, a new era in the foreign trade policy of India. From then on the focus shifted to promotion and development of foreign trade by facilitation instead of controls and regulations. Once again in early 2002, the GoI announced a Medium-Term Export Strategy (MTES) for 2002-2007, providing a vision for creating a stable policy environment with indicative sector-wise targets aiming at achieving one percent share for India in world trade by 2007. The new EXIM Policy (Export Import Policy) 2002-07 also sought to create an environment free of restrictions and controls. A new government came into power in 2004 and it replaced the existing Export Import Policy (EXIM Policy) with a National Foreign Trade Policy. It encompassed Free Trade Agreements (FTAs), Regional Trade Agreements (RTAs) along with Exim Policy components. The synergy between government and market participants is expected to realize India's high export potential by means of enhanced overall competitiveness and faster economic growth.

In this context, this paper examines some of the "new" aspects of the changed approach. Section one is introductory and describes the new Foreign Trade Policy (FTP). Section two deals with some internal features which made new trade policy effective. WTO and the Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) that India has with different regions and external environment are examined in section three. Section four concludes the paper.

1.2 Significance of the Trade Policy: Economic policy in India is increasingly been driven by trade policy reforms especially over the last decade. This has succeeded in providing an export-friendly environment with simplified procedures contributing to enhanced export performance. The focus of these policies has been on liberalization, transparency and globalization. The thrust of the trade policy is to promote export activities, relaxing quantitative restrictions and improving competitiveness to meet global market requirements. Consequently significant changes in the trade policies helped to strengthen the export potential, remove procedural irritants and facilitate availability of inputs. Initiatives have also been taken to promote exports through multilateral and bilateral measures by identifying the potential areas and regions. In this respect, the new Foreign Trade Policy may seem to be a new edition of the earlier approach.

1.3 EXIM Policy and New FTP: Exim policies are aimed at limited targets with focus on development of selective sectors. India's export-import policies have more often been plagued by procedural delays and red-tapism creating a time gap between the announcement of the policy and its implementation. The earlier export promotion

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policies were mainly concentrated on the manufacturing sector. Where as the new Trade Policy differs from the earlier export-import policies in terms of its objectives, philosophy, approach, time-frame etc. This is shown in the Box 1 given below.

Box 1: New Aspects of the New Foreign Trade Policy

i. NFTP focuses on an integrated view for the overall development of country's foreign trade.
ii. It has laid a road map for doubling India's share in world trade. Implementation of the policy measures in right earnest is also expected.
iii. Special attention is given to agriculture and allied sectors since a vast majority is engaged in these sectors.
iv. Proposal to setup Special Economic Zones for handicrafts.
v. In view of India's commitment to the WTO, the policy has further removed quantitative restrictions from 29 items.
vi. New schemes such as 'New Target Plus', 'Served from India' and 'Vishesh krishi Upaj Yojana' were introduced to boost exports.
vii. Provides for 100 percent FDI to establish free trade zones and ware housing zones.
viii. Liberal import regime for exporters with a minimum floor-level performance. A major initiative to service sector is the exemption of service tax.
ix. The central theme of the new policy is *while increase in exports is quite important at the same time, to facilitate those imports which are required to stimulate the economy.* A pragmatic and balanced approach to export promotion and import control.

1.4 New Foreign Trade Policy (NFTP): How to make India a major player in world trade is the moot question. A comprehensive view needs to be adopted for overall development of the country's foreign trade sector. Coherence and consistency among trade and other economic policies is important for maximizing their contribution to foreign trade. The Exim policy with its limited focus may not be able to meet the objectives of overall development. Thus, it is necessary to go much beyond and adopt an integrated or a balanced approach. Export orientation seems to be inevitable in the highly globalized setup prevalent today. In this context, the new FTP focuses on stepping up employment by promoting agricultural and services exports.

1.5 Strategy: It is for the first time that a comprehensive Foreign Trade Policy is being notified. Trade is not an end in itself, but a means to economic growth and national development. The primary purpose of the policy is not mere earning of foreign exchange but to stimulate economic activities in the economy[2]. The Foreign Trade Policy is rooted and built around two major objectives. They are:

a. to double India's percentage share of global merchandise trade by 2009; and

b. to act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

Box 2: Promotional Steps in the New Trade Policy

According to GoI, the FTP is more than a change in nomenclature and has a much wider connotation than the Exim policy it replaced. Promising an integrated approach to trade development, the policy hopes to double the country's percentage share of global merchandise trade within the next five years and also generate substantial employment. For achieving these objectives, it will rely on some established strategies: relaxing controls and create a transparent atmosphere; simplify procedures and reduce transaction costs; neutralize the incidence of levies and duties on inputs used in export products; facilitate technological and infrastructural upgradation in all sectors of the economy.

[2] Commerce Minister Speech on the New Foreign Trade Policy 2004-2009.

1.6 Special Initiatives: The new FTP gave a major boost and technical direction to manufacturing. It also provided specially focus on agriculture (export of fruits, vegetables, flowers, minor forest products and their value-added products), handicrafts, gems & jewellery, and leather sectors. The special attention to agriculture is noteworthy because export promotion policies so far have focussed mainly on the manufacturing sector.

Section II: Internal Environment

2.1 Inter-links Between Trade and Industry: Insufficient co-ordination between various Ministries involved in export facilitation adversely influences exporters. The new FTP as a remedial measure resurrected a multi-member institution called 'Board of Trade'. It will be headed by an eminent person, say, a trade specialist but not a minister (from government) to act as a link between trade and industry.

