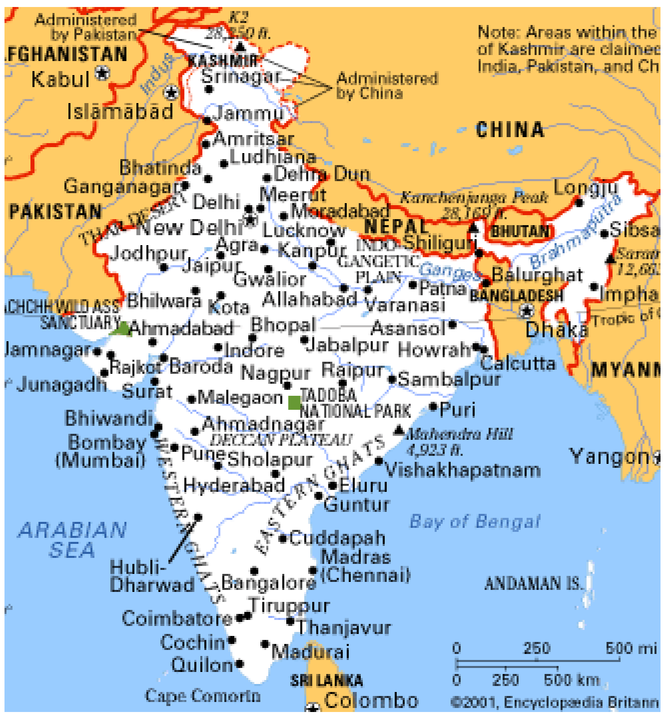
1.265J: International Logistics
Assignment 2: Country Write-Up

February 26, 2003



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Specialized Aspects of International Logistics – Country and Regional Issues

1. What are the rough dimensions of the country in miles?
India is roughly 2000 miles from North to South, and 1700 miles from East to West.

2. What is the population? What percentage live in the 3 largest cities?
The population is approximately 1.05 billion. Approximately 2.5% live in the three largest cities; Greater Mumbai, Delhi (Municipal Corp.), and Kolkata.

3. What is the predominant language? How widely used is English in business?
Hindi is the predominant language of nearly 200 recognized languages spoken in India. English is the "associate official language," and is spoken by nearly all government officials and business people.

4. In the last three years have there been any instances of political instability?
Political stability is somewhat tenuous in India, as well as relative—at the end of the 1990's, 4 governments fell in 3 years. The primary current issue is hostilities between India and Pakistan over the region of Kashmir.

5. What is the currency? What is the exchange rate to US dollars? How has it changed in the past two years?
The currency, the Indian rupee is approximately equivalent to .02 U.S. dollars; this is almost exactly where it was two years ago.

6. What time zones exist in this country? What time is it in the capital when it is noon in Cambridge, MA?
There is only one time zone in use in India, which is Greenwich Mean Time +5.5 hours. Since Cambridge is in the U.S. Eastern Time Zone, which is GMT-5, when it is noon in Cambridge it is 10:30 p.m. in Delhi, the capital of India.

7. What unique requirements exist for products sold in this country? (e.g. testing, packaging, language, safety, etc.)
The only significant unique requirement for goods sold in India, is that products of foreign origin must indicate the country of origin either on the packaging or the products themselves. However, in addition to the 200 languages mentioned previously, the Indian population is incredibly diverse with regard to religion and culture, which must be considered in every aspect of business operations.

8. What regulations or limitations exist regarding freight transport?
Not unlike many nations protecting their own shipping interests, Indian exports are C.I.F. (Cost, Insurance and Freight) while Imports are F.O.B. (Free On Board). Coastal trading (significant in a country with over 150 ports) is restricted to Indian flag vessels. The Merchant Shipping Act, the Inland

Vessels Act, and the Coasting Vessels Act govern the Indian shipping industry.

9. Are there saltwater ports which can handle large ships? How far are the major population centers from those ports?

India has 12 major ports, as well as 139 intermediate and minor ports. The major ports are in proximity to large population centers; these ports account for 95% of India's trade by volume, and comprise 75% of its value.

10. What business terms and financial instruments are typically used for import commercial transactions?

See answers under question numbers 20 and 21

11. How large is a typical supermarket or retail food store (square feet or meters)?

Most food stores in India focus on one food category, such as produce or meats. These stores are generally only 300-500 square feet in size. The few grocery chains in India range in size from 2500-4000 square feet.

