CHAPTER – III

Trade Policies of India

and China
International trade policy is a governmental policy governing trade with third countries. This covers tariffs, trade subsidies, import quotas, Voluntary Export Restraints, restrictions on the establishment of foreign-owned businesses, regulation of trade in services and other barriers to international trade. In the process of economic development, trade has played a major role in the most of the developed and under developing countries. Trade policies play an important role in the developmental activities of all the countries. Economic differentiation among developing countries has also led them to adopt different emphases in their trade policies. It is clear and justifiable that they make trade policy decisions based on their own interests. In spite of challenging commitments and the possibility of narrowing their national room for manoeuvre, a significant number of the poorest developing countries of the world have considered that, for example, membership of the WTO is in their own interest. As a rule, developing countries have assumed a more liberal trade policy stance and they are about to become new powers in the international economy and trade, above all China, India, Brazil and some slightly smaller economies, are expanding their trade policy objectives so that their dependence on developed countries and their markets will diminish. On a longer term, the question remains open whether this will have consequences on the trading system that the developed countries created in the past to reflect their own political and economic baselines. There are signs of a selective attitude as regards which issues should be dealt with in the multilateral trading system.

For historical reasons, most developing countries are still quite dependent on developed country markets. Since they enjoy broad preferential treatment in the developed countries, especially in the EU, the removal of trade barriers on the most-favoured nation basis is against their short-term interests. More than 40 per cent of developing country exports go to other developing countries and their volume is clearly growing faster than world trade as a whole. However, this
growth trend applies only to some developing countries and mainly Asia, where East Asia and China, in particular, play a significant role. Africa represents the other extreme. Trade policy arrangements aiming at free trade between developing countries have also begun to increase. Even if there are many more agreements than actual free trade based on them, the direction is clear. There are also signs that some of the more advanced developing countries are willing to grant special treatment to the poorest developing countries.

Public development financing allocated in the framework of development cooperation is mainly directed to serve other ends than trade policy. Development cooperation opens up possibilities for the creation and growth of effective market economies. Participation in world trade offers developing countries an important and essential means in their efforts to get rid of abject poverty. It is therefore important to make use of development cooperation and support the creation of preconditions for effective market economies. It is essential to create and develop a regulatory environment that is friendly to and supportive of the preconditions of entrepreneurial activity, including the promotion of good governance, combat against corruption, effective property protection, effective company legislation and judiciary, and communications and transport infrastructure.

There are large number of programs initiated by some developed countries those have become the principal instrument in designing and assisting developing countries to evaluate their trade policy needs and thereby define their negotiating objectives and assess their ability to assume trade policy commitments. The main objective of the programme is to increase cooperation and consistency between the actions of the founding organisations by means of linking international trade issues to target country development strategies and to the programmes run by the organisations in those countries. It is important to continue this type of action. In both India and China
various phases mark the present position of the economies which can be studied as under.

3.1 PHASES OF DEVELOPMENT IN INDIA

India's progress in development after independence can be studied under four phases in terms of development. The most important features of all these phases are the five years plans. These plans reflect the priority of the state to the various sectors. Since, the trade policy is the extension of the economic environment. Through these plans, India emphasised the need of both self reliance as well as export led growth.

3.1.1 First Phase

The first phase started immediately after Independence and lasted until late 1950 which ultimately laid the current state of the Indian economy. This period witnessed a revival of world as well as Indian Trade, especially among the industrialized countries. This was facilitated by the economic reconstruction following the two world wars and reductions in transportation costs.

3.1.2 Second Phase

The second phase beginning in the 1960's was the most difficult decades of our post independence history. In one sense, it was the beginning of a turning point. The shortage of food was acute requiring massive imports. These required imports of strategic needs and defence needs, further the devaluation of the rupee in 1966 put on unprecedented burden on our fledging economy. Later on “Green Revolution” created a base for food self-substitution and helped to stem the tide of imports. During this phase, Indian Industry faced severe difficulties and constraints. Industries had to contend with severe price controls, poor investment opportunities and profitability. Restrictions imposed by Monopolies Act were already giving closely
controlled and monitored environment. Import restrictions and import substitution provided some opportunities. But it is admitted that little advantage was taken of even the limited opportunities available in the environment.  

3.1.3 Third Phase

The decade of the 1970's can be considered a decade of consolidation and proposition for change. Industrial and agricultural production increased significantly and in uninterrupted manner.

3.1.4 Fourth Phase

The policy changes started in this decade in 1980's. Policies mainly concentrated on boosting production and productivity. The government began to relax the domestic regulatory barriers to entry, expansion and access to technology. Liberalization of domestic markets and imports, it was believed, will lead to "efficient" and faster growth of Industry and overall GDP, based on the demands for consumer durables generated in the economy. This program popularly known as 'Brazilian Model' was implemented during the second-half of 1980's. In terms of overall economic growth, it appeared to be successful since the growth rate was higher than in the previous two decades.

The process of economic reforms, or the first wave reforms, in the form of Liberalization and de-regulation gathered momentum in the new era beginning with July 1991, when rupee was devalued and there after followed a package of reforms in economic policy. The central approach underlying these reforms including the second generation reforms currently being pursued involves a greater reliance on the market mechanisms. This included a class of public policies including-
1) Deregulation and reduction of governmental controls.
2) Greater autonomy of private Investment.
3) Lesser role of public sector.
4) More opening of the economy to International trade.
5) Full convertibility of the Indian rupee on current account.

3.2 PLANNING IN INDIA

In the post independence era India followed a model of mixed economy where private and public sector have to perform their role simultaneously. Hence, planning has to play an important role in development of international trade India.

3.2.1 The First Plan: (1951-1956)

This plan was primarily a reconstruction plan. It was intended-

a) To correct the disequilibrium caused by World War II and
b) To initiate an all round balanced development of the economy.

There were certain subsidiary objectives also-

i) To increase the production of food and raw materials,
ii) To create economic overhead like irrigation and transport and increase employment,
iii) To expand social services and,
iv) To set up an efficient and adequate administrative machinery to carry out the programs of reconstruction and development.
Based on the famous Harrod- Dimmar model, the strategy of the plan was to increase the marginal productivity and thereby the average rate of saving. The plan aimed at increasing the investment rate from 5% to 7% of the national income. Highest priority was given to agriculture including irrigation and power projects. The plan was a success. National Income increased by about 18%, per capita income by 11% per capita consumption by about 8% and the rate of investment by about 2.3%. The achievements of the plan were more due to favourable climate than due to any planning endeavour.

Agricultural production increased by 38%. The price level came down by 13% despite a 10% increase in money supply. Food imports being less, the balance anticipated (Rs 30 crores against Rs 200 crores). The plans also initiated the process of institutional and structural changes through schemes like community development.

3.2.2 The Second Plan: (1956 - 1961)

The Second Plan, with a total outlay of Rs 7900 crores, was the first development plan. Its main objective was to establish the socialistic pattern of society. Its main aims were-

i) An increase of 25% in the national income,
ii) Rapid Industrialization with particular emphases on the development of basic and heavy industry,
iii) Large experience of employment opportunities,
iv) Reduction of inequalities in income and health.

The plan laid special stress on increased production of iron and steel, heavy chemical fertilizers, heavy engineering and machine building industry. The achievement of the second plan were modest and at times behind the targets. It was felt that the plan was “overambitious” or “under cautious”. National income increased by 19.5%, per capita income increased by 8%. The index of agricultural production of all crops rose from 117 to 135. The general index of industrial production
rose by about 40%. During the plan, the production of iron ore and aluminium rose by about 150%, machine tools by 50%. There was also significant achievement in the production of capital goods and consumer durables. The plan failed to attain its targets. It absorbed only 6 million people against the target of providing jobs to 10 million. Land reform progress was also behind target.\(^3\)

3.2.3 The Third Plan: (1961 - 1966)

The third plan, with a total outlay of Rs 11,690 crores was the first attempt towards long run development. Its immediate objectives were to-

i) Foster an increase in the national income over 5% p.a. and at the same time ensure a pattern of Input which could sustain their rate of growth during subsequent plan periods,

ii) Achieve self-sufficiency in fuel and power,

iii) Utilize fully man power resources of the country and ensure a substantial expansion in employment opportunities and,

iv) Establish progressively greater equality of income and wealth.

The achievements of the plan were again poor, when compared to its targets. The overall growth rate of national income was below the stipulated rate of 5% P.A. The growth rate of population continued to be around 2.5% p.a. The result was that the target rate of growth in per general capital income could not be attained. The general index of wholesale prices went up 32% during the plan. The failure to hold the price line meant a sharp decline in real per capital income level. To add to all this, there was a serious crop failure in 1962-63 and 1965-66.\(^4\)
3.2.4 The Annual Plans: (1966-69)

The situation created by the Indo-Pakistan conflict in 1965, two successive years of severe drought, devaluation of the currency, general rise in prices and erosion of resources available for plan purposes delayed the finalization of the fourth five year plan. Instead, between 1966 and 1969, there Annual Plans were formulated within the framework of the draft outline of the further plan. During the first annual plan, achievements were poor. Due to severe droughts, national income rose by only 1.1% in 1966-67. In 1967-68, the national income rose marginally. However, due to devaluation, there was some improvement in the balance of payment position.