2.2 The Transition Mechanism: For more than four decades, Indian policy makers have been trying to make a crucial break away from inward orientation. With the casting away of export pessimism, export promotion packages have become the focus of attention in the new policy. But, India's share in the world exports is a meager 0.8 per cent compared to China's 5.1 per cent. Exports accounted for just around 10.3 per cent of GDP in 2002-03, while imports were valued at 12.8 per cent. The new policy makes an effort to change the attitude of inward orientation by following the examples of Japan and China.

2.3 Identification of New Markets and Technologies: As the import policy for capital goods has been constrained by restrictions hence, preventing SMEs from importing capital goods or machinery for technological upgradation. The NFTP provided duty-free import of capital goods with flexible conditions. The policy identified some focus areas for exporters to conduct trade fairs and buyer seller meets such as Latin America, Africa, CIS Region, ASEAN countries, Australia and New Zealand with higher budgetary support.

2.4 NFTP and Foreign Direct Investment: Some recent studies have shown that there is a positive relationship between FDI and exports. Even after 13 years of launching the process of liberalization, India has not been able to attract FDI to a considerable extent. Where as, China is attracting more FDI than all the other Asian countries combined and FDI accounts nearly 50 per cent of China's manufactured exports. In the case of India it is only 8 per cent. To get more FDI, India needs to make significant improvements in its infrastructure, labour productivity, tax regimes and administration. In this perspective, the new policy announced a couple of measures, such as 100 per cent FDI to be allowed in free trade and warehousing zones. To achieve a higher GDP growth rate and increasing exports a forceful push FDI policy is inevitable.

Section III: External Environment

3.1 Trade Policy and the WTO: India plays a leading role in the WTO. New FTP announced that the Duty Exemption Pass Book scheme (DEPB) which allows exporters to claim exemption from excise duties and relief on customs duties. It will be replaced with an effective scheme in line with WTO commitments.

3.2 New Trade Policy and Trade Agreements: The policy takes a clear stand on various issues of India's outlook on WTO affairs as well as its general approach towards free trade agreements (FTAs) and regional trade agreements (RTAs). The new FTP has considered the fact that RTAs and FTAs would supplement and complement the multilateral trading system. Besides playing a critical role in stepping up India's competitiveness through sourcing of inputs and raw materials at competitive rates, FTAs also lead to expansion of markets.

3.2.1 India-Sri Lanka FTA: Sri Lanka is the only country with which India has implemented an FTA. India's exports to Sri Lanka increased from Rs 2,163 crore to Rs 6,067 crore between 1999-2000 and 2003-04. Similarly, Sri Lanka's exports to India moved up from Rs 192 crore to Rs 893 crore in the same period. The India-Sri Lanka FTA has stimulated new FDIs in Sri Lanka for rubber-based products, ceramics, electrical & electronic items, wood-based products, agri-commodities and consumer durables. According to UNCTAD, owing to the FTA, 37 projects were now in operation with a total investment of $145 million and India has emerged as the third largest investor in Sri Lanka. The new FTP focuses on similar agreements with Thailand, Singapore and South Africa are under various stages of negotiation.

3.2.2 India - Thailand FTA: The FTA between India and Thailand, which was to be implemented by March 1, 2004 got delayed due to differences in the methodology related to Rules of Origin (ROO). Recently import duties on some 80 tariff lines have been brought down by 50 per cent to be made effective from next year. The reduction increases to 75 per cent by March 2005. It will be totally eliminated by March 2006. A full-fledged FTA would be in place by the year 2008.

3.2.3 India - EU FTA: The EU has recognized India as an emerging global player and an important regional partner. Both the trading partners will lay emphasis on issues such as industrial policy, transport, energy, biotechnology and space co-operation, in order to raise volume of trade and investment. The Federation of Indian Chambers of Commerce and Industry (FICCI) is likely to set up a joint study group to look into the feasibility of the FTA with the EU and enhance India's trade relations with the EU. It is being said that given the difference between the tariff structure of the EU and India, it would be appropriate to extend the FTA to the service sector also. Also, given the high duty structure of India in comparison to the EU, India would have to give higher duty concessions in an FTA with the EU. India and the EU can formalize the FTA by the time the Indo-EU Summit proposed to be held in 2005.

3.2.4 India – US FTA: A potential Indo-US FTA is also essential to pursue the long-term interest of these two giant economies. In February 2004, US Trade Representative (USTR) stated that India's average applied tariff in agriculture is 38%. This is three times the level of the US tariff level for agriculture. The US manufacturing tariff at 3% is considerably lower than India's 20%. Hence, US wants further tariff reductions from India. Given that the WTO has taken away other types of border measures, tariffs are the last remaining resort for India to collect revenues and to protect its domestic agriculture and manufacturing industries. If an FTA, between India and US comes into force the new rates would be much lower.

Section IV

4. Conclusion: India has made a radical change in its economic stance in consonance with the rest of the world. It has all along been trying to be a member of some big Asian trading bloc. In this context, the new FTP has certainly entrusted the industry, exporters, farmers and ordinary citizens with the task of doubling the country's percentage share of global merchandise trade within the next five years. In the present context, a complex world has to be encountered and there is no effective alternative to the export oriented strategy. By realizing this, the new policy has given top priority to exports promotion in the national agenda.