12. Do any of the large US discount retailers (Wal-Mart, K-Mart, Toys 'R Us) have stores in this country?

There are no large discount retailers operating in India. The only U.S.-based retailer (excluding fast food restaurants) in India is Levi-Strauss.

Indian Camel Cart

13. Describe the highway and rail infrastructure. Are they: extensive, moderate, or primitive nationwide?

India has highways and major roads, however these only account for 20% of the road infrastructure of the country. The rest is covered by non-major roads.

Type of Road	Length, KM	% of Network
National Highways	58,112	1.7%
State Highways	137,119	4.1%
Major District Roads	470,000	14.2%
Village and Other Roads	2,650,000	79.9%
Total Length	3,315,231	

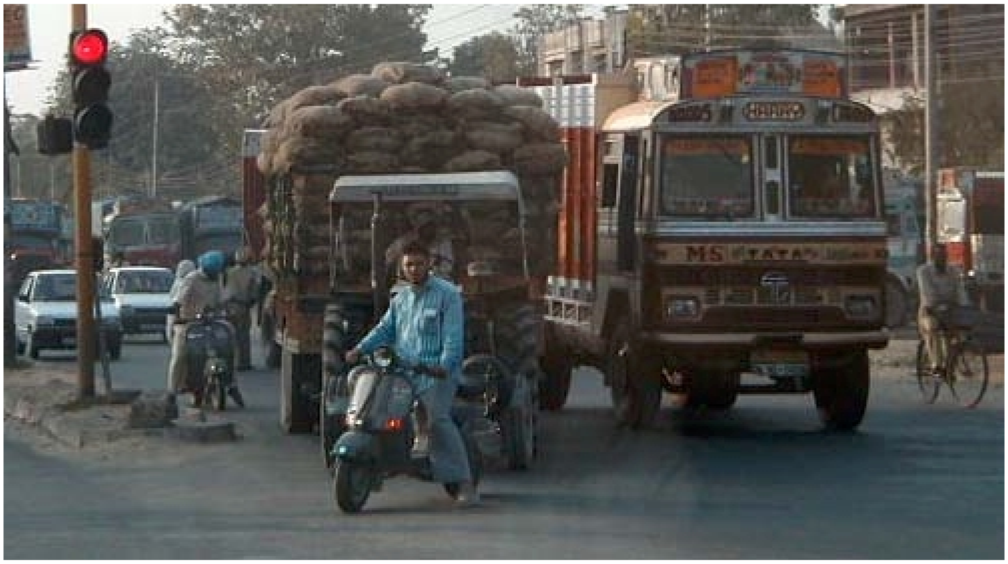
An interesting point to consider is that although national highways make up 2% of the network, they carry 40% of the traffic. Because of this, the India National Highway Department has major initiatives in place to expand the highway capacity by both adding lanes and creating new highways. These highways include the Golden Quadrilateral connecting Delhi, Mumbai, Chennai, and Calcutta as well as the East-West and North South corridors.

With this in mind, the road system is primitive to moderate by US standards, but is improving.

The Indian Rail system on the other hand is quite extensive. Indian Railways first appeared in India in 1853. Since then, it has grown into the world's second-largest rail network, comprised of nearly 14,000 trains carrying up to 14 million passengers a day. There are over 108,000 kilometers of track and 63,000 kilometers covered in routes.

14. How bad is the traffic congestion in the major cities?

Congestion is very high in the major cities of India. With a large population, few roads and an increasing number of vehicles including cars, trucks, scooters, motorcycles and rickshaws, the problem is getting worse. Traffic in New Delhi reached such proportions that the New Delhi Metro subway system was recently opened (to be completed in 2005) in December of 2002 to ease congestion. Delhi is estimated to have 4 million cars and nearly 16 million people. Mumbai has 3 main north-south corridors, but does not have one main east-west corridor, causing great congestion. It is estimated that road traffic in Mumbai has increased by 400% in the last twenty years and is continuing to grow at rapid rates.



15. Which countries are the primary trading partners? For each partner, in which direction is the balance of trade (import or export)?
India's main trading partners include the United States, Britain, Germany and Japan. The balance of trade is in favor of India when dealing with the US, Germany, and Japan (India exports more to these countries than it imports from them). However, it imports more from the UK than it exports.

Major export trading partners: US 20.9%, UK 5.2%, Germany 4.3%, Japan 4.0%
Major import trading partners: US 6.0%, UK 6.3%, Germany 3.5%, Japan 3.6%

16. Is security an issue in logistics? Why?
Yes, security is an issue in logistics. This is because of two reasons: the political climate in India and the transportation infrastructure.