3.2.5 The Fourth Plan: (1969-74)

The fourth plan aimed at accelerating the tempo of development of reducing fluctuations in agricultural production as well as the impact of uncertainties of foreign aid. It sought to raise the standard of living through programs designed to promote equality and social justice. The plan laid particular emphasis on improving the conditions of the less privileged and weaker section especially through provision of employment and education. Efforts were directed towards reduction of concentration of wealth, income and economic power to promote equity. The fourth plan was a big and bold attempt. The overall growth rate of the economy during the plan averaged about 3% P.A. against the target of 5.7%. The plan had been successful with regards to its achievement of estimated rate of savings and investment. However, the plan failed to achieve its production and employment targets. The total exports during the plan showed a spectacular increase both in money value as well as in growth rates. Exports growth averaged around 13% against the target of 7% P.A.
3.2.6 The Fifth Plan: (1974-79)

The sixth plan was formulated against the backdrop of severe inflationary pressures. The major objectives of the plan were to achieve self-reliance and adjust measures for raising the consumption standard of people living below the poverty line. This Plan also gave high priority to bring inflation under control and to achieve stability in the economic situation. It targeted an annual growth rate of 5.5% in the national income. Four Annual Plans pertaining to the Fifth plan period were complete. It was subsequently decided to end the Fifth Plan period with the close of the Annual Plan 1978-79. The Fifth five-year plan was uniquely unlucky among all the five-year plans as it never got implemented in its complete form and spirit. At best it could be describes as a patch work of annual plans designed to meet the exigencies of the situation that existed in its earlier three years.

3.2.7 The Sixth Plan: (1980 - 1985)

Having terminated the Fifth Plan an year ahead of its scheduled operation the Janata Government at the centre launched the Sixth Plan in 1978-79. However, this plan was once again disbanded with the new government taking charge at the centre and a revised Sixth Plan was formulated. This revised plan, published in 1981, was effective from the year 1980 onwards and covered a period up to the end of 1985. The removal of poverty was the foremost objective of the sixth five year plan. Stress was laid on tackling inter related problems through a systematic approach with greater management, efficiency and intensive monitoring in all sectors and active involvement of people in formulating specific schemes of development at the local level and securing their speedy and effective implementation. The actual expenditure in the Sixth Plan stood at Rs 109291.7 crores as against the envisaged total public sector outlay of Rs 97,500 crores accounting for a 12% in crores in nominal terms. The average annual growth rate targeted for the plan was 5.2%.
3.2.8 The Seventh Plan: (1985-90)

The Seventh Plan emphasized policies and programs, which aimed at rapid growth in food grains production, increased employment opportunities and productivity within the framework of basic things of planning, namely, growth, modernizations, self reliance and social justice. Food grains production during the Seventh Plan grew by 3.23% as compared to a long term growth rate of 2.68% between 1967-68 due to overall favourable weather conditions, initiation of various thrust programs and concentrated efforts of the government and the farmers. To reduce unemployment and the incidence of poverty, special programs like Jwahar Rozgar Yojna were launched in addition to the existing programs. 9 The total expenditure during the entire Seventh Plan stood at Rs 218729.62 crores as against the envisaged total public sector outlay of Rs 180000 crores, resulting in a 21.52% increase in nominal terms. During this plan period, the Gross Domestic Product (GDP) grew at an average rate of 5.8%.

3.2.9 The Annual Plans: (1990-92)

The eighth five year plan could not take off due to the fast-changing political situations at the centre. The new Government, which assumed power at the centre in June 1991, decided that the Eighth Five Year Plans would commence on 1st April 1992 and that 1990-91 and 1991-92 should be treated as separate Annual Plans. 10 Formulated within the framework of the approach to the Eight Five Year Plan (1990-95), the basic thrust of these Annual Plans was on maximization of employment and social transformation.

3.2.10 The Eighth Plan: (1992-97)

The eighth five year plan was launched immediately after the initiation of structural adjustment policies and macro stabilization policies, which were necessitated by the worsening Balance of
Payments position and the position of inflation during 1990-91. The various structural adjustment policies were introduced gradually so that the economy could be pushed to a higher growth path and improve its strength and thus prevent a crisis in Balance of Payment and inflation in the future. The Eighth Plan took note of some of these policy changes, which were to come about due to these reforms. The Plan aimed at an average annual growth rate of 5.6% and an average industrial growth rate of about 7.5%. These growth targets were planned to be achieved with relative price stability and substantial improvement in the country's Balance of Payments. The total expenditure during the entire Eighth Plan stood at Rs 4,95,669 crores at current prices as against the total public sector outlay of Rs 4,34,100 crores resulting in a 14.2% increase in nominal terms. The 8th plan achieved a growth rate of 6.8% as against the target of 5.6%.

3.2.11 The Ninth Plan: (1997-2002)

The 9th plan was launched in the fiftieth year of India's Independence. The plan aimed at achieving a targeted GDP growth rate of 7% P.A. and there was emphasis on the seven identified basic minimum services with additional Central Assistance. The plan also aimed at pursuing a policy of fiscal consolidation, whereby the focus was on sharp reduction in the revenue deficit of the Govt., including the centre, state and PSU's through a combination of improved revenue collection schemes and control of inessential expenditures, particularly with regard to subsidies and through recovery of user charges and decentralization of planning and implementation through greater reliance on States and Panchayati Raj Institution. The Ninth Plan envisaged an average target growth rate of 6.5% per annum in GDP as against the growth rate of 7% approved earlier in the Approach Paper. Against this, the achievement in the growth rate on an average was 5.5% P.A.
3.2.12 The Tenth Plan: (2002-07)

The tenth five year plan, aimed at an 8% annual average rate of growth. The plan aimed at enhancement of human well being, the plan also aimed at expansion of economic and social opportunities for individuals and groups and greater participations in decision making. The economy entered the high growth path, annual average rate of growth turned out to be marginally short of 8%.

3.2.13 Eleventh Five Year Plan: (2007-12)

This plan aims to see the Indian economy jump from high growth to a very high growth category; targeted growth rate being 9-10%. It well result in the creation of high employment and labour intensive production of goods services for the global and domestic markets. A higher growth will pull people from the agriculture fold and thus raise productivity in the agriculture sector. In short there have been both elements of change as well as continuity from one plan to another.

Over the last 60 years India’s foreign trade has undergone a complete change in terms of composition and direction. The post Second World War period can divide in to two broad phases of International Trade:

3.3 INDIA’S EXTERNAL SECTOR REFORMS IN POST INDEPENDENCE ERA

The India’s post independence trade policy was affected by various issues and problems being faced by the nation during this period. These events can be studied as following:

3.3.1 Partition of India and its aftermath

The economic consequences of the partition were cilantros. Economically, India and Pakistan had each, points of advantages and
disadvantages. India was much stinger at that time in industrial production and mineral resource, Pakistan had some advantage in agriculture resource, especially food articles. Pakistan affected most of the exports of Jute, Cotton and hides. In the new set up large scale imports of these were essential for some of the largest established industries in India. However, the commodities that could be exported to Pakistan in exchange were mainly processed materials like cotton textiles, sugar and matches which, until partition, were receiving some protection against foreign competition in the areas which in the areas which in the new set up went to Pakistan. Pakistan therefore not only resulted in increased reliance on imported raw materials but also faced more difficulties in export promotion.

3.3.2 Decline in Sterling Balance held By RBI

The main feature in the external financial position of the country soon after the Independence was the sharp decline in the sterling balance held by the RBI. The sterling balance which reached the peak figure of Rs 1733 crores at the end of 1945-46 declined by Rs 121 crores to Rs 1612 crores during 1946-47. This reduction was mainly due to the large imports of food products but there were also substantial imports of other goods in satisfaction of the demand in the war years. During 1947-48 the reduction was somewhat smaller due to the restrictions on import policy which was introduced towards close of 1947 and the balances fell by only Rs 67 crores to Rs 1545 crores. There was a further drop of Rs 556 crores in these balances during 1948-49. The depletion of the sterling balance rapidly after independence caused some anxiety to the Govt. of India. The view of the Govt. of India was that these reserves should not be used to finance deficits in the balance of payments on what was called normal current account. The aim was to meet normal day to day requirements from abroad through the earning of current exports and draw upon these accumulated reserves. With the aim in the view, the Govt. of India decided to follow a more restrictive import policy from the
second half of the calendar year 1947. This policy consisted of dividing imports into three categories: free, restricted and prohibited. Imports of food, capital goods, the raw materials of industry and certain essential consumer goods were free and no exchange restrictions were placed upon their import. Consumer goods which here were not absolutely essential were licensed on a quota basis, which others which in the context of the economy of India was regarded as totally unessential and luxury imports were altogether prohibited. India had always displayed an interest in the arrangement commonly known as the Empire Dollar Pool. The arrangement was that the countries of the sterling area hold all their foreign exchange reserve in sterling. As a consequence, there was always in the custody of the Bank of England, a pool of foreign exchange from which members of the sterling area could buy for sterling, the currencies which they needed.

