

BARRIERS TO EXPORT FROM INDIA TO THE EUROPEAN UNION

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Abstract. *India is an important trade partner for the European Union. The European Union's export to India is higher relative to India's export to the European Union. An analysis of barriers is needed for international trade as it may assist in finding out why exporters are not able to exploit their full potential. The main goal of this research is to analyze the barriers faced by Indian exporters during export to the European Union. This research was done by an empirical investigation of barriers' perception by Indian exporters. A literature review was also done to enlist the barriers faced by exporters. Analysis of data was done with the help of SPSS (Version 20) software.*

While previous researches talk about the most common barriers, this research talks about all the possible ones, i.e. common as well as naturally existing, and finds the major ones. This research has shown that exporters have a significant feeling for governmental regulations, customs procedure and licensing, technical standards and health regulations, sanitary and phytosanitary measures, and certification as the major barriers to export. There are some naturally existing barriers to the trade among which labeling and packaging, and market access problems are the major barriers to export.

Decreasing the strength of these barriers will lead to an increase in export as exporters are ready to export more from India to the European Union if these barriers will be removed or the strength of these barriers will be less. Also, due to the low barriers, non-exporters will start export, and the increase in export will lead to the economic growth of India.

Key words: *barriers to export, trade barriers, trade between India and the European Union*

Introduction

In this era of globalization of the economic environment, international business plays an important role in shaping the social, and economic performance as well as the prospects of countries around the world. International business is of prime importance, especially for developing countries.

India is an important trade partner of the EU and a growing global economic power. The growth in the trade of goods between India and the EU has been strong. India exports a variety of products to the EU. The major export items are textile, cloths, jewellery and gems, organic chemicals, machinery, leather goods, pharmaceuticals,

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electronic goods, iron, steel, food, etc. Economic and trade relations with the EU have always been very important for India. The EU and India trade in goods as well as in services. In 2009, the EU had an export business of €27.5 billion with India, and import from India was €25.4 billion in the trade of goods. Also, the EU services export to India was of €8.6 billion and import of services from India €7.4 billion (European Commission, 2010a, 2010b).

Barriers are obstacles preventing entrant firms from being established in a particular market (Anders, 2009). For every firm looking to invest in an international market, it is important to understand what will prevent it from being successful there. Also, for the firm already doing business, it is necessary to know barriers to the further growth. Some barriers exist because of the government policies and regulations, and some are hidden barriers. National culture and social forces have the power to restrict the activities of international business. The nations that have an intense political unrest can change their attitude towards foreign companies at any time; in turn, this instability makes an unfavorable atmosphere for the international trade. For export performance in international business, access to the foreign market is a critical determinant. Barriers to trade have a negative impact on the foreign market access. Tariff barriers are not very important due to several rounds of the WTO. The naturally existing barriers, or hidden barriers' are language and customs, but this does not mean that they are impossible to overcome. Nevertheless, these non-tariff barriers should not be ignored as they have a great effect on international trade. These barriers affect more the developing countries than the developed ones.

This study was aimed to identify the exporters' perception of barriers to exporting from India to the European Union.

Trade between India and the European Union

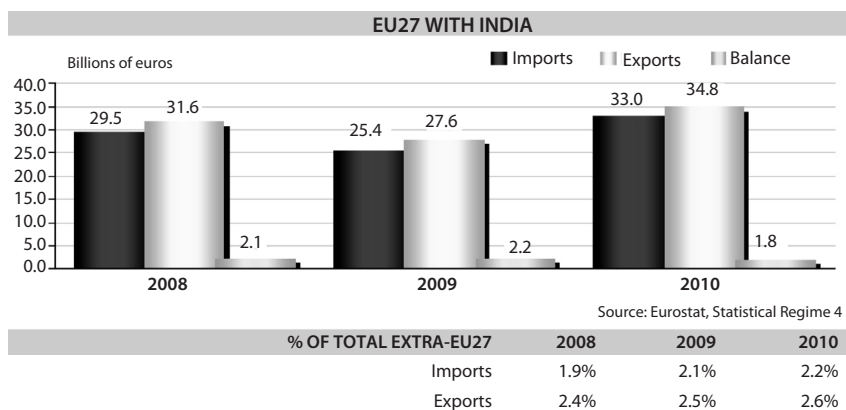


FIG 1. The European Union trade with India

Source: EUROSTAT 2011.

