

Measures for Making Trade Procedures and Remedies More Effective

Part 1: Trade Procedures

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1. Making Trade Procedures More Effective

Trade involves several activities, sometimes the whole range of production, sales and after-sales operations. Only some of these may be directly relevant for making trade procedures more effective. After identification of the relevant procedures, the next step would be to monitor these activities to assess the state of current operations and the impact of efforts to improve their effectiveness. This would require identifying indices that focus on key areas of concern that need to be addressed. The paper specifies this and identifies supplementary steps as well that would help make trade procedures more effective. The solutions identified cover a range of options, some to be implemented in the short term itself, while others requiring more time. The latter category includes more detailed data collection to identify key areas to improve and develop “alert mechanism” for policy makers or business to address gaps that enable trade procedures to be more effective.

Section 2 clarifies the relevant trade procedures to consider for improving their performance through steps identified in the paper. Section 3 mentions two additional areas that need further studies for enhancing trade capabilities and opportunities. Section 4 discusses the key steps required to improve the effectiveness of trade procedures. It identifies the indices for monitoring performance, learning by interacting with good performers, and simplifying the information requirement as well as trade policy itself. Section 5 discusses developing a more detailed database and establishing mechanism to alert policy makers and business about major areas that need urgent attention. Section 6 provides the conclusions.

2. Identification of Relevant Trade Procedures (REPs)

It would be useful to think of trade as a chain of activities required from the beginning to the end of the process. Even within this chain there are only certain procedures which need focused attention.

(a) Trade comprises both imports and exports. The WTO Trade Facilitation Agreement tries to focus on efficiency of procedures for both imports and exports. However, there is a major difference between imports and exports because other members of WTO will be vigilant about India’s implementation of its procedures for imports, but not exports. In this background, this paper focuses mainly on procedures which relate to exports.

(b) Export-oriented firms as well as firms selling primarily or wholly in the domestic market have parts of the chain which are common for both. The trade-related activities within the chain that could be considered for improvement include procedures related to seeking approval from or providing information to the relevant Government agencies such as the DGFT or customs, ensuring that quality of the product meets the required criteria, and making payments to the Government agencies or receiving refunds or remissions of duty on imported inputs into exports.

This does not mean that some of the procedures, such as finance or logistics, that impact the entire production chain, are not relevant for exports. However, these aspects are already covered under ongoing significant initiatives of the Government, and we thus focus on procedures which are directly relevant for exports.

3 Other Relevant Export Procedures (REPs) Which Need Time and Specific Studies

Certain procedures need to be added to the above consideration, for a more complete impact on trade performance. These include:

- Procedures which would help investors in India (FDI or domestic) to create a hub within India for exports.
- Procedures that would lead to upgrading international value chain participation of domestic firms to move on to higher value-added activities.

For these latter two, specific studies will be needed to develop the system and procedures that enable the producers in India to work towards an export hub as well as upgradation towards higher value-added activities in international value chains.

4. Key Steps to Improve Effectiveness of REPs

Experience has shown that to be effective, procedures should be transparent, predictable and simple to operate, so that the users (both government and exporters) find it easy to understand and are able to implement the relevant steps in a quick and comprehensive manner.

In addition, REP sought to be judged by their impact on facilitation of trade operations, and the mechanisms that pave the way for sustained improvements in the effectiveness of REPs themselves.

An essential part of the exercise is to monitor performance based on some quantitative criterion, or an index, that can cover the REPs that guide the policy makers to keep improving the system that is in place for trade activities.

(4.1) Monitoring

Monitoring the operations of trade procedures covers several different aspects for the policy maker. These include:

- Identifying the Index to quantitatively assess performance.
- Monitoring present performance, with an orientation to examine areas which need special focus, or areas that should be considered for priority action.
- Using technological options for detailed monitoring of performance and to anticipate likely developments that will need to be accommodated.

Two key parts of the framework to assess performance include:

- Adopting a “supply chain approach” in policy-making and implementation, recognising both the positive or negative knock-on effect of actions at any point within the chain of trade related activities.
- Recognising that the aim of the exercise is to facilitate operations so that the competitiveness of India’s traded products improves in a sustained manner.

(4.1.a) Relevant Index

While there are a number of indices which cover different aspects of REP, they do not comprehensively cover the issues pertaining to REPs. Their coverage is only partial and in general they focus on procedures linked to border clearances (e.g. customs procedures).