The goal of the new Foreign Trade Policy is to achieve 20 percent growth per annum in exports to increase India's share in world trade from 0.8 percent to 1.5 per cent by 2009. To conclude, the government and industry partnership can make India an export-oriented global economy. Therefore, we anticipate that, the NFTP will provide a vision and a strategic framework for making India a major player in the global markets.

Supply Chain Management- Impact of RFID

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1. Introduction

1.1 <u>What is RFID</u>?

RFID stands for Radio Frequency Identification. This is a generic term for technology that uses RADIO WAVES to automatically identify people or objects. The information is stored on a micro chip that is attached to an antenna. The antenna reflects the radio waves and with a hand held reader the information is transferred to a PC. RFID technology is more than 30 years old and its commercial application in Supply Chain Management (SCM) has gained momentum only in the last couple of years.

1.2 This paper discusses the advantages in using of RFID technology with particular reference to SCM and its current limitations.

2. From Bar Codes to RFID

2.1 Currently Barcodes are used extensively in all supply chains.

The industrial use of barcodes can be traced back as far as the 1960s. Some of these early implementations were used to identify rail road cars. Common barcodes started appearing on grocery shelves in the early 1970s to automate the process of identifying grocery items.

2.2 Today, barcodes are just about everywhere and are used for identification in almost all types of business. When barcodes are implemented in business processes, procedures can be automated to increase productivity and reduce human error. Bar-coding should be used when ever there is a need to accurately identify or track something. Bar-codes are cheap to print and the reading technologies are varied and reliable. This helps in fast turnover of items to impatient users.

2.3 The research has shown that manual entry of codes results in one error for every 300 entries. However bar coding has helped in reducing human error significantly and the error varies from one in 1.4 Million to 4.5 million entries. Bar coding requires line of sight readers to transfer data to Personal Computers.

2.4 However bar coding have limitations. There can not be unique code on each carton of Milk. The contents inside a card board box can not be identified. The bar codes can get damaged while it is under transit and are susceptible to high temperatures and humidity. Thus RFID is gaining prominence.

3. RFID's superiority over Bar Codes

3.1 The tag is paper thin, flexible and approximately 2" x 2" in size which allows it to be placed inconspicuously on the inside of a product. of an etched antenna and a tiny chip which stores vital bibliographic data including a unique ID number to identify each item. This contrasts with a barcode label, which does not store any information, but merely points to a database.

3.2 RFID tags can be read from a longer distance. RFID readers can read the contents inside a box. Since each product has a unique electronic product code (EPC) it is possible to keep track of a pack in the entire supply chain. This EPC also helps in tracing life over products and protection against theft. This has given great advantage in food processing and Pharma Industry.

This technology is in focus after both Wall Mart and US army has intimated their major suppliers for product supplied by them should have RFID tags by January 1, 2005.

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* The author is Professor in Supply Chain Management at GITAM Institute of Foreign Trade, Visakhapatnam.

4. RFID - Types, Benefits and Limitations

4.1 Types of RFID tags

RFID tags are classified as passive and active tags. The passive tags data stored can not be changed. However in the active tags data can be changed and also can be used as many times as they are required.

4.2 Benefits of RFID

- Reduction in Stock outs
- Improves visibility of Assets in the Supply Chain, leading to their efficient utilization
- Product returns-better managed
- Counterfeit Prevention
- Obsolescence prevention

4.3 Limitations of RFID

The price of tag even though has come down from 4 $ in 1975 to 25 cents in 2003 is still expensive for large scale commercial applications and expected to fall to 5 cents in the near future as the usage increases and economies of scale of RFID tag manufacturing will result in lower costs.

The cost of reader also has fallen from 1500 $ to around 500$. However this has to be available between $ 100 to 200.

There is no uniform code for RFID tags. However EPC global a non profit organization is working towards this and expect completion of the job in the next 6 -12 months.

It is reported that accuracy of reading is only around 70 % and it is expected that this will improve. It is worth while to note the opinion of Linda Dilman CIO of Wal- Mart whom many regard as RFID movement's guiding force.

100% read-rate accuracy is not necessary since cases will be read more than once as they move through a store; neither the most pessimistic nor the most optimistic predictions for RFID's impact will prove accurate**;** the constant press surrounding RFID often confuses more than it educates; Wal-Mart's RFID project is not even close to the most expensive project currently underway at the retailer; Chinese companies have an advantage over their American counterparts in that they are building their infrastructure from zero rather than having to incorporate RFID into already existing systems and processes. Perhaps the most compelling thing Dillman says is that RFID is the solution to a problem the retailer has struggled to solve "100 times **in the past".**

5 RFID Solutions in USA

5.1 What a recent survey shows

A recent survey conducted during Frontline Solutions Expo 2004 indicates widespread plans for RFID Implementation in the coming years despite concerns around high cost and lack of standards.

Results revealed that 79 percent of the survey respondents plan to pilot or implement an RFID solution. The remaining 21 percent of respondents plan to implement an RFID solution within 12 to 24 months. The top reasons cited for implementing RFID included improving the ability to track goods, meeting customer requirements and receiving greater efficiencies in shipping and receiving.