The EU is India's major trading partner among the many. There is a remarkable growth in trade between India and the EU. Between years 2001 to 2010, the average annual growth of India's export to the European Union was 18% and imports to India from the EU 19.5%; the largest importer of Indian goods is Germany. Figure 1 shows that, according to a report of the European Commission, the EU import from India increased from 1.9% to 2.2% in 2008–2010 and EU export to India increased from 2.4% to 2.6%.

India's export consists mainly of industry and manufactures (48%), agro-food products (4%), textile goods (20%), services (18%). Export of India to the EU concerns mainly three sectors: textile, services and industry, and manufactures. Only 14% of India's export is absorbed by the EU. India is still not a significant destination for goods and services of the EU.

Review of the literature

Hadjikhani and Ghauri (2001) have found that the SMEs' decisions are dependent on the political decision, but MNEs tend to act in advance to manipulate a decision before it is made. MNEs took part in the political sector to have political decision support for the specific business activities of the firm, but SMEs decide their business activities based on the supportive and beneficial rules made by political actors. More advanced political relations lead the progress of a firm in the internationalization of its business activities. MNEs had high previous political, social, technical knowledge and high knowledge of how the rules impact the business organization. SMEs had low political and business knowledge and a difficulty in finding specific rules supportive to the business. SMEs had no interaction with political units of the EU or their intermediaries.

The results show that external-foreign problems such as regulations and standards, customs and administrative formalities, which impact the firms' "strategy orientation", mostly experienced by exporting firms. The exporters first focus on external foreign problems, whereas internal-foreign problems such as transport costs, infrastructure, corruption and theft are only addressed by a few of them. The statistics show that small exporters (defined in terms of employee number and turnover) are affected by external-foreign factors, while larger firms are mainly influenced by internal-foreign factors. In contrast, firms with more experience in export are impacted by external-foreign factors while internal-foreign factors impact firms with a less export experience. The firms reacted differently to the export problems. Disruption and fluctuation in electricity, the high price of electricity, infrastructural problems, transportation, delay in loading, corruption, approval procedures, etc were faced by Indian exporters in trade with the EU (Khorana, Verousis, Persikis, 2010).

Customs clearance is cumbersome and "fatiguing", though procedures are easy, lack of transparency, lack of adequate certification facilities within India, language problem, lack of uniform standards and regulations in EU member states unfair means adopted by a shipping line, requirement of hazardous material to be escorted physically, which is

very costly, the lack of cooperation in understanding Indian procedures, documentation and certificates, sudden changes in custom fees, changes in rules, delays in clearance, demurrage, disputes handling, namely the lack of the formal mechanism, the lack of clarity about authority, high costs, the GSP classification problem, and sources of information were the major problems for Indian exporters in export the to EU. Indian exporters face more trade-related problems in India than in the destination countries. Handicrafts exporters (36%) faced problems in the EU, engineering goods exporters (15%) incidence of problems in the EU, textiles and garments exporters (21%) faced problems in the EU, Indian exporters of food products faced problems in the EU (21%), however, in case of marine products, exports to the EU show the highest incidence of problems. The industry bodies as well as the export councils have clearly indicated, in terms of cost impacts-losses and the severity of regulation issues, the EU to be the major problem. The most damaging procedure followed in the EU was the destruction of rejected consignments without returning them or intimating the consignors (Government of India, 2005).

From 1996–97 to 2007–08, the Indian exports to the combined EU-27 increased from about US\$ 8.8 billion to US\$ 34 billion. In 2007–08, Germany, UK, France, Belgium, Italy, the Netherlands, Spain and Sweden accounted for about 89% of India's trade with the EU. Only 11% of the total trade with the EU-27 was contributed by the remaining nineteen countries. The India–EU trade grew at a slower pace than India's total trade because of the slow growth of European economies in the last decade. The pace of negotiations between India and the EU was losing momentum, and global recession was bound to slow down this process further. Indian policy-makers are still sceptical of Europe's role as a major strategic player in Asia, and they couldnt find the productive results. The EU has not been able to move strongly on sensitive issues with India due to the unique nature of the European project and the EU institutions. However, Indian policy-makers may not find these exercises too productive. Since the problem of leadership within the EU and its institutional setup are highly bureaucratic, it was not very easy for Europe to forge new partnerships with India in matters going beyond economics (Gulshan, 2008).