3.3.3 Devaluation of the Rupee in 1949

The problem of holding the price in check was one of the major preoccupations of Govt. in the years following independence. The steps taken for resolving the issue included the devaluation of the rupee in September 1949. After this event, price cuts in certain essential commodities were made in an effort to counter the possible efforts of devaluation, and this assisted in holding the price level for some time. The outbreak of the Korean War gave a further impetus to the rise in prices. And this increase in price was, however, not peculiar to India and to a very great extent it reflected the upward movement in prices in other countries which supplied important categories of our imports.

3.3.4 Korean War and Export Boom

After the outbreak of Korean War, one result of the development in the International situation was to intensify the demand for some of the principal exports from India like Jute goods, raw cotton, cotton
waste and raw wool. The external prices of these commodities rose very steeply and in view of both the interests of the exchanger and the necessity for countering inflation; it was decided that this difference should be intercepted by Govt. through the enhancement or levy of exports duties. Exports duties on jute goods and raw cotton were accordingly enhanced while new duties were imposed on exports of cotton waste and wool. The internal economics conditions of India with regard to the balance of payments were a matter of continues concern.

**3.3.5 Trade Agreement of 1950 with Pakistan**

Following the non devaluation of the Pakistan rupee, when other members of the sterling area devalued their currencies in September 1949, trade between the two countries come to a standstill. The effect of the non devaluation of the Pakistan rupee was to cause an immediate increase in the price which importer in India had to pay for Pakistan Goods. Of which the most important single item was raw jute. India’s willingness to buy Pakistani goods, if they were available at reasonable prices, was amply demonstrated by trade agreement which was signed in April 1950. Under it Indian jute by Pakistan, to be paid for in Indian rupees at prices comparable to the price of Indian Jute. These rupees were available to Pakistan for the purchase in India of certain specified commodities like Jute manufacture, cotton textiles, cement, timber etc. Under the stimulus of the devaluation of the rupee and the boom in prices after the outbreak of the Korean War, India accumulated a substantial surplus in its BOP during 1950-51 and early months of 1951-52. In this period, the country could not import as much as it wish due to the difficulty of obtaining supplies from abroad. Consequently, domestic stock of essential supplies fell to a low level and it became essential to take measures to restore the stocks by increasing exports of cotton textiles, oil and oil seeds and by Importing of raw material and essential consumer goods.
A major task of policy in the 1960's was to conserve scarce foreign exchange resources and to secure progressive increases in exports earnings. The budget for 1963-64 increased import and excise duties with a view to curtail the consumption of commodities which were chiefly imported. The increase in the direct taxation was accompanied by concession in respect of exports. The gold policy of the Govt. was also directed towards conservation of foreign exchange which financed the smuggling of gold. These and other measures resulted in a degree of improvement in the balance payment position in 1960's.

In order to bring domestic prices in line with external prices, to restore and enhance the competitive power of exports, and to provide a solution to the country's trade and payments problems, the par value of rupees was reduced by 36.5% on June 6, 1966, in diving a rise of 57.5% in the price of foreign exchange in term of Indian rupees. Along with devaluation, the existing special exports promotion schemes for tax credit certificate were abolished. A liberal import policy was announced for 59 priority industries, including a number of export-oriented industries. A new import replenishment scheme enabled registered exports to imports to obtain raw materials, components and spares against exports of specified products. It was decided to provide cash assistance for exports of selected products with a good exports potential. A scheme for the supply of steel at international prices to exporters of engineering goods was announced. Imports of some raw materials were placed under an open general license. On the side of imports, the principal policy measure taken with devaluation was the announcement of a liberal import policy for 59 priority industries under which arrangement were made to meet their requirement for raw materials, components and spares in jut. The import policy for small scale industrial units making the same products as the priority industries was also substantially liberalized.
3.3.6 Import Substitution: Cornerstone of Trade Policy

India adopted an inward-looking development strategy after independence wherein import substitution constituted a major element of both trade and industrial policies. The focus in the initial stages of planned development was on stimulating “home-grown” industrialization, essential based on the “infant industry argument” wherein production for domestic market was shielded behind high tariff wells and high effective protection. This strategy of import-substituting industrialization created self-fulfilling biases against the export. Producing sectors and as such, exports were relegated to the periphery as a “residual” sector. This policy not only underestimates the exports possibilities but also the import intensity of the import substitution process itself. Import substitution was the Prime objective of India’s trade policy till the mid 1970’s. This policy was largely based on the Imports and Exports Act of 1947 and the Import Trade Control Order of 1955. Liberal incentives were granted to firms if they were undertaking production of an imported item that was not domestically produced. The policies relating to foreign trade become subject of intense discussion in the early 1980s with competitiveness receiving maximum attention. It became increasingly clear that production for exports cannot be isolated from production for the home market and that trade policy would have industrialization. The licensing and highly regulated trade policy slowly started giving way to a more open regime from the early 1980s gathering further momentum during the second half of the decade. A three year export import policy was introduced in 1985 to provide a definition focus to the trade sector. A major ingredient of this policy was the division of easy access to essential capital goods, raw materials and components exports abroad since these were viewed as a major incentive for exporters in technological upgradation for reducing cost and improving quality. In short prior to mid-1991, foreign trade of India suffered from strict discretionary controls. Similarly, foreign exchange
transactions were exactly controlled by the Government and the Reserve Bank of India. Beginning mid-1991 the Govt. of India introducing a series of reforms to minimize and globalize the Indian economy. Reform in the external sector of trade intended to integrate the Indian economy with the word economy. In this context the Ninth Five Year Plan observed, "The process of globalization is a reality which cannot be denied and also should not be avoided. However it needs to be managed so that we can derive the maximum advantage in the world markets."\textsuperscript{20}

3.3.7 Balance of Payment Crisis: 1991

Despite the robust export performance during the Seventh Plan (1985-90) number of medium-term factors such as the declining self-sufficiency in crude oil and Petroleum products, the erosion of surpluses in the invisible accounts, an unfavourable climate for external assistance, and the bunching of debt service obligation, continued to strain the external payment positions, while the problem was exacerbated by a number of short-term factors.\textsuperscript{21} The balance of payments situation became very difficult in 1991-92 despite the softening of oil prices in the world market. Hence, even with a substantial import compression, the pressures on the balance of payments persisted throughout the current financial year. Accordingly, the govt. attempted to mobilize support for the balance of payment from multilateral financial institution- the international Monetary fund, the World Bank and the Asian development Bank- as well as from bilateral donors for immediate relief. Another imported initiative taken the Govt. to meet the urgent need. For balance of payments financing was the announcement of two schemes designed to encourage the inflow of capital funds from abroad. The India for repatriation of funds held abroad was introduced in Oct. 1991.\textsuperscript{22} The early results of the crisis management efforts in 1991-92 were encouraging. Foreign currency assets, which had declined to $1.1 billion at their lowest point in June1991, had risen to about $4.4
billion by Feb. 1992. In addition to the build-up of foreign exchange reserve, the Govt. was able to bring back the gold pledged to the Bank of England and the Bank of Japan in July 1991. The build-up of reserves in the courses of 1991-92 was necessary to restore confidences in the system, but it also meant that the additional resources mobilized from the multilateral financial institutions and the IDB and immunity schemes were primarily used for building up reserves and not to liberalize imports, which remained severely constrained in 1991-92. Measures which were taken lowering the rate of inflation in the economy were the following:

1) Providing subsidies and external support to production enterprises so as to make them more responsive to price and demand changes.

2) Ensuring that buffer stock operations for food grains and intervention in agriculture markets were counter logical.

3) Encouraging savings to ultimately increase the investment pattern in the economy.

4) Keeping entry barriers low in the industrial sector and improving industry's access to imported inputs at two tariffs.

5) Improving technological and managerial capabilities with a view to shortening the response time of enterprises to price and demand changes both in the domestic and international markets.