In addition, the majority of respondents planning to implement RFID anticipate incorporating or have already incorporated the automated data collection applications that will enable them to take advantage of the dynamic information from RFID tags within their existing inventory, warehouse and supply chain processes. Nearly two-thirds of the respondents plan to use or are already using automated data collection applications for inventory management, 50 percent for warehouse management and nearly 40 percent for supply chain management.

5.2 Significant concerns around RFID

The survey also revealed a critical need to address key concerns associated with RFID, including high cost, an early, untested market and lack of sophisticated software to integrate RFID with other business applications like supply chain management and ERP systems. Of those respondents currently piloting or planning to pilot RFID in the next 2 years, nearly 60 percent saw cost as a primary concern, 42 percent worried about the lack of standards around RFID, 36 percent were concerned about the early, untested market and 30 percent were concerned by integration issues. These concerns mirrored the top reasons cited by the respondents not planning to implement RFID.

However the organizations are clear that RFID adaptation in their organizations will revolutionize Supply Chains and help them in saving millions of dollars.

6. RFID Solutions in India

6.1 Some Indian companies take Initiatives

In India too, the corporate world is "smacking its lips at what RFID could do to its supply chain management". Ashok Leyland and L&T are examining RFID pilot projects. Ashok Leyland is also experimenting with RFID in one of its engine plant. The current inventory of engines is around 600, equivalent to 4 days of inventory. The Director –Management development center feels RFID will help them to reduce it by half.

Also, Indian IT companies like WIPRO, TCS and Patni computers have set up RFID divisions and have bagged pilot projects abroad.

7. Future Scenario

The market size by 2008 is estimated to be 4.2 billion $ for RFID products like tags, reader and soft ware.

The keen desire to reduce costs and increase information in the supply chain and with specific target dates for implementation of RFID from Albertsons, Target, Wall Mart, U.S. & U.K army RFID tag usage is set to explode in the year 2005.This sheer volume for RFID products will help in bringing down tag and reader costs.

Users, software developers, RFID tag providers and EPC global are working closely to find a viable solution to address the standards issue and to reduce cost of RFID products to increase the user base of this exciting RFID technology.

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RFID's Challenge

"RFID technology is going to generate mountains of data about the location of pallets, cases, cartons, totes and individual products in the supply chain. It's going to produce oceans of information about when and where merchandise is manufactured, picked, packed and shipped. It's going to create rivers of numbers telling retailers about the expiration dates of their perishable items - numbers that will have to be stored, transmitted in real-time and shared with warehouse management, inventory management, financial and other enterprise system. Applications of RFID technology are also going to need to rely on a new kind of computing architecture known as edge computing, in which vast amounts of processing will take place at the edges of the enterprise's network rather than in corporate data centres. RFID, experts agree, is a transformational technology."

Source : http://www.cio.com/archive/120103/retail.html

Highlights of Foreign Trade Policy*

1. **Strategy:**

(a) It is for the first time that a comprehensive Foreign Trade Policy is being notified. The Foreign Trade Policy takes an integrated view of the overall development of India's foreign trade.

(b) The objective of the Foreign Trade Policy is two-fold:

(i) to double India's percentage share of global merchandise trade by 2009; and

(ii) to act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

(c) The key strategies are:

(i) Unshackling of controls;

(ii) Creating an atmosphere of trust and transparency;

(iii) Simplifying procedures and bringing down transaction costs;

(iv) Adopting the fundamental principle that duties and levies should not be exported;

(v) Identifying and nurturing different special focus areas to facilitate development of India as a global hub for manufacturing, trading and services.

2. **Special Focus Initiatives:**

(a) Sectors with significant export prospects coupled with potential for employment generation in semi-urban and rural areas have been identified as thrust sectors, and *specific sectoral strategies* have been prepared.

(b) Further sectoral initiatives in other sectors will be announced from time to time. For the present, *Special Focus Initiatives* have been prepared for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and Leather & Footwear sectors.

(c) The threshold limit of designated '*Towns of Export Excellence*' is reduced from Rs. 1000 crores to Rs. 250 crores in these thrust sectors.

3. **Package for Agriculture:**

The Special Focus Initiative for Agriculture includes:

(a) A new scheme called *Vishesh Krishi Upaj Yojana* has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

(b) Duty free import of capital goods under EPCG scheme.

(c) Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agri Export Zone.

(d) ASIDE funds to be utilized for development for Agri Export Zones also.

(e) Import of seeds, bulbs, tubers and planting material has been liberalized.

(f) Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.

4. **Gems & Jewellery:**

(a) Duty free import of consumables for metals other than gold and platinum allowed up to 2% of FOB value of exports.

(b) Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.

(c) Duty free import of commercial samples of jewellery increased to Rs.1 lakh.

(d) Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

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* Source : Press Information Bureau, GOI, August 31, 2004

5. **Handlooms & Handicrafts:**

(a) Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5% of FOB value of exports.

(b) Import of trimmings and embellishments and samples shall be exempt from CVD.

(c) Handicraft Export Promotion Council authorised to import trimmings, embellishments and samples for small manufacturers.

(d) A new Handicraft Special Economic Zone shall be established.

6. **Leather & Footwear**:

(a) Duty free entitlements of import trimmings, embellishments and footwear components for leather industry increased to 3% of FOB value of exports.

(b) Duty free import of specified items for leather sector increased to 5% of FOB value of exports.

(c) Machinery and equipment for Effluent Treatment Plants for leather industry shall be exempt from Customs Duty.