High tariffs (around 9%), strict measures making it difficult for Indian exporters to get past the EU quality control, especially in case of chemical products, various certification requirements related to the environment, health and labour rules, for agricultural products the complex and expensive sampling and testing procedures in the EU. For Indian exporters, the EU service market is very heterogeneous in regulations and conditions for the third countries – exporters of services. According to the Indian Business Chamber, India contributes a small share in the EU's goods and services imports. In 2007, only 1.5 percent of share in EU service market was contributed by India, and the share of total goods imports in the EU was 1.9% (Xavier, Levente, Dominique, 2008).

After enlargement, the EU decision-making processes became even more complex and potentially more difficult for Indian policymakers to interpret and to influence. India needs to develop closer linkages with some of the new entrants, especially Poland, which

needed to devote more political energy and attention to the new EU. For many Indians, reprofiling of mindsets was required for the enlarged European Union (Jain, 2004).

Methods

This study is based on an empirical investigation of the barriers Indian exporting firms face when exporting to the European Union. Primary data were collected through a questionnaire from 60 Indian manufacturing firms exporting to the EU. The questionnaires were sent to 150 exporting firms having the confidence level of 95% and the confident interval 8. The response rate was low – only 60 responses; they were considered adequate for the survey; also, secondary data were used from the literature to identify the barriers. The sample of firms included different sectors of industry, such as agricultural commodities like raw as well as processed food products and spices, handicrafts like wood, leather goods and carpets, chemicals, pharmaceuticals, textile, engineering goods, gems and jewellery, etc. In order to obtain valid and reliable measures of the variables, the previously validated five-point Likert’s scale (Likert, 1932) was used for the questions on barriers perception or attitude. The questionnaire was prepared and pre-tested using a small sample of exporters. Then the final questionnaire instrument was used to mail, personal interview and phone calls to all the respondents. The respondents were export managers and executives. All items asking about the barriers to export were measured on a five-point bipolar scale with scale poles ranging from “not an issue at all” (1) to “very serious barrier” (5). These barriers were separated into common and hidden barriers on the basis of their origin. The data analysis was made with the help of software was (Version 20). SPSS is used for percentage analysis, one sample t-test on export barriers to analyze the significance and the Cronbach alpha coefficient for the reliability test on a multi-item barrier scale. The Cronbach alpha was also used to check the internal consistency of the sub-questionnaire.

Data analysis

Analysis of the collected data was made with the help of SPSS 20 software. One-sample t-test was employed to check the significance of the barriers in the perception of exporters. The further analysis included percentage analysis and Figures. Data collected by a questionnaire were more specific; that is why by the T-test and percentage analysis it was possible to get the results.

The Cronbach alpha test was applied for reliability and internal consistency of the multi-item barrier scale on all barriers. The internal consistency of the questionnaire was checked by this test.

TABLE 1. Reliability Statistics

Cronbach's alpha	Cronbach's alpha based on standardized items	N of items
.987	.988	25

From Table 1 one can see that the Cronbach alpha value is 0.98 which is considered to have a very high internal consistency and reliability. So, it was concluded that the scales for the multi- item barrier questions were very reliable and had an internal consistency.