The political instability between India and Pakistan poses a security issue. In many cases, fragmented ethno-political groupings have taken to arms and have adopted a line of confrontation with the state and central administration. This has had tremendous impact on the overall security situation in India.

The deficiencies in the road network are causing huge economic losses due to slow transportation (resulting in obstructing and delaying the movement of goods and passengers) and also are contributing to a high rate of road accidents.

The congestion at the ports and the insufficiently developed air services also affect foreign investment decisions, which often place a great premium on the infrastructure. From the end-user's perspective, current handling of containerized cargo follows an archaic system that lacks mechanization. The methods and technologies in use are not very productive.

In addition, a huge surge in traffic combined with slow modernization has made India's railway network increasingly vulnerable to accidents.

Because of these infrastructure problems, shipments are more susceptible to cargo pilferage and damage.

17. How reliable is the phone system? How long for a consumer to get a phone line installed? How extensive is the mobile phone network?

In 2001, an estimated 2.8 Indians out of 100 were equipped with phone service. This was well below the global average of 14. It appears that increasing this "teledensity" is the primary goal in India while increasing reliability remains secondary. The phone system is not entirely reliable and is subject to outages on a regular basis. According to one report, the waiting list as a percent of lines available is about 15.2%**.**

According to the Cellular Operators Association of India, by December 2002, there were just over 10 million cellular phone subscribers in all of India and Cellular service was available in nearly 1400 cities and towns in India. As of March 2002, 42 networks were on air and there was no recorded waiting period to begin service. It is important to note that these 10 million subscribers remains a mere 1% of the total population. However, there is great competition among mobile carriers and subscriptions are nearly doubling each year. The table below demonstrates this rapid subscriber growth. With such a low teledensity, falling prices, and a growing middle class, India provides an excellent opportunity for mobile carriers.

	Dec-99	Dec-00	Dec-01	Dec-02
Number of Cellular Subscribers	1,599,364	3,107,449	5,478,932	10,480,430
% change		94%	76%	91%

18. How many people have Internet access?

In 2000, subscribership was close to 1 million and was expected to grow to 23 million by 2003. Although growth occurred, it has not been quite so precipitous. As of January 2002, Internet Subscribers had reached 3.6 million, while Internet users reached 8.2 million. The difference in these two numbers is attributed to the large number of Cyber Cafes and public access sites allowing people to use the Internet without subscribing to service. Access is provided by 212 different ISPs operating in India. Internet Telephony was also legalized in April 2002, and this market is expected to see growth as well.

19. What is the price of regular gasoline, $ per gallon?

According to a report on January 3, 2003, prices were as follows (given exchange rate as 1Rs=$.02):

	Petrol			Diesel		
	Rs	$/liter	$/gallon	Rs	$/liter	$/gallon
Delhi	29.93	$ 0.60	$ 2.27	19.07	$ 0.38	$ 1.44
Calcutta	31.44	$ 0.63	$ 2.39	20.45	$ 0.41	$ 1.55
Mumbai	34.73	$ 0.69	$ 2.62	24.24	$ 0.48	$ 1.82
Chennai	32.55	$ 0.65	$ 2.46	20.93	$ 0.42	$ 1.59
Average	**32.16**	**$ 0.64**	**$ 2.43**	**21.17**	**$ 0.42**	**$ 1.59**

20. What trade restrictions exist? What are the highest import duties – which products and countries of origin? What embargoes exist, if any?

India's policy relating to the general provisions regarding exports and imports is guided by the Export Import (EXIM) Policy of 1997-2002. This was last revised on March 31, 2001. Imports are now permitted in many cases without a license. Exceptions to this arise where items are prohibited or restricted (allowed but through a license) or where imports are allowed only through a state-owned enterprise. Import tariffs also have been progressively reduced to 35 percent ad-valorem.

In April 2001, India removed quantitative restrictions (QR) on a final batch of 715 items, completing the process of phased trade policy liberalization that was started in 1991. Out of these 715 items 342 are textile products, 147 are agricultural products including alcoholic beverages and 226 are other manufactured products including automobiles.

The Customs Act governs the levying of tariffs on imports and exports and frames the rules for customs valuation. The Customs Tariff Act specifies the tariffs rates and provides for the imposition of anti-dumping and countervailing duties. With some exceptions, most tariffs are ad valorem. Tariff rates, excise duties, regulatory duties, countervailing duties and the like are revised in each annual budget. The April 1993 trade policy merged the auxiliary duty with the present duty. Total duties on imports now consist of basic duty (ranging from zero to 65%) plus additional or countervailing duties (equal to excise duties),. On manufactured "luxury" items, total import taxes can amount to 150%.