6) Improving operational efficiency and expanding capacity in infrastructural industries. This required an overall of the inherited organizational structure in these sector and greater use of markets in determining their operations.
3.4 POST 1991 REFORMS IN FOREIGN TRADE SECTOR

The balance of payments position, which had reached a point of near collapse in June 1991, slowly stabilized during the course of 1991-92. Although new policies to deal with the situation were quickly formulated by the new Govt. and implemented within a few months, the external payments situation took time to stabilize primarily because it had been allowed to deteriorate to a state of bankruptcy in June 1991. Foreign currency reserves had borrowing from the IMF in 1990-91 and a substantial part of this was held in illiquid deposits which could not have been easily mobilized if needed. The strategy for the management of the balance of payments outlined in the budget for 1991-92, which was presented in July 1991, relied upon a combination of macro-economic stabilization and structural reforms in industrial and trade policy. It was recognized that in the medium term, the solution to the balance of payments problem would have to lower performance, but in the short-run, the strategy had to be underpinned by mobilization external financing from the multilateral agencies and from bilateral donors. Restoration of access to imports through Liberalization had to depend initially upon additional financing since the exports efforts would take time to shows results. Since access to external commercial borrowing was constrained, the only other sources of funds were the bilateral and multilateral agencies. Visible support from the multilateral agencies was important international confidence. Accordingly, the Govt. negotiated a standby arrangement with the IMF in Oct. 1991 for $2.3 billion over a 20 month period, a structural adjustment loan with the world bank of $500 million and a Hydrocarbon sector loan with the ADB for $250 million. With the assurance of external support through these efforts, there was a gradual stabilization of the balance of payments position in the course of 1991-92. Foreign exchange reserves were restored to more normal levels, increasing from $1.1 billion in June 1991 to $5.6 billion at the end of March 1992.
Import restrictions were gradually dotted in the course of 1991-1992 the new liberalized exchange rate management system introduced in the Budget for 1992-93 eliminated import licensing in most capital crudes, raw materials, intermediates and components and introduced a dual exchange rate system with one rate effectively floated in the market. Although licensing restriction was greatly reduced, they were not entirely eliminated. There was need to review the remaining Licensing restriction and reverse as many items as possible from licensing and canalization. These restrictions were out of place in the existing situation of the balance of payments. Major steps were taken in 1993 to promote exports. The exports-imports policy announced on April 1, 1993 was amended and labour intensive sectors in which the country had a strong comparative advantages was emphasised. The negative list of exports was significantly pruned. A new exports promotion capital goods scheme primarily import of capital goods at a concessional 15% duty rate was introduced for the service sector.

The East Asian crises, which continued to deepen and spared in 1998, led to tremendous volatility and uncertainty in global financial market, and to a restructure evaluation of emerging market as investments destination. The increased risk aversion of international capital had an impact of all emerging Economical environment to some extent in India. In spite of a turbulent environment, India's balance of payment remained moderately comfortable. The trade deficit increased from 3.7% of the GDP in 1996-97 to 3.9 percent in 1997-98 despite the sharp deceleration in import growth. This was attributable to deceleration in export growth which continued for the third year in succession in 1998-99. The slowdown in global growth and international trade also led to the introduction of protectionist measures in some countries. The EXIM policy 1997-2002, continued this process the light of the continued slowdown in export, various measures were announced in August/Sept. 1998.
3.5 REFORMS SINCE 1999-2000

The process of reforms was further intensified during this period. Import of 894 items made license free and 414 items put on SIL (Special Import License) list. Other highlights of the reforms were as under: 26

1) Free zone trade (FIZ) to replace exports processing zones and these are to be treated as outside the country in customs territory.

2) Increased recognition of service exports reflected in new chapters of EXIM policy such exports.


4) Zero duty exports capital goods scheme (EPCG) extended to chemical and textile. No additional customer's duty on exports of capital goods under Zero duty EPCG scheme in marine and software sector.

5) Entitlement of domestic tariff area sale for export oriented units (EOUS) and EPZ, increased to 50% of f.o.b. value of previous year.

6) Among the external sector returns undertaken in 1999-2000 were.

7) Foreign exchange management Act, 1999 was passed to replace FERA. Its provision of money laundering bill was introduced in pertinent.

8) Comprehensive automate approval system for FDI, based on negative list and transparency sector limits.
9) Foreign equity limit for FDI through automated route for drugs and pharmaceuticals rose by 74%.

10) An automated route opened for issue of ADRs or GDRs by Indian companies' ends liberalized guidelines.27

3.6 INDIA'S LOOK EAST POLICY

India unveiled the look East policy in 1991. East Asia- including Japan, China, South Korea and ASEAN- is today India's trading partners, ahead of EU and the U.S. proliferation of free trade agreements (FTAs) is the clearest evidence of Asian countries' desire to forge closer economic relationship. The growing imperative of CECA's indicates that such agreements are becoming deeper, extending to areas beyond just tariff reduction. Many Asian countries have joined together to develop cross-border infrastructure to lay emphasis on trading relationships and increased connectively among countries. Similar initiatives are underway in South Asia and in Central Asia, which gives exciting prospects for future development. The spirit of enhanced monetary co-operation in Asia is evident from initiatives like the Ching Mai initiatives. ^As^ Asia remains one of the least integrated regions lacking a continent-wide regional organization. Forging closer links among Asian nations through appropriate institutional mechanism can lead to substantial enhancement of natural regional and global productivity and output. In the part, India had adopted a very cautious approach to regionalism, and was engaged in only a few bilateral/regional integrations. Recognising that RTAs would continue to feature in world trade for a long time, and with the intention of expanding its exports market, India began concluding in principle agreements as a possible step toward CECAS, which cover FTA in goods (zero customs) duty regime within a fixed time frame or items with no or limited duty concessions, services, investments and identified areas of economic corporations.
3.7 INDIAN'S EXPORT-IMPORT POLICIES

The Import Policies of India of various years lay impact on the economy to a great extent. The study of these policies will give an idea of efforts to increase the international trade. The import policy of the government of India prior to the 80's had two important constituents i) import restrictions ii) import substitution. It was formulated keeping in view the limited foreign exchange reserve of the country, shortages of essential consumer goods in the economy, requirements of capital goods, machinery, spare parts and components for the building up of heavy, basic industries and the role and scope of export substitution in the country. The period of 80 was characterized by massive import liberalization, the desire been to enhance the export competitiveness of large sections of Indian industry. During the immediate post independence period the import policy was liberal and was designed to cope up demand released after the World War II. However this resulted in heavy deficit in the imports from hard currency area. The rupee was devalued in September 1949. As a consequence of devaluation restriction on imports was liberal throughout the period of the first plan as the govt had a substantial sterling balance to fall back upon. Bimal Jalan classifies the export policy of the govt of India into three distinct phases:-

Phase I (up to the first oil shock of 1973), Phase II (covering the period from 1973 up to a decade or so) and Phase III (the period after the above), Phase I was characterized by export pessimism. It was believed that exports from developing countries faced a stagnant world demand and nothing much could be to increase them. The government export policy conflicted with some of its domestic economic policies in some cases, contributing to the relative ineffectiveness of the measures adopted for exports promotion.

Phase I can be divided into two sub periods: 1952-66 & 1966-73. The first sub-period covers the first three five years plans and was
characterized by an essentially passive export policy to some steps to increase exports were undertaken in the third plan. Except for a few items such as iron ore, stagnation of exports earnings in this period is to be largely attributed to domestic policies which often led to the following share of India's traditional exports. Some of these policies as underlined by Bhagwati and Desai were as under:-

i) Export controls which were started during the World War II were carried over for much of the early part of the decade in the case of important foreign exchange earning commodities like tea, jute, cotton textiles, oilseeds and vegetable oil, raw cotton, hides and skins etc.

ii) Export duties which affected several export commodities through most of the decade.

iii) The growing strength of domestic demand accentuated in some cases by government's promotional activities.

The second sub-period in Phase I starts with the devaluation of the rupee by 36.5% in terms of gold in June 1966. The government expressed the hope that the devaluation would lead to expansion in export earnings as Indian goods would now be cheaper in international markets. On the other hand, imports will decline as the prices of imported goods would increase. In addition, many foreign investors would feel encouraged to invest capital in those fields where we required foreign capital earnestly. Devaluation would encourage foreign tourists into India and discourage Indian tourists abroad. These developments would have a favourable effect on India's balance of payments situation. Since devaluation was accepted in place of export subsidies as a means of keeping down the prices of exports, the post devaluation period was accompanied by a substantial elimination of export subsidies and a marked reduction of the tariff.

Phase II can be considered to have begun in 1973 and lasted for about a decade. "In this phase, although this was not explicitly stated,
it was recognized that import substitution policy by them could not bring about viability in India’s balance of payments. In this second phase, exports were therefore, accorded a high priority. The government accordingly undertook a number of steps to increase exports. Moreover, it was said that, the nominal effective exchange rate of the rupee depreciated continuously in the 1970’s. Given the lower rate of inflation at home as compared to the outside world, this also meant a sharp downward movement in the Real Effective Exchange rate, of the rupee. In fact, the REER declined from 107.83 in 1973 to 82.66 in 1979 (1975=100). As a result, the relative profitability of exports increased. These policy measures coincided with some favourable external factors.

Phase III has seen a more positive approach to export promotion strategy. While incentives for export production have been enhanced on the one hand, Exports themselves are being seen as an integral part of industrial and development policies. Export policy in phase III has emphasized “technological up gradation, increase in the size of plants, trees imports and domestic and international competition for the entire industrial sector as being essential to export promotion.”

3.7.1 EXIM Policy 1992-97

On March 31, 1992 the government announced the export and import policy for a period of five years (April 1992 to March 31, 1997), coinciding with the period of eighth five year plan. The chief controller of imports and exports was re-designated as director general of foreign trade. EXIM policy, 1992-97 made a conscious effort to dismantle various perfectionist and regulatory Policies and accelerate India’s transition towards a globally oriented economy. The export-import policy was further liberalized by the government on March 31, 1993. Substantial concessions were announced to boost agricultural exports. The Govt. also announced a centrally sponsored scheme to set up industrial parks in different states.
3.7.2 EXIM Policy 1997-2002

The export and import policy, 1997-2002 (coinciding with the period of Ninth Five Year Plan) sought to consolidate the gains of the previous policy and further carry forward the process of liberalization by deregulating and simplifying procedures and removing quantitative restrictions in a phased manner. It set an ambitious target of attaining an export level of US$ 90-100 billion by the year 2002 and achieving 1% share in world trade.