1. Exporters' perception of barriers during export / Nature of problem faced by Indian exporters during export to the EU

1.1 One-sample t-test

TABLE 2. One-sample t-test

Barrier	N	Mean	Std. deviation	t-value	Sig. (2-tailed)	Sig. at .05
Tariff barrier	60	3.0667	1.19131	7.196	.000	YES
Governmental regulations	60	3.4667	1.25505	9.299	.000	YES
Price of the commodity	60	2.5833	1.12433	4.294	.000	YES
Market access problem	60	3.5000	1.44386	8.262	.000	YES
Informational barrier	60	3.0667	1.26044	6.801	.000	YES
Legal and Political Barriers	60	2.4000	1.06086	3.213	.002	YES
Custom procedure and licensing.	60	3.5000	1.30838	9.117	.000	YES
Technical standards and health regulations	60	4.1000	1.18893	13.942	.000	YES
Anti-dumping	60	3.1000	1.50367	5.873	.000	YES
Languages and customs	60	3.0167	.96536	8.479	.000	YES
Culture	60	2.8500	1.32544	5.201	.000	YES
Labeling and packaging requirement	60	4.0333	1.05713	15.192	.000	YES
Sanitary and phytosanitary (SPS) measures	60	3.9500	1.06445	14.481	.000	YES
Import quotas of destination country	60	2.4333	1.14042	3.215	.002	YES
Demand of the product	60	2.7000	1.19745	4.787	.000	YES
Competition from firms in foreign markets	60	2.5833	1.23908	3.897	.000	YES
Lack of capital to finance expansion into foreign markets	60	2.9667	1.22082	6.387	.000	YES
Business environment of the targeting country	60	2.6000	1.06086	4.673	.000	YES
Industrial property rights and copyrights	60	2.7333	1.27381	4.703	.000	YES
Corruption	60	2.6167	1.27680	3.984	.000	YES
Currency exchange rate	60	3.2667	1.19131	8.496	.000	YES
Climatic conditions of destination country	60	2.0500	1.01556	.686	.495	No
Transportation cost and duration	60	2.7833	1.23634	5.158	.000	YES
Certification	60	3.3167	1.26881	8.282	.000	YES
Working structure / schedule of the targeting country	60	1.6667	.83700	-2.715	.009	YES

Table 2 shows that Indian exporters have significant feelings for all the barriers except the climatic conditions of the destination country, which are regarded by them as a neutral factor.

1.2 Percentage analysis

Percentage analysis has been done to check the strength of each significant barrier. These barriers are divided into two parts – common barriers to export and hidden barriers. Common barriers are those that exist due to governmental regulations and policies and on

which global organizations such as WTO find a solution, and they can solve through the agreements. Hidden barriers are those that exist naturally, and government bodies cannot really make solutions on them, but these hidden barriers can affect export negatively.

Common barriers

TABLE 3. Percentage analysis of Indian exporters' perception of common barriers

No.	Common barriers	Not an issue at all (1)	No Barrier (2)	Not seen as barrier (3)	barrier (4)	Very serious barrier (5)
1.	Tariff	5%	37%	20%	23%	15%
2.	Governmental regulations	10%	15%	13%	42%	20%
3.	Customs procedure and licensing	7%	22%	17%	25%	30%
4.	Anti-dumping	17%	25%	12%	20%	27%
5.	Technical standards and health regulations	5%	10%	8%	30%	47%
6.	Sanitary and phytosanitary measures	2%	13%	8%	42%	35%
7.	Import quota of destination country	23%	33%	25%	13%	5%
8.	Industrial property rights and copyrights	20%	27%	23%	20%	10%
9.	Certification	10%	20%	17%	35%	18%
10.	Price of the commodity	20%	27%	33%	15%	5%