India's basic trade law, the Foreign Trade Development and Regulation Act of 1992, empowers the government to prohibit, restrict or otherwise regulate imports or ex-ports. The trade policy formulated under this act is published in two parts-the policy itself and a handbook of procedures. Until March 31st 2001 India had five import lists:
An open general list of freely importable items that do not require import licenses and may be freely imported by any individual or entity.

A restricted list of 715 items on which quantitative restrictions (QRs) applied.

A special import license (SIL) list of 241 items from the restricted list. Exporters were entitled to SILs against their exports and could use these to import goods or sell or trade these SILs.

A canalized list of items that were reserved for import by state trading agencies.

A prohibited list of items that may not be imported. This includes only three items-animal tallow, fat and/or oils; animal rennet; and wild animals, including their parts, products and ivory. However, the Ministry of Commerce eliminated the restricted list on March 31st 2001, moving all 715 items to the open general list, under India's commitments to the World Trade Organization. These were the last items subject to QRs, since India had phased out all others in past years. The freed items included 342 textile products, 147 agricultural products including alcoholic beverages, and 226 other manufactured products.

Nevertheless, the Commerce Ministry also announced some safeguards. A panel head-ed by the commerce secretary was set up to monitor imports of 300 sensitive items, including cars, utility vehicles, fruit, vegetables, coffee, tea and dairy products. India can still use duties to curb some imports; for example, the policy also imposed a duty of 180% on the import of second-hand cars and more than 150% on imported liquor. To protect consumers from sub-standard imports, the government has directed that 131 imported products must comply with the mandatory quality standards applicable to domestic products and register themselves with the Bureau of Indian Standards for this purpose. The list includes food preservatives and additives, milk powder, infant milk food, household and similar electrical appliances.

The government also requires all imported packaged commodities to comply with the Standards of Weights and Measures (Packaged) Commodities Order as applicable to domestic products. With the lifting of quantitative restrictions, both special import licenses and the restricted list were abolished. At the same time, the canalized list was renamed the special list and only the import of rice, wheat, maize, petrol and urea has been put on it. These items may be imported only by specified public-sector agencies, such as petroleum products (to be imported only by Indian Oil Corp) and cereals (by Food Corp of India). Sugar was de-canalised in 1997, but the government can still regulate export quantities by invoking the provisions of the Essential Commodities Act. Foreign exchange for imports must be obtained from authorized foreign-exchange dealers at market rates. According to the Export Import Policy (19972002), importing second-hand goods is restricted and requires an import license.

The Inter-Ministerial Licensing Committee grants licenses based on the following guidelines: (1) imports of capital goods not older than five years are normally allowed automatically; (2) imports of capital goods older than five years but younger than ten years will be allowed after considering the comparative advantage against new goods; and (3) imports of capital goods older than ten years will normally not be allowed except for infrastructure and core-sector industries.

India has removed prohibitions on trade with South Africa except for military equipment and petroleum products; trade with Serbia and Montenegro was resumed after the United Nations embargo was lifted. Trade is still prohibited with Fiji, however (because of that government's discrimination against Fiji's large ethnic-Indian population). India's legislative and administrative procedures on customs valuation are consistent with the WTO customs-valuation code. Customs tariffs are levied on the value of imports. The importer must furnish an import declaration in the prescribed bill-of-entry format, disclosing full and accurate details of the value of imported goods. This must be accompanied by any import licenses and documentation such as sales invoices, freight and insurance certificates.

The Customs Act of 1975 gives the government authority to introduce or increase duties on exports. The only products now subject to an export tax (at the rate of 10%) are goat, sheep and bovine leathers. Products may also be subject to a minimum ex-port price. The list of products subject to minimum prices includes basmati and non-basmati rice, cot-ton, and hard and soft cotton waste. Most minimum export prices are specified in dollars on an fob basis.