Salient Features:

i) Exports and imports shall be free, expected to the extent they are regulated by the provisions of this policy.

ii) The central govt. may in public interest, regulate the import or export of goods by means of a negative list of exports, as the case may be.

iii) The negative lists may consists of goods, the import or export of which is prohibited through licensing, or canalized.

iv) Prohibited items in the negative list of imports shall not be imported & prohibited items in the negative list of exports shall not be exported.

v) Any goods, the export or import of which is restricted through licensing, may be exported or imported only in accordance with a license issued in this behalf.

vi) Any goods, the import or export of which is canalized, may be imported or exported by the canalized agency specified in the negative list.

vii) No export or import shall be made by any person without an importer-exporter code number unless specifically exempted.
3.7.3 Modified EXIM Policy April, 1998

The new govt. at the centre, which assumed office in March 1998, announced its export and import policy for the year 1998-99 in April 13, 1998. As the part of the annual export-import policy modification, the govt. freed from import restrictions a large number of consumer goods and liberalized all major export promotion schemes. This new dose of liberalization of the trade regime by the new govt. was necessitated by the commitments made by India at the world trade organization. The timing of the import policy liberalization coincided with the scheduled review of India’s trade policy by WTO on April 16 and 17, 1998. Apart from the general global pressure on India to remove restrictions on imports, the US had filed a complaint with the WTO against India’s import regime. The following were the main provisions of the modified Export-Import policy unveiled by the commerce minister on April 13, 1998.

1. 340 more items were shifted from the restricted list to open General License. Thus out of the total number of 10,202 items covered under the export-import policy, only 2200 remained on the restricted list.

2. The revised policy set on export growth target of 20% for the year 1998-99 which in other words required total exports of the order of US$41.4 billion design 1998-99.

3. Zero-duty export promotion capital goods scheme was extended to all software exporters by lowering the threshold limit of importable capital goods from Rs. 20 crores to Rs. 10 Lakhs. The lowering of threshold limit was expected to help software companies to proliferate throughout the length and breadth of the country. In other words, they could import any capital goods without paying any import duty and return sign an export obligation of 5 times the value of capital goods on net foreign exchange earnings basis for a period of 6 years. In the case of garments,
agriculture, food processing, gems and jewellery, electronics, leather, sports goods and toys. The minimum limit was lowered to Rs. 1 crores.

4. In a bid to prevent cheap imports being dumped at unreasonable prices, the govt. set up an anti dumping call called Directorate General of Anti-Dumping and Allied Duties. The DG would be responsible for investigation into alleged cases of dumping as well as subsidized cases. The DG would also recommend anti-dumping as well as subsidized cases. The DG would also recommend anti-dumping duties where it is found that dumped imports are causing harms to the domestic industry, where harm is caused to domestic industries by subsidizing exports by the exporting country then the DG would have the jurisdiction to investigate all such cases and recommend all possible imposition of countervailing duties. The DG would also advise the industry groups and consumer for on how to go about collecting information and procedures involved in making out a case for anti dumping duties.

3.7.4 EXIM Policy 1999-2000

In its effort to further dismantle the import control regime and hasten the integration of the Indian economy with the world economy, the govt. announced a revised export-import policy on March 31, 1999 which came into force on April 1, 1999.

The new export – import policy freed import of 894 items of consumer goods, agricultural products and textiles from licensing requirements. In other words number of consumer items could now be imports were removed and the only control over imports was fiscal in nature, i.e. adjusting import duty to regulate imports. These adjustments were to be made within the upper limits prescribed by WTO. Moreover, another 414 items were removed from the restricted list, allowing these to be imported against special import licenses.
India's international commitments require it to remove licensing on imports by the year 2003.

3.7.5 EXIM Policy 2000-2001


**Export Promotion:** - In a major initiative to boost exports, the Govt. announced the following measures:-

1. **Special Economic Zones:** On the pattern of the Chinese model, the Govt. announced the setting up of two SEZs, at Posittra in Gujarat and Nangunery in Tamil Nadu. Industrial units located in SEZs, will be exempted from a plethora of rules and regulations governing exports and imports. The entire production will have to be expected from these zones. Sales from Domestic Tariff Area can be done only on full payment of customs duty. Several export processing zones will shortly be converted into SEZs. The EPZs located in Kandla, Vizag and Kochi will be converted into SEZs immediately. It was further announced that 100% foreign trade investment would be allowed in all products in SEZs. SEZs would be treated as if they are outside the customs territory of the country. The units would be able to import capital goods and raw materials duty free. The movement of goods to and from SEZs would be unrestricted.

2. **Sector specific packages:** The Export-Import policy 2000-2001 announced sector specific package for seven core areas to boost exports, viz gems and jewelry,
pharmaceuticals, agrochemicals, biotechnology, silk, leather and garments.

For the gems and jewelry exporters the Govt. announced a diamond dollar account scheme. Under the scheme, export proceeds can be retained in a dollar account and the exporters can use funds in this account for import of rough diamonds.

For agrochemicals, biotechnology and pharma units (considered as knowledge intensive), The Govt. has allowed duty free import of laboratory equipment chemicals and reagents of up to 1% of the FOB value of exports similarly the govt. increased duty free import of trimmings, embellishments and other items from 2 to 3 % of total export policies.

3. **Involvement of State Govt. in Export Promotion:** - Since the states forgo taxes (mainly sales tax) on exports they have little incentives to promote exports. The 2000-01 export import policy announced financial incentives to states based on their export performance. An incentive scheme with an initial outlay of Rs 250 crores to secure states involvement in the national export drive was unveiled. The states can use the funds to export promotion activities such as infrastructure. The Commerce and Industry Minister said that he would request the states to treat all units exporting more than 50% of their turnover as public utility services. This would enable that to keep their international commitment on delivery schedules.

The export-import policy 2000-01 lifted quantitative restriction on 714 commonly used items (agricultural products and consumer durables) which can now be freely imported. Thus commodities like meat, milk powder, coffee, tea, fish, pickles, cigars and cigarettes, televisions, radios, tape recorders, footwear and umbrellas can be imported
freely from April 2010. However most of this item will attract peak rate of basic import duty.

The lifting of licensing and quota restrictions on 714 import items was in line with India's WTO obligations. The Govt. promised to abolish licensing and quota curbs on the remaining 715 items (such as liquor, car etc) in April 2001

3.7.6 EXIM Policy 2001-2002

The Union Commerce and Industry Minister unveiled on March 31, 2001 the export policy for the year 2001-02.

A) **Removal of Quantitative Restrictions**: The process of removal of import restrictions, which began in 1991, was completed in phased manner for the export-import policy 2001-02 with the removal of restrictions 715 items. This was in tune with the commitment made to the WTO out of these 715 items, 342 were textiles products, 147 were agricultural and 226 were other manufactured products. However import of agricultural products like wheat, rice, maize, copra and coconut oil was placed in the category of state trading. The nominated state trading enterprise will conduct the import of these commodities solely as per commercial consideration. Similarly import of petroleum products including petrol, diesel and ATF was placed in the category of state trading. In all out of 715 items off the quantitative restrictions list were put under the state trading category.

B) **Agricultural Export Zones**: With a view to boost agricultural exports and provide remunerative return to the farming community, the export-import Policy proposed the setting up of agricultural export zones. Three such zones are propose to be set up in Himachal Pradesh, Jammu & Kashmir (to promote export of apples) and Maharashtra.
Govt. will make efforts to provide improved access to the produce/ products of the agriculture and allied sectors in the international markets. State govt. has been asked to identify product specific agricultural export of specific products from geographically contiguous areas.

3.7.7 EXIM policy 2002-07

The EXIM Policy 2002-07 was unveiled on March 31, 2002. The policy entailed several institutional, infrastructural and fiscal measures intended to promote exports which are conducive to the economic development of the country. The following were the salient features of the policy:-

A) **Special Economic Zones:** - offshore banking units were permitted in SEZs. Units in SEZ were permitted to undertake hedging of commodity price risks, provided such transactions are undertaken by the units on standalone basis. This will import security of the returns of the unit. It has also been decided to permit external commercial borrowings for tenure of less than 3 years in SEZs.