The important components that affect REP include:

- costs incurred by the exporter
- time taken for completing the procedures
- number of documents or volume of information required to get approval
- domestic supply chain related performance

- quality of products meeting relevant export criteria
- consistency and simplification of the information required by different oversight agencies or institutions
- co-ordinated efforts by policy-makers at the Center and the States so that positive effects at both levels enable more rapid achievement of efficient operations.

(4.1.b) Developing the REP Index

To develop such an index, a good starting point is to look at the components of the ‘Ease of Doing Business’ Index¹, the Global Competitiveness Index², and the Logistics Performance Index³. The activities covered by these indices are many more than only those relating to REP. For example, the Logistics Performance Index⁴ covers six dimensions, not all of which relate to REP. Similarly, the Ease of Doing Business is multi-dimensional covering several features of business operations. Within that, the part relevant for REP are those which cover “Trading Across Borders”.⁵Based on these, we work with the following indices.

- (a) An aggregated or macro index which combines a number of relevant activities, but their coverage is far more extensive than REPs. These indices would indicate in qualitative terms, the direction of improvement achieved by India in making REP more effective. Two such indices are combined for this purpose:
 - Trading Across Borders Index, and
 - Logistics Performance Index or LPI.
- (b) Certain indices are considered to examine performance at a more micro level, with a more quantitative basis to monitor the effectiveness of REPs. These include:
 - costs incurred for exports
 - time taken for exports and
 - information from the domestic Logistics Performance Index that relates to,⁶

¹<http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>

²<https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>

³https://wb-lpi-media.s3.amazonaws.com/LPI_Report_2016.pdf

⁴The six dimensions of this index include: efficiency of clearance process (speed, simplicity and predictability of formalities) by border control agencies, including customs; quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology); ease of arranging competitively priced shipments; competence and quality of logistics services (e.g. transport operators, customs brokers); ability to track and trace consignments; and timeliness of shipments reaching destination within the scheduled or expected delivery time.

⁵<http://www.doingbusiness.org/data/exploretopics/trading-across-borders>

⁶This information is from Appendix 3 of the World Bank’s Logistic Performance Report 2016. See https://wb-lpi-media.s3.amazonaws.com/LPI_Report_2016.pdf

- supply chain efficiency and
- quality of the exported product meeting relevant criteria.

Thus, the information considered for the micro level would include:

- time to export – border compliance (hours)
- time to export – documentary compliance (hours)
- cost to export – border compliance (US\$)
- cost to export – documentary compliance (US\$)
- efficiency of clearance process (speed, simplicity and predictability of formalities) by border control agencies, including customs ranking as estimated by LPI
- Lead time for exports – land supply chain⁷
- Percentage of shipments meeting quality criteria.

Table 1 below shows India’s ranking for the various indices (or performance levels) for REP. India’s ranking is relatively low in terms of several of these indicators, but in terms of the logistics performance index, Indian performance is relatively better.

Table 1. India’s ranking for selected indices or performance levels

Index	Rank
1. Trading Across Borders	146
2. Logistics Performance	35
3. Efficiency of customs etc. clearing processes – from LPI	38
4. Time to Export – Border Compliance (hours)	180
5. Time to Export – Documentary Compliance (hours)	114
6. Cost to Export – Border Compliance (US\$)	117
7. Cost to Export – Documentary Compliance (US\$)	104
8. Lead Time for Export – Land Supply Chain	85
9. Percentage of Shipments Meeting Quality Criteria	86

⁷ From the point of origin (the seller’s factory, typically located either in the capital city or in the largest commercial center) to the buyer’s warehouse.

The important part is not only working with the index per se, but also to examine the components of the index to determine priority action as well as names of countries whose experience can be used to improve Indian performance.

For both the macros and micro level indices, we use weighted combinations. For example, the aggregate macro level index is based on a weighted combination of items 1 and 2 in Table 1 above, with equal weights for each component

The more operational index is based on micro-level data (i.e. items 3 to 9 in Table 1 above). There are basically five categories: efficiency of clearance operations (item 3), time to export (items 4 and 5), costs to export (items 6 and 7), domestic supply chain (item 8), and quality of the traded product (item 9). Each of these five categories are given equal weights, i.e. 20 per cent each. The relevant indices are shown in Table 2 below, where highest performing nation is accorded an index of 100. The index for India shows the distance between it and the best performing country for the relevant category being considered.