The 2000 Export Import Policy announced the creation of special economic zones (SEZs) based on the Chinese model. These grant 100%-foreign-equity rights to investors that promote exports. Any state government or corporate entity can propose such zones; essentially duty-free enclaves treated as foreign territory for the purpose of trade operations. Existing export-processing zones (EPZs) in Mumbai, Cochin and Kandla and a private EPZ in Surat were converted into SEZs on November 1st 2000. By October 2001 the government had approved the establishment of ten new SEZs at Nan-guneri in Tamil Nadu, Positra in Gujarat, Bhado-hi and Kanpur in Uttar Pradesh, Kulpi in West Bengal, Paradeep and Gopalpur in Orissa, Dronagiri in Maharashtra, Kakinada in Hyderabad and Indore in Madhya Pradesh. The units in these zones will have full flexibility of operations.

The present trade policy (effective April 1997March 2002) allows for the free export of all goods except for 32 categories of items subject to export licenses (for example, hides and skins, minerals and vegetable oils), ten items banned for export (for example, wild flora and fauna, tropical wood and wood products, and beef) and several items exportable only by specific agencies (Indian Oil, for petroleum and petroleum products; Minerals and Metals Trading Corp, for mica, mica waste, iron ore, bauxite and manganese ore; National Dairy Development Board, for certain seeds; Indian Rare Earths, for thorium ore and rare earths; and the Agricultural Co-operative Marketing Federation of India, for onions).

On September 22, 2001, President George W. Bush waived the application of certain sanctions placed on India and Pakistan, including those sanctions implemented by regulations issued on November 19, 1998 (63 FR 64322). BXA published a rule on October 1, 2001 that implemented the waiver of these sanctions by removing the policy of denial for exports and reexports of items controlled for Nuclear Proliferation and Missile Technology reasons to India and Pakistan and restoring the use of License Exceptions for these items for entities not listed on BXA's Entity List. In addition, the rule removed certain supplementary measures taken in connection with the sanctions by removing a large number of Indian and Pakistani entities from the Entity List.

21. What customs documents are required for an import shipment? For export?

No person is allowed to export or import goods without obtaining an Importer-Exporter Code Number from the regional licensing authority unless specifically exempted under any other provision of the Export and Import Policy. The following categories of importers or exporters are exempted from obtaining the Importer-Exporter Code (IEC) Number.

- Importers covered by clause 3(1) [Except sub-clause (e) and (1)] and exporters covered by clause 3(2) [except sub-clause (I) and (K)] of Foreign Trade [Exemption from application of Rules in certain cases] Order, 1993;
- Ministries/Departments of the Central or a State Government.
- Persons importing or exporting goods for their personal use not connected with trade or manufacture or agriculture;
- Persons importing or exporting goods from/to Nepal provided the CIF value of a single consignment does not exceed Indian Rs.25, 000 (Rs. Twenty Five Thousands only).
- Persons importing/exporting goods from/to Myanmar through Indo-Myanmar Border areas provided the CIF value of a single consignment does not exceed Indian Rs.25, 000 (Rs. Twenty Five Thousand only).

Application and supporting documents

An application for grant of an IEC Number should be made in duplicate, to the Regional Licensing Authority concerned by the Registered Office or Head Office or Branch Office of the company/firm in form given supported by following documents-

- Demand draft for payment of the fee of Rs. 1000 or Bank Receipt evidencing deposit of payment of fees from the Central Bank of India:
- Any one of the following documents-

- Sale Tax Registration Certificate;
- A copy of the passport in the case of an individual;
- In case the application is signed by an authorized signatory, a copy of the legal authority letter issued by the firm/company.

- Certificate from the banker of the firm (as per annexure to the form).

The Regional Licensing Authority concerned will grant an IEC Number to the applicant on merits.

Validity of IEC No.

An IEC number allotted to an applicant will be valid for all its branches/divisions/units/factories as indicated on the IEC Number.

An IEC Number allotted to the Registered Office or Head Office of a company/firm shall be valid for all its branches/divisions/units.

Identity cards

To facilitate collection of licences and other documents, identity cards are issued by the Licensing Authority to the proprietor/partners/directors and authorized employees of the importer/exporter not more than three.

22. How common is "bribery" (US definition) in trade transactions? (normal, infrequent, very rare). What are the legal ramifications?

Bribery is normal in trade transactions. In a minority of cases a person will be prosecuted, and possibly serve jail time if convicted.

23. How strong are the unions? In what industries are they an important factor? Are they predominantly national or local? What impact do they have on logistics?

Unions are strong in India despite the fact that they account for only 3% of the workforce. Unions are prevalent in almost every single industry including teachers, taxicab drivers, mill workers, etc. Unions are fairly autonomous at the local levels, though they have national affiliations. Unions do often call strikes at the local level which could have a large impact on logistics.