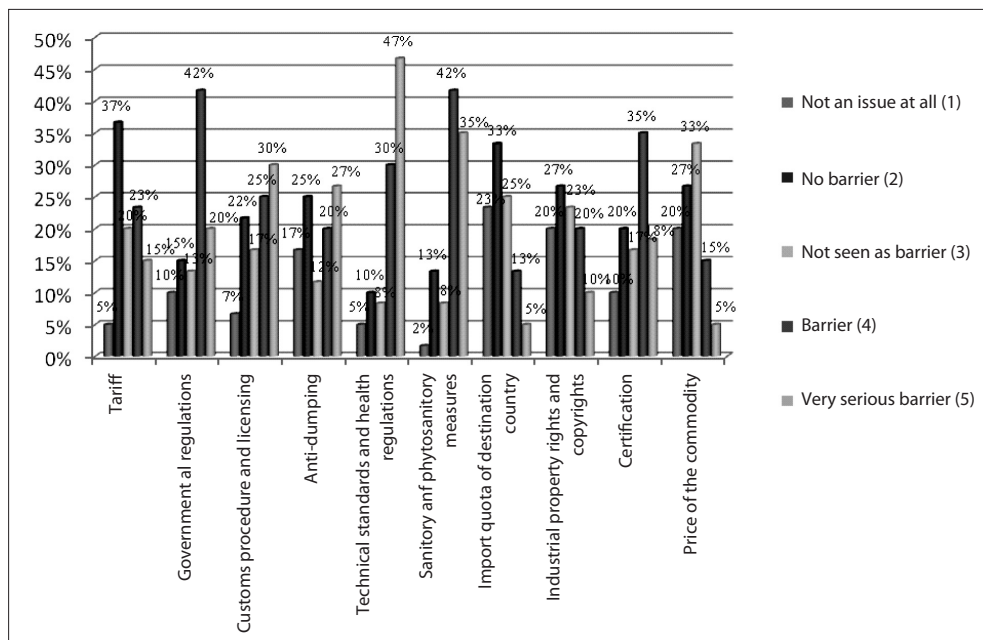


FIG. 2. Percentage analysis of Indian exporters' perception of common barriers

Table 3 and Fig. 2 show that respondents regard governmental regulations, customs procedure and licensing, technical standards and health regulations, sanitary and phytosanitary measures and certification as the major barriers to export. The anti-dumping and tariff barrier are not the major barriers but tends to be the major ones. The tariff barrier may be low due to several rounds of GATT and WTO. The import quota of the destination country and the Price of the commodity are not regarded as barriers, either.

Hidden barriers

TABLE 4. Percentage analysis of Indian exporters' perception of hidden barriers

No	Hidden Barriers	Not an issue at all (1)	No barrier (2)	Not seen as a barrier (3)	Barrier (4)	Very serious barrier (5)
1.	Market access problem	13%	17%	10%	27%	33%
2.	Informational barrier	13%	23%	18%	33%	12%
3.	Legal and political barriers	25%	27%	33%	13%	2%
4.	Languages and customs	5%	23%	43%	22%	7%
5.	Culture	17%	32%	15%	23%	13%
6.	Demand of the product	20%	22%	35%	15%	8%
7.	Competition from the firms in the foreign market	25%	23%	27%	18%	7%
8.	Lack of capital to finance expansion into foreign market	15%	18%	33%	22%	12%
9.	Business environment of the targeting country	18%	25%	38%	15%	3%
10.	Corruption	23%	30%	15%	25%	7%
11.	Currency exchange rate	8%	20%	23%	33%	15%
13.	Transportation cost and duration	17%	30%	20%	25%	8%
14.	Working structure / schedule of the targeting country	55%	25%	18%	2%	0%
15.	Labeling and packaging regulations	3%	7%	13%	37%	40%

Table 4 and Fig. 3 show that the respondents regard the market access problems and labeling and packaging as the major barriers to export. Although not the major barriers but cultural one, the currency exchange rate and informational barrier tend to be the major barriers to export. The Legal and Political barriers, Languages and Customs, demand of the product, working structure / schedule of the targeting country, business environment are not regarded as barriers to export.

When exporters were asked about the other barriers they face than the above-mentioned common and hidden barriers, most of the respondents said that coordination is another barrier they face mostly during export.