B) **Employment Generations:** - In an effort to generate additional employment, the following announcements were made pertaining to agricultural and small industry sectors:

a. Export restrictions like registrations and packaging requirements were removed forth with butter, wheat and wheat products, coarse grains, groundnut oil and cashews to Russia. Quantitative and packaging restrictions on wheat and its products, butter, pulses, grains and flour of barley, maize, bajra, ragi and jowar had already been removed on March 5, 2002.

b. Restrictions on export of all cultivated varieties of speed, except jute and onion, were removed.
c. To promote export of agriculture and agriculture based products, 20 agriculture zones were notified.
d. In order to promote diversification of agriculture, transport subsidy shall be available for export of fruits, vegetables, floriculture, poultry and dairy products.
e. 3% special DEPB rate was announced for primary and processed foods exported in retail packaging of 1kg or less.
f. An amount of Rs 5 crores under market access initiative was earmarked for promoting cottage sector export coming under the KVIC.
g. The units in the handicraft sector can also access fund from MAI scheme for development of website for visual exhibition of their products.
h. Under the export promotion capital goods scheme, these units will not be required to maintain average level of exports, while calculating the export obligations:

With a view to encouraging further development of centres of economic and export excellence such as Tripura for hosiery, woollen blanket in Panipat, woollen knitwear in Ludhiana, following benefits shall be available for small scale sectors.

a) Common service providers in these areas shall be entitled for facility of EPCG scheme.
b) The recognized associations of units in these areas will be able to access the funds under the market access. Initiative scheme for creating focused technological services and marketing abroad.
c) Such areas will receive priority for assistance form identified critical infrastructure gaps from the scheme on central assistance to states.
d) Entitlement for export house status at rupees 5 crores instead of rupees 15 crores for others.

C) **Technology Up gradation:** Electronic Hardware Technology park scheme was modified to enable the sector to face the zero duty regime under ITA (Information Technology Agreement)-I. The units shall be entitled to following facilities:

   a) Net foreign exchange as a percentage of exports positive in 5 years.
   b) No other export obligation for units in EHTP.
   c) Supplies of ITA-I items having zero duty in the domestic market to be eligible for counting of export obligation.

D) **Growth-Oriented:** The status holders shall be eligible for the following new special facilities.

   a) License/Certificate/Permissions and custom clearances for both import and exports on self-declaration basis.
   b) Fixation of input-output norms on priority.
   c) Priority finance for medium and long term capital requirement as per conditions notified by RBI.
   d) Exemption from compulsory negotiation of documents through banks. The remittances, however, would continue to be received through banking channels.
   e) 10% retention of foreign exchange in exchange earners foreign currency account.
   f) Enhancement in normal repatriation period from 180 days to 360 days.

**3.7.8 EXIM Policy 2003-04**

1) The policy provided a massive thrust to export of services by introducing duty free import facility for service sector units having a minimum foreign exchange earning of Rs. 10 lakhs.
2) Encouragement of corporate sector with proven credential to sponsor agri-export zones for boosting farm exports.

3) EPCG scheme made more flexible and attractive so that even the small scale sector could set up and expand its manufacturing base for exports.

4) Fixing of input-output norms for status holders on priority basis within a period of 60 days permission to status holders in software technology parks India for free movement of professional equipments.

5) Simplification and codification of rules, regulations and procedures applicable to SEZ and EOU units by putting all these rules and regulations in one place, thus greatly facilitating both potential investors and existing units.

6) To increase the overall competitiveness of export clusters, a scheme for upgradation of infrastructure in existing clusters/ industrial locations would be implemented.

7) Extension of duty free Replenishment certificate scheme to deemed exports and reduction in its value addition norms from 25% to 33%.

3.7.9 Mini EXIM Policy January 2004

Preceding the dissolution of the 13th Lok Sabha on February 6, 2004, the Govt. of India announced a mini EXIM policy on January 28, 2004. It included facilitation and simplification measures to sustain the momentum of export growth. Specifically it was aimed at providing boost to exports of gems and jewellery, encouraging tourism (domestic and foreign) and making energy generation cheaper. Highlights of the new policy were:-
1) Free import of gold and silver for export purposes permitted. In other words, gold and silver can now be imported without paying any commission to channeling agents. (In 1997, the Govt. authorized three canalizing agencies, viz MMTC, STC and HHEC, and 8 banks to import gold and silver for sale in the domestic market). Likewise, import of rough, uncut and semi polished diamonds will not be valued for export obligations. Quantitative restrictions on gold and silver import have also been lifted. Govt. also announced the introduction of a gold card for creditworthy exporters to make available cheaper foreign currency debt on easier terms.

2) Duty-free import facility available to star hotels extended heritage, one and two star hotels and stand-alone restaurants. All these hotels have been allowed duty-free import equivalent to 5% of their export earning in three preceding years.

3) Restriction on import of electrical energy lifted.

4) Online licenses and electronic fund transfer facility for exporters. These measures are expected to reduce transaction cost for exporters and make export administration transparent.

3.7.10 Foreign Trade Policy 2004-09

In a radical move, the Govt. of India announced, on August 31, 2004, a new foreign trade policy for the period 2004-09, replacing the hither to nomenclature of EXIM Policy by foreign trade policy. A vigorous export led growth strategy of doubling India’s share in global merchandise trade in the next five years, with a focus on the sector having prospectus for export expansion and potential for employment generation, constitute the main plank of the policy. These measures were expected to enhance international competitiveness and aid in further increasing the acceptability of Indian exports. The New foreign
trade policy took an integrated view of the overall development of India’s foreign trade and essentially provides a roadmap for the development of this sector. It was built around two major objective of doubling India’s share of global merchandise trade by 2009 and using trade policy as an effective instrument of economic growth with a thrust on employment generation. Key strategies to achieve these objectives, inter alia, includes:-

1) Unshackling of controls and creating an atmosphere of trust and transparency.
2) Simplifying procedures and bringing down the transaction costs, neutralizing incidence of all levies on input used in export products.
3) Facilitating development of India as a global hub for manufacturing, trading and services.
4) Identifying and nurturing special focus areas to generate additional employment opportunities.
5) Particularly in semi-urban and rural areas.
6) Facilitating technological and infrastructural up gradation of Indian economy.
7) Especially through import of capital goods and equipments.
8) Avoiding inverted duty structure and ensuring that domestic sectors are not disadvantaged in trade agreements.

The FTP 2004 identified certain thrust sectors having prospectus for export expansion and potential for employment generation. These thrust sectors included agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear sectors. Sector specific policy initiative for the thrust sectors included, for agriculture sector, introduction of a new scheme called Vishesh Krishi Yojna (Special agricultural produce scheme) to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Under the scheme, exports of these products qualify for duty-free credit
entitlement for importing inputs and other goods. Other components for agriculture sector included duty-free import of capital goods under export promotion capital goods schemes, permitting the installation of capital goods imported under EPCG for agriculture anywhere in the agri-export zone, utilizing funds from the assistance to states for infrastructure development of exports schemes for development of AEZs, liberalization of import of seeds, bulbs, tubes and planting materials, and liberalization of the export of plant portions, derivatives and extracts to promote export of medicinal plants and herbal products.

Major policy announcements under gems and jewellery sector encompassed permission for duty-free import of consumables for metals other than gold and platinum up to 2% of 0.6 value of exports; duty free re-import entitlement for rejected jewellery allowed up to 2% of 0.6 value of exports, increase in duty-free import of commercial samples of jewellery to Rs. 1 lakhs, and permission to import of gold of 18 carat and above under the replenishment scheme. Specific policy initiatives in leather and footwear sectors were mainly in the form of reduction in the incidence of custom duties on the inputs and plants and machinery. The major policy announcements for this sector included increase in the limit for duty-free entitlements of import trimmings, embellishments and footwear components for leather industry to 3% of f.o.b value of exports and that for duty-free import of specified items for leather sector to 5% of f.o.b value of exports, import of machinery and equipment for effluent treatment plants for leather industry exempted from customs duty and re-export of unsuitable imported materials was permitted. The threshold limit of designated ‘Towns of Export Excellence’ was reduced from Rs.1000 crores to Rs 250 crores in the above thrust sectors free export credit scheme for services has been revamped and recast into the “served from India” scheme.
FTP (2004-2009) has been instrumental in giving a new direction and stability to India's foreign trade regime and putting India's exports on a higher level. The two basic objectives identified for the policy were doubling India's percentage share of global merchandise trade in next five years and making trade an effective instrument of economic growth by giving a thrust to employment generation, especially in semi urban and rural areas. There has been considerable progress in achieving the two basic objectives of this policy. With merchandise exports growing at an average rate of more than 25% during 2004-2008, India has improved its rank in the world merchandise exports from 30 in 2004 to 26 in 2008. India's average annual growth rate of exports during 2004-2008 was the third fastest after Russia (28.5%) and China (26.8%). India's share in global merchandise trade increased from 0.8% in 2003 to 1.4% in 2008. With regards to the second objective of making trade an effective instrument of growth by giving special thrust to employment generation, sectors with significant exports prospects coupled with employment generation in semi urban and rural areas were identified as thrust sectors and specific sectorial categories were prepared. The high growth in exports resulting from various initiatives during the last five years has resulted in generation of a large number of new jobs in export sector.

3.7.11 Trade Policy 2009-14

India announced the new trade policy for 2009-14 on August 27, 2009. One interesting part is that policy was announced when the world economy had just started showing some recovery signs after the worst post Second World War crisis. Before analyzing the new trade policy let us take a brief review of the last trade policy and find out to what extent its objectives got fulfilled.