7. **Export Promotion Schemes**:

(a) ***Target Plus*:**

A new scheme to accelerate growth of exports called '*Target Plus*' has been introduced.

Exporters who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. (Since the target fixed for 2004-05 is 16%, the lower limit of performance for qualifying for rewards is pegged at 20% for the current year).

Rewards will be granted based on a tiered approach. For incremental growth of over 20%, 25% and 100%, the duty free credits would be 5%, 10% and 15% of FOB value of incremental exports.

(b) ***Vishesh Krishi Upaj Yojana*:**

Another new scheme called *Vishesh Krishi Upaj Yojana* (Special Agricultural Produce Scheme) has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

Export of these products shall qualify for duty free credit entitlement equivalent to 5% of FOB value of exports.

The entitlement is freely transferable and can be used for import of a variety of inputs and goods.

(c) ***'Served from India' Scheme***:

To accelerate growth in export of services so as to create a powerful and unique '*Served from India*' brand instantly recognized and respected the world over, the earlier DFEC scheme for services has been revamped and re-cast into the '*Served from India*' scheme.

Individual service providers who earn foreign exchange of at least Rs.5 lakhs, and other service providers who earn foreign exchange of at least Rs.10 lakhs will be eligible for a duty credit entitlement of 10% of total foreign exchange earned by them.

In the case of stand-alone restaurants, the entitlement shall be 20%, whereas in the case of hotels, it shall be 5%.

Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages.

(d) ***EPCG:***

(i) Additional flexibility for fulfillment of export obligation under EPCG scheme in order to reduce difficulties of exporters of goods and services.

(ii) Technological upgradation under EPCG scheme has been facilitated and incentivised.

(iii) Transfer of capital goods to group companies and managed hotels now permitted under EPCG.

(iv) In case of movable capital goods in the service sector, the requirement of installation certificate from Central Excise has been done away with.

(v) Export obligation for specified projects shall be calculated based on concessional duty permitted to them. This would improve the viability of such projects.

(e) ***DFRC:***

Import of fuel under DFRC entitlement shall be allowed to be transferred to marketing agencies authorized by the Ministry of Petroleum and Natural Gas.

(f) ***DEPB:***

The DEPB scheme would be continued until replaced by a new scheme to be drawn up in consultation with exporters.

8. ***New Status Holder Categorization****:*

(a) A new rationalized scheme of categorization of status holders as Star Export Houses has been introduced as under:

Category	*Total performance over three years*
One Star Export House	15 crore
Two Star Export House	100 crores
Three Star Export House	500 crores
Four Star Export House	1500 crores
Five Star Export House	5000 crores

(b) Star Export Houses shall be eligible for a number of privileges including fast-track clearance procedures, exemption from furnishing of Bank Guarantee, eligibility for consideration under Target Plus Scheme etc.

9. **<u>EOUs</u>:**

(a) EOUs shall be exempted from Service Tax in proportion to their exported goods and services.

(b) EOUs shall be permitted to retain 100% of export earnings in EEFC accounts.

(c) Income Tax benefits on plant and machinery shall be extended to DTA units which convert to EOUs.

(d) Import of capital goods shall be on self-certification basis for EOUs.

(e) For EOUs engaged in Textile & Garments manufacture leftover materials and fabrics upto 2% of CIF value or quantity of import shall be allowed to be disposed of on payment of duty on transaction value only.

(f) Minimum investment criteria shall not apply to Brass Hardware and Hand-made Jewellery EOUs (this facility already exists for Handicrafts, Agriculture, Floriculture, Aquaculture, Animal Husbandry, IT and Services).

10. **<u>Free Trade and Warehousing Zone</u>**:

(i) A new scheme to establish Free Trade and Warehousing Zone has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading-hub.

(ii) FDI would be permitted up to 100% in the development and establishment of the zones and their infrastructural facilities.

(iii) Each zone would have minimum outlay of Rs.100 crores and five lakh sq. mts. built up area.

(iv) Units in the FTWZs would qualify for all other benefits as applicable for SEZ units.

11. **Import of Second hand Capital Goods**

a. Import of second-hand capital goods shall be permitted without any age restrictions.

b. Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crores to Rs.25 crores.

12**. <u>Services Export Promotion Council</u>:**

An exclusive Services Export Promotion Council shall be set up in order to map opportunities for key services in key markets, and develop strategic market access programmes, including brand building, in co-ordination with sectoral players and recognized nodal bodies of the services industry.

13. **Common Facilities Centre**:

Government shall promote the establishment of Common Facility Centres for use by home-based service providers, particularly in areas like Engineering & Architectural design, Multi-media operations, software developers etc., in State and District-level towns, to draw in a vast multitude of home-based professionals into the services export arena.

14. **Procedural Simplification & Rationalisation Measures**:

(a) All exporters with minimum turnover of Rs.5 crores and good track record shall be exempt from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.

(b) All goods and services exported, including those from DTA units, shall be exempt from Service Tax.

(c) Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.

(d) Number of returns and forms to be filed have been reduced. This process shall be continued in consultation with Customs & Excise.

(e) Enhanced delegation of powers to Zonal and Regional offices of DGFT for speedy and less cumbersome disposal of matters.

(f) Time bound introduction of Electronic Data Interface (EDI) for export transactions. 75% of all export transactions to be on EDI within six months.

