

Driving Durability for Indian Gems and jewelry Export

California's Attorney General Kamala Harris has filed a lawsuit against an Indian and a Chinese apparel company for allegedly using pirated softwares in the production of their cloth for export and sale in the state. The lawsuits, filed in Los Angeles County Superior Court yesterday, charged Pratibha Syntex Ltd of India and Ningbo Beyond Home textile Co Ltd of China and its sister companies, with violating California's Unfair Competition Law. (Hindustan Times, Tuesday, February 19, 2013).

What happened to these Indian & Chinese companies? What prompted California to take such a strict action against Indian textile exporters? Can this also happen to gems and jewelry exporters? Do you want to be one of them?... No!! Then let's find the answers to these simple questions?

- Do you understand what is stolen or misappropriate IT?
- Are you using pirated versions of software or hardware in your business operations either separately or as a component of another product?
- Are you sourcing from a supplier using pirated versions?
- Are you aware what in the near future can stop your exports to The US?

Here is the answer to all of the above...

The new Unfair Competition Act (UCA) Law in the State of Washington, USA was passed in early 2011. The law states that **'A business that manufactures a product while using stolen or misappropriated information technology (stolen IT) in its business operations engages in unfair competition when the product is sold in Washington, either separately or as a component of another product, in competition with the product made without use of stolen IT'**. The law also implies that the US Company selling within the State of Washington is responsible for the suppliers who may be located anywhere in the world. It applies to all manufactured products and to all suppliers from any country, and allows the Government to block the US Company from selling the finished product in the State and compel them to pay damages for what either the Company themselves or their overseas supplier(s) did. *"Companies across the globe should be on notice that they will be held accountable in California for stealing our intellectual property," Harris said.*

Stolen or misappropriate IT is defined as hardware or software that a person acquired, appropriated, or used unlawfully, unless the hardware or software was not available for standalone retail purchase at or before time it was stolen. Using IT in business operations would mean using IT to design, manufacture, distribute, market or sell products.

Will it impact our gems and jewelry exports to USA and how?

Yes!! USA has traditionally been a prominent market for India with exports from India across sectors increasing from \$ 5014.48 million in 1995 to \$ 19493 million by the end of 2010.

India forms about 12.2% of the total Gems and Jewelry products imported into the US. The Trade Intensity Index (TII)¹ with US has increased from the last year and has been consistently above 5 in the past five years which suggest that India is an important importer to US market. The Revealed

¹ The export (import, trade) intensity index takes the ratio of an export share for a region to the corresponding export share of the world as a whole. This statistic tells us whether or not a region exports more (as a percentage) to a given destination than the world does on average.

Comparative Advantage (RCA)² of India for this sector has been above 5 for the last five years which shows that India has exported this commodity more intensively than other countries. The fact that imports to US have been increasing annually by 8% from 2007-11, suggests there is growing potential for India to capitalize on. Therefore we should be able to increase the share of Gems and Jewelry export. But we are not, and India's share in US imports has not kept pace with the potential

Why is this happening?

However, Indian exporters have been facing tough competition in US markets with the countries like China, Canada, Vietnam, Mexico, Japan, Indonesia, Honduras, Cambodia, Pakistan and Turkey” says Mr. Sabyasachi Ray, ED, Gems & Jewelry Export Promotion Council, Ministry of Commerce, Government of India. Indian exports have been losing out its share in US imports due to prevalence of regional trade agreements (RTAs) and preferential trading agreements (PTAs) between USA and competing suppliers including NAFTA (Mexico, Canada), Honduras. The Regional Orientation Index (ROI) for these RTA's is very high which suggests that these countries have a huge advantage as compared to the other countries.

Is there still a way to win?

Yes – and the answer is via technology and its effective deployment. IT has been identified as playing a significant part in enhancing overall productivity and efficiencies in any organization, by facilitating business processes right from personnel management to financial management to production management, and inventory control, and finally to marketing management. IT deployment, therefore, also drives global competitiveness. IT usage is the second largest contributor towards increasing operating profits and other performance indicators in the manufacturing sector (Source IDC - waiting to connect- 2008).

Need for enhancing IT usage amongst Indian SMEs: why?

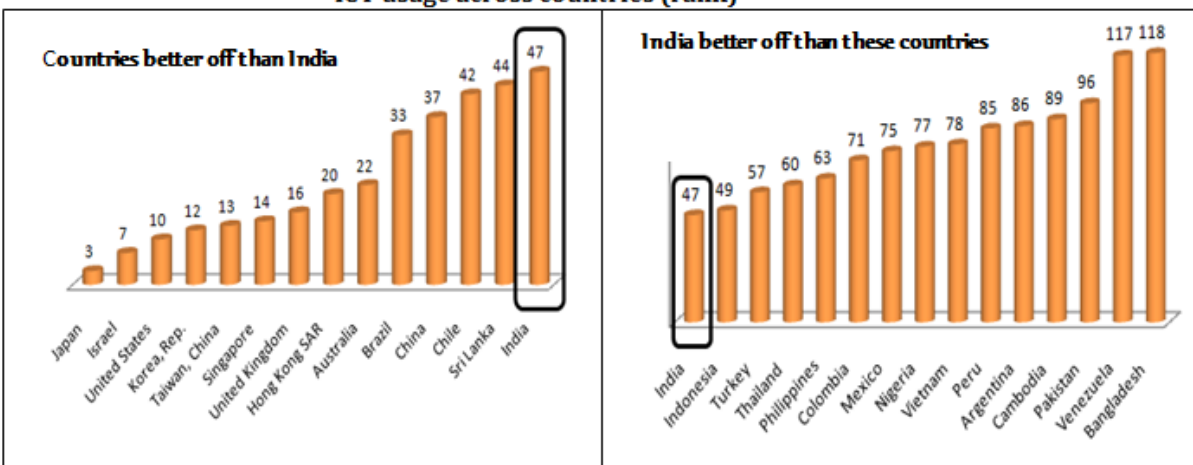
	Non IT user	IT user	Difference
Sales growth	0.40%	3.80%	+750%
Employment Growth	4.50%	5.60%	+24%
Profitability	4.20%	9.30%	+113%
Labour Productivity (value added per worker)	5,288\$	8,712\$	+65%

