

Identification of Major Export barriers of Indian Firms of National Capital Region-AHP Method

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Abstract: Export plays an indispensable role in the growth of Indian economy. Earning foreign exchange is a valuable resource for the country. Though the exports are increasing year by year but still even today the imports are more than exports that amounts to trade deficit which is increasing. Various schemes and policies have been designed by the government to give incentives to the exporters but still the problem is prevalent. Foreign trade policy is revised every five years to bring changes and new schemes according to the need of the economy and the market. Indian exports are increasing on an average of 20% every year which is an appreciable figure. India has huge untapped potential that needs to be explored. Understanding of the problems and then designing the policies as per requirement can lead to increase in the figure of exports sufficiently. This paper focuses on identifying the major export barriers of the exporters by using a statistical technique "Analytical hierarchical Process (AHP)". In the paper, opinion of business experts from related industry who have 20 years of rich experience are interviewed to gain the insights on the major export barriers affecting their export business.

Keywords: Export, export barriers, economy, business experts

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I. Introduction:

(RBI, 2016) Indian exports have increased from US \$ 1.3 billion in 1950-51 to US \$ 312.61 billion during 2013-14 to US\$ 310.3 billion in 2014-15 and US \$ 261.13 billion registering a negative growth of 15.85 per cent in Dollar terms. After independence, India has shown significant increase in exports from 3-4% in 1960s to 5-6% in 1980s then about 7% in 1990s. Merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 15.79 per cent from 2004-05 to 2014-15. According to the annual report on foreign trade by ministry of commerce, India is projected to grow at 6.5% for the year 2016. In 2014-15, trade deficit increased US\$ 137.7 billion which was higher than the level of US\$ 135.8 billion in 2013-14. Three major selected sectors Gems and Jewellery, Apparels and Agriculture industries were affected due to the downturn in exports for the mentioned year. The global slowdown had its impact on the economy of most of the countries, including India. There is therefore an urgent need to boost India's exports so that the trade deficit is narrowed down and current account deficit stays within the projected cap (RBI, 2013)

Table 1

EXPORTS & IMPORTS : (US \$ Million)		
(PROVISIONAL)		
	MARCH	APRIL-MARCH
EXPORTS (including re-exports)		
2014-15	24032.55	310338.47
2015-16	22718.69	261136.80
%Growth 2015-16/ 2014-15	-5.47	-15.85
IMPORTS		
2014-15	35428.72	448033.42
2015-16	27789.56	379596.17
%Growth 2015-16/ 2014-15	-21.56	-15.28
TRADE BALANCE		
2014-15	-11396.17	-137694.95
2015-16	-5070.87	-118459.37

Source: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=138961>

Prior to 1991, Exports were pessimistic and lot of restrictions was imposed in international trade. Focus was on developing the domestic market. Indian exports suffered a lot because of the conservative view of the

Indian economy. It is only after liberalization of 1991 that relaxed the norms of trade .Indian economy was in great turmoil which resulted in major policy and exchange rate changes that had a favorable impact on India's trade. Despite the fact, that export sector in India is substantially incentivized and lot of benefits are given to the exporters still the imports are higher than exports and trade deficit is widening which raises a thought of concern. Identification and addressing of export barriers is required which might pave a way for minimizing the deficit and boost exports. Aim of this paper is manifold. First, to identify which factors are major barriers for Indian exporters and ranking the export barriers by the level of their impact. Aim of this paper is elaborated as follows. First, there is a brief literature review about the Indian exports and then the various factors that can be constituted as barriers to exports are added. The paper ends with conclusion and research scope for Indian policy makers, firm's management and future researches. Numerous studies have been stated that identify various export issues from exporters perception. Major factors that pose barriers to export from earlier studies have been discussed in this paper. Also new factors have been added, which were deemed to be valuable enough from researcher's point of view to examine with respect to Indian exporters. The selected exporters pertain to Gems and Jewellery, Apparels and Clothing and Agriculture and allied products. Following sectors have been selected as they constitute the substantial contribution of Indian exports. This study might guide us in understanding the insights of export barriers to the selected industries and might give a generalized view. Moreover exporters with such experience are quite knowledgeable and have rich international exposure might give the true picture in terms of barriers to exporting.