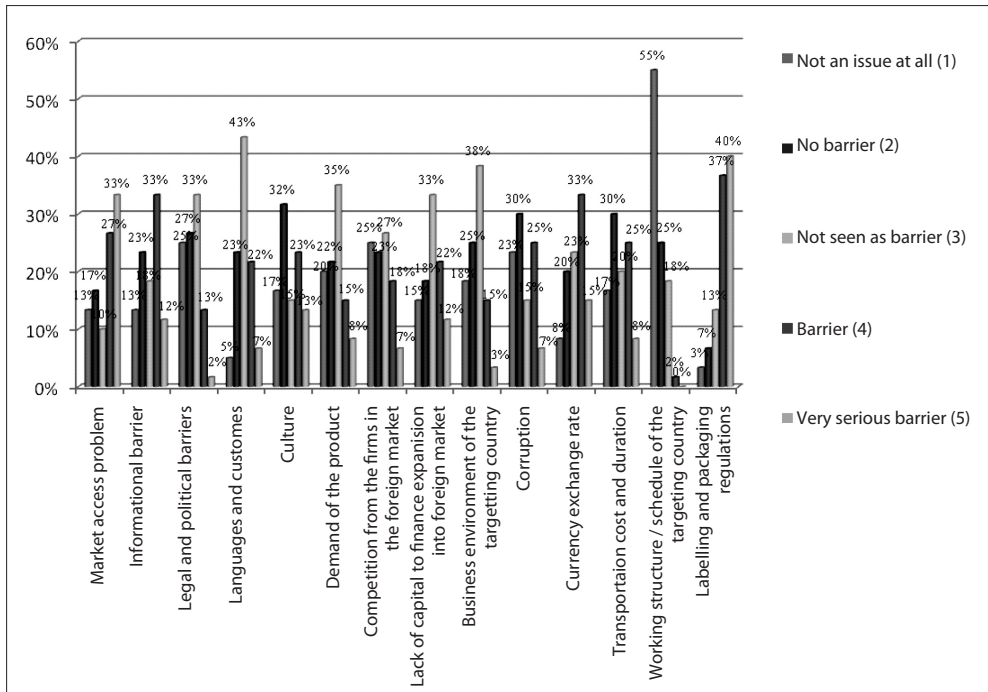


FIG 3. Percentage analysis of Indian exporters' perception of hidden barriers

2. Exporters' attitude after decreasing the strength of barriers

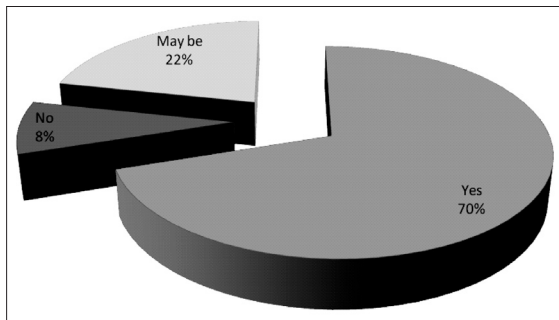


FIG. 4. Exporters' opinion on export after decreasing the strength of barriers

Exporters have been asked if they are ready to export more to the EU after these barriers will be less, and 70% of the exporters said yes, 22% said maybe, and 8% said no. Thus, exporters are positive regarding export to the EU. India's export to the EU can be increased if these barriers get less or are removed. Exporters can exhibit their full potential, and this will help the countries growth.

Conclusions

This research tells about all possible barriers to export when other researches talk about those most common. Empirical analysis of the data shows that the Climatic conditions of the country of destination do not contribute to export barriers. Exporters have a strong feeling that governmental regulations, customs procedure and licensing, technical standards and health regulations, sanitary and phytosanitary measures, and certification are the major barriers to the export. These are the so-called common barriers that are caused by government policies and rules. They are all non-tariff barriers. Our results show that a tariff barrier tends to be a barrier but not a major barrier. The reason may be the several rounds of WTO / GATT. Thus, these non-tariff barriers contribute to a decrease in trade.

There are some natural barriers to the trade, among which labeling, packaging and Market access problems are the major barriers to the export. Indian exporters face the problem of accessing the European Union market, and also labeling and packaging issues are major as there is a very strict regulation regarding the labeling and packaging of the goods. Also, cultural differences and currency exchange rate and lack of information are not the major barriers, but they affect the trade negatively.

These non-tariff barriers can be removed by the good policy measures and government interventions. Naturally existing barriers can be overcome by a proper management. Another problem, which is not listed here, is coordination. There is a lack of coordination between the two parties, and it affects the trade negatively. Decreasing the strength of these barriers will lead to an increase in export as exporters are ready to export more from India to the European Union if these barriers will be removed or the strength of these barriers will be lowered. An increase in export will lead to the economic growth of India, and due to the low barriers non-exporters will start export, and current exporters will exploit their full potential of export. India has plenty of resources and can export much more than at present.

The proper control of these barriers will lead to an increase in the export. There is a need of harmonization between India and the European Union for removing these barriers. The information related to the regulations and standards should be communicated to the exporters on time by the Indian government to help them overcome these during the export. Indian government should address these issues of barriers in the ongoing negotiations with the European Union. There should be a single standardized certification procedure for every European Union country so that Indian exporters would not have problems to dealing with it. The customs procedure should not be very lengthy and complicated because most of the exporters get fed up with this procedure and lose their confidence. Indian exporters should also be encouraged to use new technologies to overcome the barriers related to documentation and maintaining different standards for the export. On the contrary, Indian exporters also need to understand another culture

to overcome the cultural barriers. There is still a need of further research to investigate every barrier in detail and their impact at the national level, which will allow policy makers or governments to formulate the key strategic guidelines for making national export policies.

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