Table 2. Macro and Micro Level Indices For India’s Trade Procedures

	Index	Macro/Micro Level Index
Macro Index		70
1. Trading Across Borders (Distance to Frontier – DTF)	59	
2. Logistics Performance	81	
Micro Index		33
3. Efficiency of customs etc. clearing processes – from LPI	76	
4. Time to Export – Border Compliance (hours)	1	
5. Time to Export – Documentary Compliance (hours)	3	
6. Cost to Export – Border Compliance (US\$)	1	
7. Cost to Export – Documentary Compliance (US\$)	1	
8. Lead Time for Export – Land Supply Chain	17	
9. Percentage of Shipments Meeting Quality Criteria	71	

Notes: Best performance is taken as index = 100. Estimates are rounded up to nearest integer, except that index with value below 1 is taken as equal to 1. Item 3 is based on a qualitative assessment of countries performance ranging from very low (=1) to very high (=5).

Table 2 shows that the different types of indices vary immensely for India, even those which have some overlap with each other. The Logistics Performance Index (LPI) gives a much higher level of performance than others based on the components of “Trading Across

Borders”. Even within LPI, the domestic supply chain part shows a relatively low level of performance compared to the best performing nations in the world.

These indices show us an approximate competitive position of India’s REP. Therefore, it is very important to focus on especially those areas which have a comparatively low performance.⁸ These would be items 4 to 7 in Table 2.

(4.2) Improving Trade Performance

It is suggested that the process to improve performance be based on interaction with good performers, and better co-ordination between key domestic stakeholders.

(4.2.a) Learning / Implementation: Interaction With Good Performers And Other Stakeholders

Improving the effectiveness of REPs would include:

- learning ways of improving the effectiveness of trade procedures by interacting with good performers and other stakeholders
- improving procedures by making them simpler, more transparent, predictable and quicker,
- implementing ways of achieving better co-ordination among the major domestic stakeholders (Center, State, Business)
- creating a domestic database that is more detailed to enable a targeted approach to improving procedures and developing tools to forecast likely areas that would require more focused attention.

For each of the indices identified above, good performers can be identified from the group of all countries that are performing better than India for each index. Two groups can be established to provide the possibility of learning from top performers as well as identifying intermediate steps that may be easier than adopting the large changes required to be similar to very high performers.

⁸ The World Bank calculates the performance for Doing Business, or within it Trading Across Borders, in terms of Distance to Frontier (DTF). We have instead chosen to calculate an index in terms of hours for time taken, and US\$ for costs. This estimate is closer to that relevant for competitiveness. For the methodology on DTF, see <http://www.doingbusiness.org/data/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-Chapters/DB18-DTF-and-DBRankings.pdf>

- The first group would include the top performer and those whose rank is around 25% in the whole group. The 25% level is added to the top performer to enable a step-wise improvement if the large jump required to emulate the top performer is not feasible.
- Another group would comprise those which are ranked around 50% or 75% within the group of countries that rank above India. This group could provide an easier and progressive possibility for improvement in case certain constraints or difficulties are very burdensome to address. These would be the relevant countries to learn from if the process of improvement is to be more step-wise, achieving a sequence of smaller improvements.

Table 3 shows the countries that could be good candidates to interact for learning how to improve REPs. The Table shows that the countries mentioned most frequently are Denmark and S. Korea.⁹ These two countries could be treated as the core group to interact with for all the relevant procedures.

Other countries which are relevant for at least three of the indices, include: Australia, Germany, Indonesia, Japan, Malaysia, Singapore, and Sweden. Links with these countries could also be developed to enhance the learning process.

Table 3. Good Performers Compared To India For Various Indices

	Good Performers Top Two Levels	Good Performers Next Two Levels
1. Trading Across Borders (Distance to Frontier – DTF)	Denmark, S. Korea, USA	Malaysia, Mauritius, Indonesia
2. Logistics Performance	Germany, Singapore, Japan	Australia, South Africa, S. Korea
3. Efficiency of customs etc. clearing processes – from LPI	Singapore, Germany, Sweden	South Africa, Australia, S. Korea
4. Time to Export – Border Compliance (hours)	Denmark, S. Korea	New Zealand, Vietnam, Indonesia
5. Time to Export – Documentary Compliance (hours)	Denmark, S. Korea, Japan	Australia, Kenya, China, Chile
6. Cost to Export – Border Compliance (US\$)	Denmark, Sweden	S. Korea, Japan,

⁹ There are some others as well. But these two are relevant for most of the indices.