Source: World Bank, 2006. "Information and Communications for Development: Global Trends & Policies"

A close look at the gems and jewelry sector in competing countries reveal that their technological footprint, especially in the manufacturing process, is far higher than in India, which in turn leads to better pricing -a telling point. NASSCOM survey clearly indicates that the use of IT in India is still low compared to other developing economies such as China, Japan and other South East Asian countries. IT intensity for different manufacturing sectors amongst Indian SMEs have been ranging from low to high wherein for gems and jewelry sector being the medium.

² The RCA index is defined as the ratio of the share of a country's total exports of the commodity of interest in its total exports and the share of world exports of the same commodity in total world exports. It use the trade pattern to identify the sectors in which an economy has a comparative advantage, by comparing the country of interests' trade profile with the world average.

ICT usage across countries (rank)



Source: National Manufacturing Competitiveness Council (NMCC), , Government of India

Can new Unfair Competition Act law provide opportunity for Indian Gems and jewelry exporters?

In such a scenario wherein the IT usage in India is still low compared to competing suppliers, thus resulting into the loss of competitiveness of Indian manufacturing exports in the international market; the new IT compliance law in USA brings forth new business opportunity for Indian exporters of engineering goods.

In simple terms, the stated law would sue US companies if they are found undertaking any business transaction with the overseas companies which are found using pirated version of the software. US Companies increasingly will therefore prefer to engage suppliers who use legitimate IT. It follows that they will also choose to trade with countries where usage of pirated software is minimum. India's software piracy rates are at 61% compared to 79 percent in China and 81 % in Vietnam lower than all those countries which until yesterday had a competitive edge in US market due to quality, pricing, preferential tariffs etc. In the aftermath of the UCA India clearly has the potential to become a preferred trading partner.

The Indian gems and jewelry sector in turn can maximize this advantage and cement their position as preferred suppliers simply by using genuine IT. Considering that the total cost of switching to genuine IT is a mere 1% of the total cost to an SME unit even the smaller players can now compete at a global scale against larger players in competing markets.

Last but not the least

That there will be impact to US companies by the use of non genuine IT found anywhere in the value chain is a strong signal not just to their direct suppliers, but also to suppliers' suppliers. It is also a signal that Indian exporters of finished gems and jewelry should also take care when procuring raw material either from the domestic market or from other exporting countries.

“Unfair Competition Act may be a blessing in disguise for India for improving its competitiveness in the US markets as the piracy rates are relatively lower compared to the competitors and provides an opportunity for industry to become IT intensive to cut costs, improve productivity and quality” says Prof. Gopal Naik from Indian Institute of Management, Bangalore.

“India can see an opportunity in quickly adhering to the licensed software and increase its competitive edge in SME predominant sectors like chemicals, textiles, leather and specifically in gems and jewelry since this industry is one such growth area showing a 27% increase from 2007-11” says Dr. K.Rangarajan, Head, Centre for SME Studies, Indian Institute of Foreign Trade (Deemed University under Ministry of Commerce & Industry, Government of India.

Can we afford negligence? ...it's now or never!!

“IPR issues are an important feature of the new global economy namely, that profiting from ownership of IP and paying fairly for the use of other's IP go hand in hand”, quotes Mr. N.R. Narayana Murthy, chairman and chief mentor, Infosys Technologies Ltd (Economic Times, New Delhi, Monday 7th May 2007) and so is the UCA compliance a serious IPR issue in global trade now clearly reflected by the efforts taken by many countries including China, Mexico, Costa Rica, Pakistan, Paraguay, Peru, Tajikistan, and Ukraine, Japan, Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland. It's therefore high time for Indian gems and jewelry exporters to take up IT compliance as a serious management activity and gain market share from other non compliant competitors taking first mover advantage. More so considering that “the Gems and Jewelry industry accounts for nearly 15.4% share of the country's total exports basket, forms about 8.5% of the total exports of the world³ and is one of the leading sectors in India in terms of value of exports and employment generation providing employment to around 1.8 million people; are we in the position to afford negligence to the UCA compliance leading to a big hit on country's foreign exchange earnings and thus the employment loss?”

This is an important move in international trade – and one that provides immense opportunity to Indian manufacturers. UCA willing, the world will see and wear more Indian gems and jewels in times to come. It is time for us – to ACT and legalize. And how do you legalize? There are various ways of going about it one of these is registering your legal software at www.lmr360.org and get a digital certificate that you are a legal user of information technology. The LMR360 is an industry-supported portal that helps companies effectively manage their software, efficiently document that their software is licensed, and connect with customers interested in doing business with ethical companies.

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³ Source : Ministry of Commerce