II. Literature Review:

Czinkota & Ronkainen (2001) has cited that exporting is an attraction as it leads to improvement of the technological standards of the products and services, increases the quality standards, leads to the growth of the firm, utilizing the operational capacity of the firm to its maximum , increasing production efficiency thus creating wealth for shareholders and the employees of the firm. Aggarwal (1982) Export is considered as a catalyst agent for sustaining and accelerating process of economic growth for a country. Mukherjee (2012) Merchandise exports comprise a major portion of India's exports to the world. The share of agriculture has fallen over a period of time more rapidly post 1991 liberalization, which might be a concern. An important goal of agricultural policy is to achieve self sufficiency in agriculture sector. However, various technological developments and policy reforms have contributed to improvement in international trade of agriculture. In 2005, India's agricultural export was US\$9.3 billion and the import was US\$ 5.5 billion, making India a net exporter in agricultural sector. Sahni (2014) Gems and Jewellery comprises diamonds, gold and silver jewellery etc. which is one of the top contributor in exports. The gems and jewellery makes significant contribution to country's overall export earnings and remains in forefront of foreign exchange earners. India has always been an important market for gems and jewelry and its significance has grown considerably over time. Indian exports performed particularly well in 2009 and India became a leading exporter of gems and jewelry, with a market share exceeding 23 percent. Mukherjee (2012) Ready-made Garments (RMG) Cotton which contributes nearly 6 percent to Indian exports and is highly labour intensive; Though international trade is an important source of the world cotton market, there has been a decline over the period, the selected industries also represent a combination of traditional as well as contemporary exports of India. Even though India's manufacturing exports have surged since 2001 and grown at a steady rate of over 25 percent between 2002 and 2008, the manufacturing sector has not performed as well .One of the major factors influencing growth of gems and jewellery sector is its unorganized nature. India is third largest producer of cotton. Leonidou (2004) showed that export problems are important to mainly four parties. i.e. Small business managers who can understand the causes of the problems and can overcome barriers easily. Secondly Public policy makers who can analyze the barriers and work towards designing effective policies and further achieve the foreign exchange turnover leading to the growth of the economy. Thirdly Business educators can understand the barriers and educate the exporters by way of special programmes and lastly exporting researchers who can identify the major barriers and lead to theory building in exporting. "*Barriers to exporting refer to all those constraints that hinder the firm's ability to initiate, to develop, or to sustain business operations in overseas markets.*" (Tesfom and Lutz, 2006) reviewed the 40 articles for the period 1980-2004 categorized export problems into various major heads i.e. company barriers, product barriers , export market barriers and macro environment barriers. Focus on these issues can help in designing effective export marketing strategy and policies. It was also stated that developing countries can learn a lot by studying developed countries. Siringoringo, Prihandoko, Tintri &Kowanda (2009) found most of the SME entrepreneurs refrain themselves from indulging into export business as they perceive understanding exporting procedures to be difficult task moreover export barriers can be classified into external and internal barriers. "The result of the survey shows that the factors which influence SME's export performances in Indonesia are competition, long duration of export document process, product quality, export barrier from country destinations, low capability in high production, delay in transportation, communication barrier,

government agencies that presume become barrier, lack of international market knowledge, barrier of entering international market, export administrative procedures, inefficient production cost, incapable to supply product in time, unofficial fee in export documents processing, lack of knowledge in transaction method, limitation of destination country, time limitation in cargo, and delay of shipping”. The cause of some of the problems is lack of human knowledge and problems related to government bodies and institutions. One of the most important solutions to the export barriers is providing knowledge to exporters by way of training and development programmes. SME need to develop comparative edge by increasing their competencies. Sala. D & Yalcin. E (2015) states that manager international experience is quite often ignored but plays an important role in export business. Managerial inputs are important. Sousa et al. (2008) According to some authors, there are external factors, deriving outside of the firm, and internal factors stemming from the inside of the firm