		Thailand, Malaysia
7. Cost to Export – Documentary Compliance (US\$)	Denmark, S. Korea	Singapore, Japan
8. Lead Time for Export – Land Supply Chain	Denmark, S. Korea	Germany, Vietnam
9. Percentage of Shipments Meeting Quality Criteria	Denmark, Sweden	Indonesia, Malaysia, Singapore

(4.2.b) Learning/Improving (Processes / Administrative Requirements): Center of Excellence and Simplified Requirements

(4.2.b.i) Center of Excellence

A “Center of Excellence” could be established for interaction with the “good performers” identified above. These interactions should include representatives from the Center and States, as well as key institutions and agencies that will be relevant for both learning purposes as well as implementation. The international institutions could include the Asian Development Bank and the World Bank, thus continuing in a structured way the ongoing interactions that are taking place in a wider context. This will add to the positive impact that is already occurring due to several steps that India is taking to make its trade procedures more effective.

The Center of Excellence will help to identify ways to improve the information collection and to reduce costs as well as remove un-necessary requirements (based on the experience of good performers).

This exercise can also pave the way for a much larger aspect of policy improvement, i.e. simplifying trade policy itself. For example, by reducing the present detailed and granular policy making and converting the initiatives into policies based on more aggregative and simpler criteria, we could simplify REPs, improve their effectiveness and make trade policy more user-friendly.

(4.2.b.ii) Develop a single comprehensive information form

India is already making commendable efforts at simplifying the information required and developing a common database. This process could be expedited by developing a comprehensive, single form which collects all the information required from exporters to obtain relevant approvals. This information could be organised in the sequence or chain of

approvals for activities which the exporter has to carry out for exporting his/her product. The information could be combined with software solutions so that while the information is filled only once, the separate relevant agencies would receive the information that pertains to the approvals that they have to grant.

In this context, it is noteworthy that the Government is already making several efforts to improve and facilitate REPs. This comprehensive form could be amongst the first set of activities to be implemented in that regard.

Such a comprehensive list would provide a basis for:

- Removing inconsistencies or duplication of the information required by different agencies.
- Identifying information (or policies based on them) that could be phased out if discussion with good performers shows that certain information may not be necessary for effective implementation of trade procedures.
- Identifying areas of particular constraints or difficulties, which need specific or urgent attention.

(4.2.b.iii) Use the "Center of Excellence" also to link up lead firms and domestic SMEs

The conditions relating to supply chains could be identified better through an interaction of lead firms which manage the supply chains and domestic firms that could potentially be larger participants in global value chains. This interaction could form an important basis of learning how to improve the participation of Indian producers in global value chains, and to identify the priority areas of attention to make these value chains more effective.

This process could also be used to identify the policies that would enable FDI in India to more effectively develop export hubs within India.

(5) Learning/Improving (Developing More Detailed Domestic Database and an "Alert Mechanisms")

An important point to bear in mind is that improving the effectiveness of trade procedures is not a one-time effort, but a continuous one especially because maintaining competitiveness is required on an ongoing basis.

While in the initial period, the available data base and indices can be used for improving effectiveness of trade procedures, over time this should be supplemented with a more detailed domestic information base on the time taken for trade procedures and the costs incurred in those procedures. The larger dataset would enable us to identify more accurately the specific points of concern regarding transactions which have a higher proportion of time taken and costs incurred. Quarterly reports could be developed to alert both policy-makers and business to areas that need priority attention for improving the effectiveness of REPs.

As more information is collected over time, say two years, artificial intelligence models could be used to anticipate the likely areas that need attention, and also the impact of any step that is taken to improve the situation.

6. Conclusion and Recommendations

Four important features of the exercise to improve effectiveness of REPs are relevant:

- (a) The solutions provided in this paper can be considered in terms of those which could be implemented in the short term, medium term and longer term. The short term solutions include developing a comprehensive form for information, and connecting with the good performers, and national as well as international institutions, to develop a dialogue to improve REPs.
- (b) The existing indices are a starting point. These need to be supplemented with more detailed database. The database should also be used to develop “alert” mechanisms that can identify the major areas that require more immediate attention. This mechanism may include both ex-post experience-based data as well as forecasts using artificial intelligence and big data.
- (c) Partnerships and co-ordination should be developed not only with good performers, but also among States and the Center, and among lead firms in global value chains and potential domestic participants in these value chains
- (d) Similar to the interaction between good performers abroad, there could also be an interaction between States to share their experiences and steps that are likely to improve effectiveness of REPs.