15. **Pragati Maidan**:

In order to showcase our industrial and trade prowess to its best advantage and leverage existing facilities, Pragati Maidan will be transformed into a world-class complex. There shall be state-of-the-art, environmentally-controlled, visitor friendly exhibition areas and marts. A huge Convention Centre to accommodate 10,000 delegates with flexible hall spaces, auditoria and meeting rooms with high-tech equipment, as well as multi-level car parking for 9,000 vehicles will be developed within the envelope of Pragati Maidan.

16. **Legal Aid:**

Financial assistance would be provided to deserving exporters, on the recommendation of Export Promotion Councils, for meeting the costs of legal expenses connected with trade-related matters.

17. **Grievance Redressal:**

A new mechanism for grievance redressal has been formulated and put into place by a Government Resolution to facilitate speedy redressal of grievances of trade and industry.

18. **Quality Policy**:

(a) DGFT shall be a business-driven, transparent, corporate oriented organization.

(b) Exporters can file digitally signed applications and use Electronic Fund Transfer Mechanism for paying application fees.

(c) All DGFT offices shall be connected via a central server making application processing faster. DGFT HQ has obtained ISO 9000 certification by standardizing and automating procedures.

19. **Bio Technology Parks**

Biotechnology Parks to be set up which would be granted all facilities of 100% EOUs.

20. **Co-acceptance/ Avalisation introduced** as equivalent to irrevocable letter of credit to provide wider flexibility in financial instrument for export transaction.

21. **Board of Trade:**

The Board of Trade shall be revamped and given a clear and dynamic role. An eminent person or expert on trade policy shall be nominated as President of the Board of Trade, which shall have a Secretariat and separate Budget Head, and will be serviced by the Department of Commerce.

Summary of Draft Policy For Maritime Sector*

(Ports, Shipping & Inland Water Transport)

1. As about 95% by volume and 70% by value of the country's trade is carried on through the maritime transport, the strengthening of maritime infrastructure would have favourable impact on the country's trade front and economic growth.

2. The country's long coastline of around 7517 kms. spread on the western and eastern shelves of the mainland and also along the islands, is a natural endowment capable of being harnessed for the country's trade and tourism development.

3. The policies relating to the maritime sector have in the past addressed issues as they emerged. These included the mismatches of the capacities and traffic at major ports, acquisition of ships, need for encouraging inland water transport, etc. In the context of the critical importance of the sector for national economic development, a comprehensive policy for maritime sector would assure an enabling framework for facilitating public and private investments, competition and improved efficiencies. The policy seeks to emphasise the complementary roles of maritime and other modes to provide for cost effective services and timely deliveries to meet the demands of trade.

PORT SECTOR :

4. The policy proposes to adopt a holistic approach for the port sector for improving the existing infrastructure through modernisation of the systems with latest technology, assure capital dredging towards providing draft at ports, ensure coordinated development of major and non-major ports to exploit the potential of the hinterland, promote training of personnel for improving employment and efficiency of the human resource and provide the necessary institutional framework.

5. Integrated development of facilities at the existing major ports would be planned in accordance with master plans. Port specific measures will be initiated for planning future growth. Major and minor ports would develop in complementary manner to derive benefits of synergies. Criteria will be prescribed for declaration of minor ports as major ports.

6. National Sea-Waterways (on the lines of the National Highways) along the coast would be developed and funded by the Central Government. To start with, the channel depths at major ports would be addressed and the scheme would be extended at a later date.

7. Special Purpose Vehicles formed for operating terminals at ports would not be allowed to develop into captive facilities or monopolies. The policy would provide for bringing in additional investments, investors and competition as may be warranted.

8. Measures will be taken to promote Indian dredging industry including the private sector.

9. The Land Policy for major ports would ensure allotment on transparent manner and at reasonable prices.

10. Infrastructure facilities at major ports for handling crude oil would be strengthened through a facilitative policy on single point moorings.

11. Private sector participation would be encouraged as also private public partnerships; suitable safeguards would be positioned to ensure that the facilities are operated as public utility.

12. Reforms in the organizational structure of ports through corporatisation would be attempted; as maritime ports are service providers, representation of user interests as trustees in major ports would be reviewed to enhance the levels of their

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* Source : Press Information Bureau, GOI, August 31, 2004

participation. For overall coordination and policy implementation, a Directorate General of Ports would be set up.

13. The Ports would proactively address issues of coordination with other transport modes, electronic data interchange, supply chain management and interface with users and trade interests as well as International Maritime Organisations.

14. The policy would pay attention to manpower/ industrial relations and training through productivity linked reward for workers, pension, incentives, training and in matters of recruitment and promotion; a transparent policy on stevedoring would be put in place liberalizing the system by which workers are engaged by stevedores.

SHIPPING AND MARITIME TRAINING :

15. India is presently ranked 17th maritime nation in the world; however, the total tonnage has remained around the same level in the recent years. In view of the trend in international shipping, replacement of old ships and modernizing the fleet would be accorded priority. BBCD route would also be encouraged for ship acquisition.

16. Efforts would be made towards increasing the share of Indian bottoms in the carriage of overseas cargo. Institutional arrangements and the infrastructure for the shipping sector will be strengthened. Policy towards offshore shipping and LNG carriage would be announced to facilitate increase in cargo handling by Indian ships.

17. Attention would be paid towards standardization of the passenger ships for voyages to Andaman & Nicobar and Lakshadweep Islands to ensure that the ship acquisition is cost effective and entails minimum delay.