Das (1994) segregated the export problems of a developing country i.e. India in organizational, behavioral, managerial and external factors. Study implies that managers play a very important role therefore they must be selected carefully. Also sufficient time should be given to them to learn the export process. Successful firm were those with managers having over nine years of experience on the job. And were the ones that were willing to enter into more competitive developed markets

III. Research Methodology

This research studied the perception of experts in export business with respect to their views about the major export barriers or problems faced by the exporters. The different types of export problems are initially collected with the help of literature review as well as discussion with the exporters. In order to frame the right policies in order to promote the export business it is necessary to know the current problems faced by the exporters in present scenario.

In the research study the first objective is to study and explore the various problems and barriers faced by the exporters in India. In order to achieve this objective, the opinion of the business experts (who have at least 20 year experience) is analysed using the statistical method “Analytical hierarchical Process (AHP)”. This is a popular method of taking decisions on the basis of experts’ responses. This process starts with collecting the information about the different types of problems and barriers faced by the exporters. The different problems faced by the exporters are further divided into following six categories. Categories have been designed on the basis of factor analysis done as a part of PhD research work:

- Marketing and International Procedural Barriers
- International Risk Exposure
- Lack of Government Support
- Technology related Issue
- Financial issues
- Macro environment barriers

Analysis

For a developing country like India, the growth of export business is required. In order to promote the exports of Indian products and services, the government is providing maximum support to the prospective exporters.

These statements representing the existing problems in export business are listed on the basis of literature review as well as expert discussions. The export business experts were asked to compare these different barriers pair wise with the help of a square matrix On the basis of received responses from the export business experts the process of AHP is applied. The matrix used for AHP process is shown in table 2.

Table no.2:

Export barriers	Marketing and International Procedural Barriers	International Risk Exposure	Lack of Govt Support	Technology related Issue	Financial issues	Macro environment barriers
Marketing and International Procedural Barriers	1.000	0.167	0.125	0.143	0.167	0.111
International Risk Exposure	6.000	1.000	7.000	8.000	7.000	3.000
Lack of Govt Support	8.000	0.143	1.000	8.000	7.000	6.000
Technology related Issue	7.000	0.125	0.125	1.000	8.000	0.143
Financial issues	6.000	0.143	0.143	0.125	1.000	0.143
Macro environment barriers	9.000	0.333	0.167	7.000	7.000	1.000

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Total	37.000	1.911	8.560	24.268	30.167	10.397
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Initially the square matrix provided to the experts have blank cells in the upper triangular matrix, ones in the main diagonal and cross X (no input is required) in the lower triangular matrix. The expert selected for the study belongs to the export industry is asked compare the provided export barriers pair wise. On the basis of pair wise comparisons the experts provided their inputs as the logic explained to them. The input is provided between 1 and 10 if the barrier in the first column is a major problem as compared to the export barrier provided in the first row and the input is the 1 / (any number between 1 and 10) if the export barrier in the first column is a less problem as compared to the export barrier provided in the first row. The main diagonal of the square matrix is fixed with ones as the same export barriers are considered as equally important. The remaining cells in upper triangular matrix represent the pair wise comparisons of various export problems as perceived by the selected experts in the study. The designed square matrix was shared with ten selected experts in total who have more than 20 years' experience in the export industry in India. These selected experts provided their inputs after comparing the given export problems pair wise in the upper triangular matrix given to them. The input scores received by the experts in export sector are averaged and shown below in table 3. The second matrix is also estimated by dividing the each input score by the sum of the scores column wise. The second table estimated during the AHP process is given below:

Table no 3:

							Average
Marketing and International Procedural Barriers	0.0270	0.0872	0.0146	0.0059	0.0055	0.0107	0.0252
International Risk Exposure	0.1622	0.5234	0.8178	0.3297	0.2320	0.2885	0.3923
Lack of Govt Support	0.2162	0.0748	0.1168	0.3297	0.2320	0.5771	0.2578
Technology related Issue	0.1892	0.0654	0.0146	0.0412	0.2652	0.0137	0.0982
Financial issues	0.1622	0.0748	0.0167	0.0052	0.0331	0.0137	0.0509
Macro environment barriers	0.2432	0.1745	0.0195	0.2884	0.2320	0.0962	0.1756

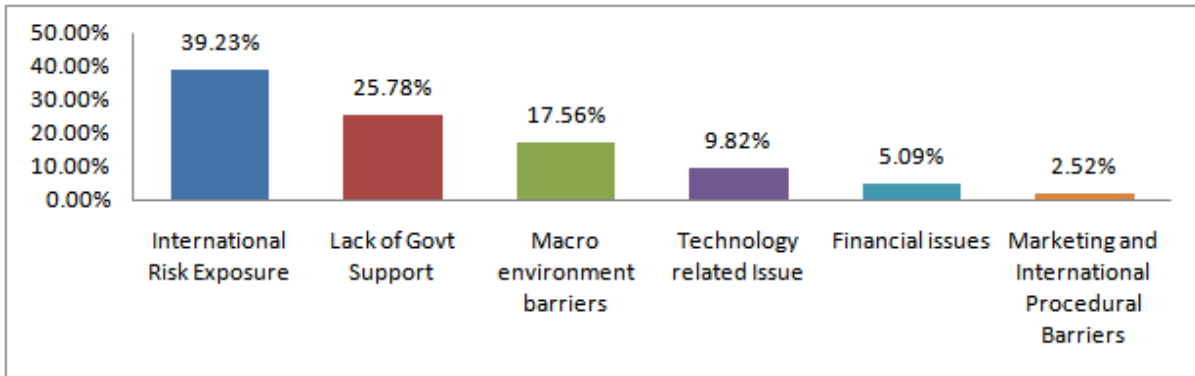
The average score is estimated for each row in the second table as shown above. The estimated averages when multiplied by the 100 provided the relative importance of the given export problems. The calculated relative importance of each export barrier is shown below in table 4.

Table no.4:

Export Barrier	Relative importance
International Risk Exposure	39.23%
Lack of Govt Support	25.78%
Macro environment barriers	17.56%
Technology related Issue	9.82%
Financial issues	5.09%
Marketing and International Procedural Barriers	2.52%

As shown in the results the risk of default of the customers is the major problem in the export business as perceived by the experts. When the exporters send the products or services to the offshore client, there is a perceived risk of default by the clients. In such a case most of the export professionals require an assurance against the risk of default. Among all the provided export barriers the relative importance of risk of default is found to 39 percent. This is followed by the lack of government support as perceived by the experts. Although the government is trying their best of policies and supports, but still exporters are facing problems in this regard. The relative importance of this problem as perceived by the experts is 26 percent. The third major problem perceived by the experts is external issues which means that external issues are also one of the major factors affecting exports. Though they are uncontrollable but still contribute to barriers substantially. The least important factor is found to be operational issues with the relative importance of just 3 percent which clearly indicates that these are controllable issues and firms are able to control them easily. The next least important factor is found to be financial issues with the relative importance of just 5 percent. The reason could be that firms have the easy approach to financing as in India, finance can be obtained at cheaper cost as government has allowed trade credit at a lower rate. Figure as shown below represents the relative importance of all the considered export barriers in the study.