The stated purpose of the 2004-09 trade policy was, "Not the mere earning of foreign exchange, but the stimulation of greater
economic activity”. The two noted objectives of the policy were to double India’s %age share of global merchandise trade within the next five years and to transform trade into an effective vehicle of development through employment generation. The measures undertaken to achieve these targets were to simplified trades procedures and decrease transaction costs, encourage industrialists and traders to neutralize incidence of all levies and duties on input used in export products, based on the fundamental principle that duties and levies should not be exported, facilitate development of India as a global hub for manufacturing, trading and services, identify the nurture special focus areas which would generate additional employment opportunities, particularly in semi-urban and rural areas and develop a series of ‘Initiatives’ for each of these. The policy envisaged merchant exporters and manufactures exporters, business and industry as partners of govt. in the achievement of its objectives.

Coming to the achievements of goals, remarkably, India’s share of global merchandise trade reached 1.45% in 2008 from 0.83% in 2003 in case of global commercial services exports increased from 1.4% to 2.3% during this period. In services sector, India registered a remarkable growth of around 28% from 2000-01 to 2005-06 which came down to 22% in 2007-08 and dropped further thereafter mainly due to the recession.

On the employment front according to latest trade policy, nearly 14 million jobs were created directly or indirectly as result of augmented exports in the last five years. The major short term objective of the new trade policy is to arrest and reverse the poor performance of export to provide additional support to the worst hit segments by the crisis. Besides that, a target has been set to obtain an annual export growth of 15% with an annual export target of $200 billion by March 2011 while the country should come back on the high export growth path of global commercial services exports increased from 1.4% to 2.3% during this period. In services sector
India registered a remarkable growth of around 28% to 2000-01 to 2005-06 which came down to 22% in 2007-08 and dropped further thereafter mainly due to the recession.

On the employment front, according to the latest trade policy, nearly 40 million jobs were created directly or indirectly as a result of augmented exports in the last five years. As already mentioned, the new trade policy was announced during difficult times for the global economy and Indian external sector was adversely affected. The major short term objective of new trade policy is to arrest and reverse poor performance of exports and to provide additional support to the worst hit segments by the crisis. Besides that, a target has been set to obtain an annual export grow of 15% with an annual export target of 200 billion dollar by March 2011 while the county should come back on the high growth export growth path of around 25% per annum by 2014. The long term policy objective for the govt. is to double India’s share in global trade by 2010.

**Policy Measures:-** To achieve the above mentioned goals the new trade policy proposed a wide array of measures which includes fiscal incentives institutional changes, procedural rationalization, enhanced market access across the word and diversification of export markets. This policy recognizes three “pillars” to achieve the stated goals namely, improvement in infrastructure related to exports, bringing down transaction cost and providing full refund of all indirect taxes and levies. It is also to be insured that the proposed goals and services tax should rebate and indirect taxes and levies on exports. It has also been decided to provide income tax benefit for it and 100% export oriented industries till 2010-11, enhanced insurance coverage and exposure for exports through ECGC schemes has been insured till March 31, 2010 and the govt. announced continuation of the interest subvention scheme. This policy is stipulated a minimum 15% value addition on imported inputs under the advance authorization scheme.
3.8 FOREIGN TRADE OF CHINA

International trade makes up a sizeable portion of China's overall economy. The course of China's foreign trade has experienced considerable transformations since the early 1950s. In 1950 more than 70 percent of the total trade was with non-Communist countries, but by 1954, a year after the end of the Korean War, the situation was completely reversed, and trade with Communist countries stood at about 75 percent. During the next few years, trade with the Communist world lost some of its standing, but it was only after the Sino-Soviet split of 1960, which resulted in the cancellation of Soviet credits and the withdrawal of Soviet technicians, that the non-Communist world began to see a speedy recovery in its position. In 1965 China's trade with other socialist countries made up only about a third of the total. Segment of China's trade with the Third World was financed through grants, credits, and other forms of assistance. At first, from 1953 to 1955, aid went mainly to North Korea and North Vietnam and some other Communist states; but from the mid-1950s large amounts, mainly grants and long-term, interest-free loans, were promised to politically uncommitted developing countries. The principal efforts were made in Asia, especially to Indonesia, Burma, Pakistan, and Ceylon, but large loans were also granted in Africa (Ghana, Algeria, Tanzania) and in the Middle East (Egypt). However, after Mao Zedong's death in 1976, these efforts were scaled back. After which, trade with developing countries became negligible, though during that time, Hong Kong and Taiwan both began to emerge as major trading partners.

Since economic reforms began in the late 1970s, China sought to decentralize its foreign trade system to integrate itself into the international trading system. On November 1991, China joined the Asia-Pacific Economic Cooperation (APEC) group, which promotes free trade and cooperation the in economic, trade, investment, and technology spheres. China served as APEC chair in 2001, and
Shanghai hosted the annual APEC leaders meeting in October of that year. China’s global trade totalled $324 billion in 1997 and $151 billion in the first half of 1998; the trade surplus stood at $40.0 billion. China’s primary trading partners were Japan, Taiwan, the U.S., South Korea, Hong Kong, Germany, Singapore, Russia, and the Netherlands. China had a trade surplus with the U.S. of $49.7 billion in 1997 and $54.6 billion in 1998. Major imports were power generating equipment, aircraft and parts, computers and industrial machinery, raw materials, and chemical and agricultural products. In 1998, China was in its 12th year of negotiations for accession to the World Trade Organization (WTO)—formerly the General Agreement on Tariffs and Trade (GATT), and had significantly reduced import tariffs. Previously in 1996, China had already introduced cuts to more than 4,000 tariff lines, reducing average tariffs from 35% to 23%; further tariff cuts that took effect October 1, 1997, decreased average tariffs to 17%. To gain WTO entry, all prospective WTO members were required to comply with certain fundamental trading disciplines and offer substantially expanded market access to other members of the organization. Many major trading entities—among them the United States, the European Union, and Japan—shared concerns with respect to China’s accession. These concerns included obtaining satisfactory market access offers for both goods and services, full trading rights for all potential Chinese consumers and end-users, non-discrimination between foreign and local commercial operations in China, the reduction of monopolistic state trading practices, and the elimination of arbitrary or non-scientific technical standards. China and other WTO members worked to achieve a commercially viable accession protocol.

In 1999, Premier Zhu Rongji signed a bilateral U.S.–China Agricultural Cooperation Agreement, which lifted longstanding Chinese prohibitions on imports of citrus, grain, beef, and poultry. In November 1999, the United States and China reached a historic
bilateral market-access agreement to pave the way for China's accession to the WTO. As part of the far-reaching trade liberalization agreement, China agreed to lower tariffs and abolishes market impediments after it joins the world trading body. Chinese and foreign businessmen, for example, would gain the right to import and export on their own – and to sell their products without going through a government middleman. After reaching a bilateral WTO agreement with the EU and other trading partners in summer 2000, China worked on a multilateral WTO accession package. China concluded multilateral negotiations on its accession to the WTO in September 2001. The completion of its accession protocol and Working Party Report paved the way for its entry into the WTO on December 11, 2001, after 16 years of negotiations, the longest in the history of the General Agreement on Tariffs and Trade. With bilateral trade exceeding US$38.6 billion, China is India's largest trading partner. China's global trade exceeded $2.4 trillion at the end of 2008. It first broke the $100 billion mark in 1988, $200 billion in 1994, $500 billion in 2001 and $1 trillion mark ($1.15 trillion) in 2004.

**Table 3.1 The average annual growth (in nominal US dollar terms) of China's foreign trade during the reform era**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two-way trade</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-85</td>
<td>+12.8%</td>
<td>+8.6%</td>
<td>+16.1%</td>
</tr>
<tr>
<td>1986-90</td>
<td>+10.6%</td>
<td>+17.8%</td>
<td>+4.8%</td>
</tr>
<tr>
<td>1991-95</td>
<td>+19.5%</td>
<td>+19.1%</td>
<td>+19.9%</td>
</tr>
<tr>
<td>1996-2000</td>
<td>+11.0%</td>
<td>+10.9%</td>
<td>+11.3%</td>
</tr>
<tr>
<td>2000-05</td>
<td>+24.6%</td>
<td>+25.0%</td>
<td>+24.0%</td>
</tr>
<tr>
<td>2006</td>
<td>+27.2%</td>
<td>+19.9%</td>
<td>+23.8%</td>
</tr>
<tr>
<td>2007</td>
<td>+25.6%</td>
<td>+20.8%</td>
<td>+23.4%</td>
</tr>
</tbody>
</table>

**Source:** Wikipedia.com Site visited on 1-3-2011

The vast majority of China's imports consists of industrial supplies and capital goods, notably machinery and high-technology equipment, the majority of which comes from the developed countries,
primarily Japan and the United States. Regionally, almost half of China’s imports come from East and Southeast Asia, and about one-fourth of China’s exports go to the same destinations. About 80 percent of China’s exports consist of manufactured goods, most of which are textiles and electronic equipment, with agricultural products and chemicals constituting the remainder. Out of the five busiest ports in the world, three are in China.