18. Coastal shipping will be encouraged through a package of measures covering acquisition of fleet, provision of dedicated berths at ports, reduction in dues to be paid, as well as through fiscal concessions. A Coastal Shipping Development Fund with a corpus of Rs.500 crores will be set up to provide finance on soft terms for acquisition of coastal vessels.

19. The navigational aids would be modernized for facilitating increased ship movement in Indian waters and VTS would be operationalised in the eastern and southern regions of the country as also in the Gulf of Khambhat.

20. Regional Merchant Marine Deptt. Offices would be set up in 8 Maritime States; district level MMDs would be reorganized. The strength of Ship Surveyors would be increased.

21. As the emerging global shortage of qualified shipping personnel would provide scope for Indian seafarers, two Maritime Universities would be set up on the east and west coast of India; marine related courses would be popularized by strengthening the infrastructure. The policy aims at aggressive marketing for Indian seafarers on foreign flag ships.

22. The interface with trade interests, shippers' councils and with international institutions would be strengthened. Attention would be paid also towards operationalising a policy package for sailing vessels, fishing vessels besides continuing cargo support to Indian ships through TRANSCHART of the Ministry of Shipping.

SHIPBUILDING AND SHIPREPAIR :

23. Shipbuilding is a highly competitive business and the world over the industry is generally supported by national policies and subsidies. A package of measures including fiscal concessions and subsidies would be considered to make Indian shipbuilding industry globally competitive and to emerge as a leading player by 2025. In the interim, two international size shipbuilding yards would be set up in the country, in addition to measures for modernizing the existing public and private sector shipyards. Foreign direct investment would also be encouraged for the sector.

INLAND WATER TRANSPORT :

24. Despite being an eco-friendly, cost effective and fuel efficient mode, IWT carries only 0.15% of the total inland cargo throughput. The number of vessels for IWT movement and the trained manpower engaged in IWT is also limited.

25. The policy aims to increase the share of inland cargo movement by IWT mode from the present level of 0.15% to 2% by the year 2025 through schemes for fairway and infrastructure development, manpower training, institutional strengthening and through financial fiscal concessions.

26. Specific projects of infrastructure development will be identified for implementation through Joint Venture/BOT route.

27. Inland Water Transport Development Council will be strengthened and empowered to play a more active role in the development of IWT.

28. IWT Development Fund with a corpus of Rs.500 crores at National level will be created. Subsidy scheme will be reexamined and amended for development of infrastructure and acquisition of vessels but not for operations.

29. Apart from promoting IWT mode for inland cargo movement, the policy also emphasizes the possibility of cooperation with neighbouring countries through protocols and bilateral arrangements.

■

"World Freight payments, as a percentage of total import value (cif), stood at 6.21% in 2000 as per UNCTAD. For developed countries, it stood at 5.21% and for developing countries it stood at 8.83%. For India, freight payments as a percentage of total import value stood at 10.32% (1997) and estimated to be around 11.4% in 2000."

- Source: http://www.imaritime.com/indiaportreport/Introduction.pdf

"Though, India has been somewhat a late-comer to the reign of containerized cargo trade, the growing integration of the Indian economy with the global market has made it imperative for the Indian port sector to bring about a major shift in its perspective to cater to the new demands of international trade."

Source: http://www.imaritime.com/indiaportreport/Introduction.pdf

"Accommodating people's growing demands for their inclusion in society, for respect of their ethnicity, religion, and language, takes more than democracy and equitable growth. Also needed are multicultural policies that recognize differences, champion diversity and promote cultural freedoms, so that all people can choose to speak their language, practice their religion, and participate in shaping their culture—so that all people can choose to be who they are."

Human Development Report 2004:
Cultural Liberty in Today's Diverse World

GIFT NEWS

GIFT - Workshops/Seminars/MDPs in the Quarter

Workshops

Globalisation, Trade Union Challenges and Labour Management Cooperation organized during 13-14 July 2004 at GIFT; 30 Managers and trade union leaders participated.

Balanced Business Score Card (BBSC) was organized on 21st August at GIFT - GITAM - Auditorium.

Marine Cargo Insurance was organized during 23rd-24th August at GIFT. Dr. TV Sairam, Chief Commissioner, Customs & Central Excise, Visakhapatnam inaugurated the workshop. 20 representatives from trade and industry participated.

Supply Chain Management, a two day workshop at Tirupati on 2nd-3rd September 2004.

Seminars

National Seminar on **Commodity Futures** was organised during 11th-12th August, 2004, in association with the Indian Institution of Plantation Management, PHD Chamber of Commerce & Industry, PEC Ltd., National Commodity & Derivatives Exchange Limited, National Multi-Commodity Exchange of India Ltd. And SGI Comex at PHD House, New Delhi. 30 representatives from the trade and industry participated.

National Foreign Trade Policy, organized on 28th August 2004. Dr. PL Sanjeev Reddy, IAS (Retd), Director, Indian Institute of Public Administration, New Delhi inaugurated. Dr. MVVS Murthi, President GITAM Institutions presided. Shri G. Seetharami Reddy, ITS, Joint Director General of Foreign Trade, Visakhapatnam presented an overview.