Figure no. 1



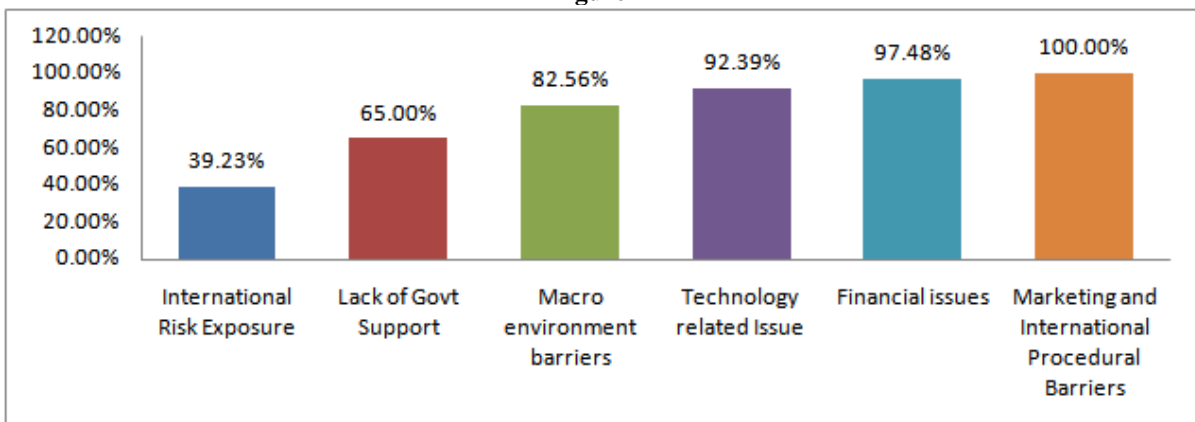
In the study the cumulative importance of the export barriers are also estimated. The estimated cumulative importance of all the selected export barriers in the study is shown below in table no. 5.

Table no. 5:

International Risk Exposure	39.23%
Lack of Govt Support	25.78%
Macro environment barriers	17.56%
Technology related Issue	9.82%
Financial issues	5.09%
Marketing and International Procedural Barriers	2.52%

The results of cumulative importance scores indicate that the selected problems can be divided into two categories. The first category which includes *International Risk Exposure*, *Lack of Govt Support* and *Macro environment barriers* are major export problems and the rest of the three *Technology related Issue*, *Financial issues* and *Marketing and International Procedural Barriers* are considered to be secondary export problems. The primary export problems are covering 80 percent of the export problems as faced by the exporters and the rest of the three export problems are covering just 20 percent of the export problems. Figure 2 show the cumulative scores which contribute towards the different problems in export business.

Figure 2



IV. Conclusion:

Exporting is a high contributor to the economic growth of the country. Understanding and addressing the barriers is highly required in order to boost Indian exports. The finding mainly includes three major factors affecting Indian exports. International Risk Exposure is the major factor contributing to exporting barriers. Exporters perceive high risk of default in payments and there is high risk in competing in international market. Government support is highly required which can play a catalytic role in boosting exports. Both the above stated problems contribute to more than 50% of the problems in exporting. Macroeconomic barriers though

uncontrollable but contribute to exporting barriers substantially while Marketing and International Procedural Barriers, financial issues are found to be factors with minimal effect on exports business. There is high need that the government institutions and bodies review the policies and conduct more and more assistance and training programmes in order to educate and assist exporters that will make them more adept in catering to their issues and help them in growing from small firms to large ones. Government need to take up some awareness programmes to make the exporters aware of as to how they can minimize the risk in dealing with overseas buyers. Government can also take an initiative in devising new insurance programmes and schemes wherein the exporters can minimize the risk of default. The research has limitations. One of the limitations is that the results are derived from only limited number of respondents. Moreover this study is confined to Indian manufacturing sector. It can pave a way for future research to extend the generalizations. Further studies can be carried out in more number of countries or comparison can be made across countries. In general, Innovations, modifications and spreading awareness are highly required. It also requires the individual effort to integrate and support each other. The various structural, regulatory and industry specific issues needs to be catered.

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