GIFT is an offshoot of Gandhi Institute of Technology and Management (GITAM) located in the port city of Visakhapatnam on the east coast of the country, a city that hosts several large industrial organizations – Visakhapatnam Port Trust, RINL, LG Polymers, HPCL, Marine Products Export Development Authority (MPEDA), Visakhapatnam Special Economic Zone (VSEZ), Office of the Joint Director General of Foreign Trade (JDGFT) and Customs Authorities. Established in 1997 in academic collaboration with the Indian Institute of Foreign Trade, Ministry of Commerce & Industry, Government of India, GIFT offers a two year Masters in International Business (MIB), the flagship programme of the Institute. An integrated business school with teaching, training, consulting and research as the four pillars of its activity base, GIFT has serviced a host of organizations related to foreign trade like APEDA, SIDBI, FAPCCI, Tobacco Board, Horticulture Board, CONCOR, various chambers of commerce, SMEs and prospective entrepreneurs in the fields of export marketing, export finance, foreign exchange risk management, commodity futures; logistics and supply chain management, entrepreneurship development; and WTO agreements and implications for business. The Centre for Entrepreneurship is a new initiative of the Institute. As part of its social responsibility, GIFT has taken up sponsored research and brought out the Visakhapatnam Development Report 2003.

GIFT brings out this quarterly publication GLOBAL VISTAS to provide analytical articles and commentaries on issues relating to international trade developments, and WTO and related trade issues. We at Global Vistas invite contributions with a word limit of 2000 words from academics, trade and industry that are of contemporary relevance.

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Offshore outsourcing: 'Truth' of the Debate

Offshore outsourcing – migration of service jobs overseas is sending ripples of discontent and angst in the outsourcing countries, US in particular, where it became an issue in the recent Presidential election. There is need to know the 'Truth' of the debate on offshore outsourcing.

Digitization of information, reduction of communication costs and expanded bandwidth around the world have made offshore outsourcing possible. And the services that are being outsourced offshore range from routine call centre work to higher-value software programming, medical diagnosis, financial services and research and analytical activities. Thus outsourcing is emerging as "just a new way of doing international trade".

The current trend of outsourcing business processes overseas is comparative advantage at work. Companies in Europe and the US are aware that the Indian IT industry provides quality services at highly competitive prices. Indian skills in software development are being acknowledged worldwide. As Nandan Nilekani, the chief executive of Infosys Technologies, said at this year's World Economic Forum, "Everything you can send down a wire is up for grabs."

While there is good reason for a debate on offshore outsourcing and the implications for respective economies, this sensitive issue, needs to be less politicized. Analysts range from one extreme to the other on estimates about how many jobs have moved offshore in the recent past and how many are likely to do so in the future, about the winners and losers and the net gain.

For example, Goldman Sachs estimates that offshoring has accounted for roughly half a million layoffs in the past three years. And Forrester, an IT consulting firm projects outsourcing in the US to grow from about 400,000 in 2004 to 3.3 million by 2015. McKinsey and Company estimates that the net cost savings of moving some jobs offshore is about 50 percent. Also, Catherine Mann has estimated that GDP growth in the US would have been lower by 0.3 percent a year between 1995 and 2002 without foreign outsourcing of jobs in information technology. Again, Delta Airlines, for example, outsourced 1,000 call-center jobs to India in 2003, but the $25 million in savings allowed the firm to add 1,200 reservation and sales positions in the United States. Thus, offshore outsourcing is counterbalanced by job creation in the high-end service sector.

Outsourcing also has considerable non-economic benefits. Some of the countries where U.S. firms have set up outsourcing operations - including India, Poland, and the Philippines - are vital allies in the work towards mutual cooperation for international security.

The concern over offshore outsourcing is understandable. But, it does need a more informed debate. It could, perhaps, be a win-win phenomenon - all the way - in more than one count.

- The Editor

GITAM INSTITUTE OF FOREIGN TRADE

MANAGEMENT DEVELOPMENT PROGRAMMES OCTOBER – DECEMBER 2004

Name of the Programme	**Dates**	**Venue**	**Who may attend**	**Programme Director**
Agri Export Management	28-29 Oct, 2004	GIFT Bhavan GITAM Campus Rushikonda Visakhapatnam	All exporters and executives in the Agri related businesses	Dr. R R Thakur
International Marketing Management	17-19 Nov, 2004	Hotel Viceroy Hyderabad	Exporters , Professional Managers and Entrepreneurs	Prof. Gan Bhukta
International Marketing Management	22-24 Nov, 2004	PHD House New Delhi	Exporters , Professional Managers and Entrepreneurs	Prof. Gan Bhukta
Developing Global Mind	29 Nov, 2004 9 Dec, 2004	RINL Visakhapatnam	A programme for Managers who will be tomorrow's leaders	Prof. Ranganathan
Global Best Practices in Human Resources	3-4 Dec, 2004	GIFT Bhavan GITAM Campus Rushikonda Visakhapatnam	Managers who are concerned with developing people	Prof. CSV Ratnam
Demystifying WTO	10-11 Dec, 2004	Hotel Swosti Plaza Bhubaneswar	All Managers would benefit from their foundation Programme	Prof.B.Bhattacharyya
Working Capital Management	Dec 22-23, 2004	Hotel Viceroy Hyderabad	Present and prospective managers from functional areas including finance	Prof. V K Kumar Mr. MVSK Rao
Demystifying WTO	7-8 Jan, 2005	Hotel Casino Cochin	All Managers would benefit from their foundation Programme	Prof.B.Bhattacharyya

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