The U.S. is one of China’s primary suppliers of semiconductors and electronic components, power-generating equipment, aircraft and parts, computers and industrial machinery, raw materials, waste and scrap, and chemical and agricultural products. However, U.S. exporters continue to have concerns about fair market access due to China’s restrictive trade policies and U.S. export restrictions. Intellectual makes many foreign companies wary of doing business in mainland China. According to U.S. statistics, China had a trade surplus with the U.S. of $170 billion in 2004, more than doubling from 1999. Wal-Mart, the United States’ largest retailer, is China’s 7th largest export partner, just ahead of the United Kingdom.

Gourmet foods, such as Florida soft-shell turtle, are among China’s imports. The U.S. trade deficit with China reached $232.5 billion in 2006, as imports grew 18%. China’s share of total U.S. imports has grown from 7% to 15% since 1996. At the same time, the share of many other Asian countries’ imports to the United States fell, from 39% in 1996 to 21.1% in 2005. The share of overall Asian imports (including China) to the United States actually declined from 38.8% in 1996 to 35.7% in 2005. The U.S. global trade deficit with the Asia-Pacific region as a whole also has fallen from 75% in 1995 to 49% in 2005. Export growth has continued to be a major component supporting China’s rapid economic growth. To increase exports, China pursued policies such as fostering the rapid development of foreign-invested factories, which assembled imported components into consumer goods for export and liberalizing trading rights. According to
the National Bureau of Statistics of China, China's ten largest trading partners represent 55.60% of Chinese imports, and 57.83% of U.S. exports as of 2008. These figures do not include foreign direct investment, but only trade in goods and services. The fifteen largest Chinese partners with their total trade (sum of imports and exports) in billions of US Dollars for 2008 are as follows:

**Table 3.2 Trading partners of China in 2008**

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
<th>Total Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>252.38</td>
<td>81.36</td>
<td>333.74</td>
</tr>
<tr>
<td>Japan</td>
<td>116.13</td>
<td>150.60</td>
<td>266.73</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>190.73</td>
<td>12.92</td>
<td>203.64</td>
</tr>
<tr>
<td>South Korea</td>
<td>73.93</td>
<td>112.14</td>
<td>186.07</td>
</tr>
<tr>
<td>Taiwan</td>
<td>25.88</td>
<td>103.34</td>
<td>129.21</td>
</tr>
<tr>
<td>Germany</td>
<td>59.21</td>
<td>55.79</td>
<td>115.00</td>
</tr>
<tr>
<td>Australia</td>
<td>22.25</td>
<td>37.44</td>
<td>59.68</td>
</tr>
<tr>
<td>Russia</td>
<td>33.08</td>
<td>23.83</td>
<td>56.91</td>
</tr>
<tr>
<td>Malaysia</td>
<td>21.46</td>
<td>32.10</td>
<td>53.56</td>
</tr>
<tr>
<td>Singapore</td>
<td>32.31</td>
<td>20.17</td>
<td>52.48</td>
</tr>
<tr>
<td>India</td>
<td>31.59</td>
<td>20.26</td>
<td>51.84</td>
</tr>
<tr>
<td>Netherlands</td>
<td>45.92</td>
<td>5.30</td>
<td>51.22</td>
</tr>
<tr>
<td>Brazil</td>
<td>18.81</td>
<td>29.86</td>
<td>48.67</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36.07</td>
<td>9.54</td>
<td>45.61</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>10.82</td>
<td>31.02</td>
<td>41.85</td>
</tr>
</tbody>
</table>

**Source:** Wikipedia, Site visited on 2-4-2011
The above table shows that USA is the largest trading partner of China in 2008, whereas the share of India is quite below compared to that. Moreover in its 11th Five-Year Program, adopted in 2005, China placed greater emphasis on developing a consumer demand-driven economy to sustain economic growth and address imbalances. The China Council for the Promotion of International Trade (CCPIT) promotes China's international economic and commercial interests. This is accomplished by developing business cooperation and exchanges with foreign countries. It also produces economic data, creates diplomatic ties and is active with trade arbitration issues.

Hong Kong remains prominent in domestic trade, notably in its reliance on the mainland for agricultural products. Foreign investment remains a strong element in China's rapid expansion in world trade and has been an important factor in the growth of urban jobs. In 1998, foreign-invested enterprises produced about 40% of China's exports, and foreign exchange reserves totalled about $145 billion. Foreign-invested enterprises today produce about half of China's exports (the majority of China's foreign investment come from Hong Kong, Macau and Taiwan), and China continues to attract large investment inflows.

3.9 PLANNING AND FOREIGN TRADE POLICY OF CHINA

Since the late 1970s, and especially since the 3rd Plenary Session of the 11th CPC Central Committee in 1978, the PRC government has decided to reform the national economic setup. The basic state policy has focused on the formulation and implementation of overall reform and opening to the outside world. During the 1980s, the PRC passed several stages, ranging from the establishment of special economic zones and open coastal cities and areas, and designating open inland and coastal economic and technology development zones. Since 1980, the PRC has established special economic zones in Shenzhen, Zhuhai and Shantou in Guangdong Province and Xiamen in Fujian Province, and designated the entire
province of Hainan a special economic zone. In August 1980, the National People's Congress (NPC) passed "Regulations for The Special Economy Zone of Guangdong Province" and officially designated a portion of Shenzhen as the Shenzhen Special Economy Zone (SSEZ). In 1984, the PRC further opened 14 coastal cities to overseas investment: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai.

Since 1988, mainland China's opening to the outside world has been extended to its border areas, areas along the Yangtze River and inland areas. First, the state decided to turn Hainan Island into mainland China's biggest special economic zone (approved by the 1st session of the 7th NPC in 1988) and to enlarge the other four special economic zones. Shortly afterwards, the State Council expanded the open coastal areas, extending into an open coastal belt the open economic zones of the Yangtze River Delta, Pearl River Delta, Xiamen-Zhangzhou-Quanzhou Triangle in south Fujian, Shandong Peninsula, Liaodong Peninsula (Liaoning Province), Hebei and Guangxi. In June 1990 the PRC government opened the Pudong New Area in Shanghai to overseas investment, and additional cities along the Yangtze River valley, with Shanghai's Pudong New Area as its "dragon head." Since 1992, the State Council has opened a number of border cities, and in addition, opened all the capital cities of inland provinces and autonomous regions. In addition, 15 free trade zones, 32 state-level economic and technological development zones, and 53 new and high-tech industrial development zones have been established in large and medium-sized cities. As these open areas adopt different preferential policies, they play the dual roles of "windows" in developing the foreign-oriented economy, generating foreign exchanges through exporting products and importing advanced technologies and of "radiators" in accelerating inland economic development. Primarily geared to exporting processed goods, the five special economic zones
are foreign-oriented areas which integrate science and industry with trade, and benefit from preferential policies and special managerial systems. In 1999, Shenzhen's new-and high-tech industry became one with best prospects, and the output value of new-and high-tech products reached 81.98 billion Yuan, making up 40.5% of the city's total industrial output value. Since its founding in 1992, the Shanghai Pudong New Zone has made great progress in both absorbing foreign capital and accelerating the economic development of the Yangtze River valley. The state has extended special preferential policies to the Pudong New Zone that are not yet enjoyed by the special economic zones. For instance, in addition to the preferential policies of reducing or eliminating Customs duties and income tax common to the economic and technological development zones, the state also permits the zone to allow foreign business people to open financial institutions and run tertiary industries. In addition, the state has given Shanghai permission to set up a stock exchange, expand its examination and approval authority over investments and allow foreign-funded banks to engage in RMB business. In 1999, the GDP of the Pudong New Zone came to 80 billion yuan, and the total industrial output value, 145 billion Yuan.
Table 3.3 List of SEZ, s in China

<table>
<thead>
<tr>
<th>Type</th>
<th>City</th>
<th>Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Economic Zone, City</td>
<td>Shenzhen</td>
<td>Guangdong</td>
</tr>
<tr>
<td></td>
<td>Zhuhai</td>
<td>Guangdong</td>
</tr>
<tr>
<td></td>
<td>Shantou</td>
<td>Guangdong</td>
</tr>
<tr>
<td></td>
<td>Xiamen</td>
<td>Fujian</td>
</tr>
<tr>
<td>Special Economic Zone, Province</td>
<td>No city</td>
<td>Hainan</td>
</tr>
<tr>
<td>Coastal Development Areas</td>
<td>Dalian</td>
<td>Liaoning</td>
</tr>
<tr>
<td></td>
<td>Qinhuangdao</td>
<td>Hebei</td>
</tr>
<tr>
<td></td>
<td>Tianjin</td>
<td>Tianjin</td>
</tr>
<tr>
<td></td>
<td>Yantai</td>
<td>Shandong</td>
</tr>
<tr>
<td></td>
<td>Qingdao</td>
<td>Shandong</td>
</tr>
<tr>
<td></td>
<td>Lianyungang</td>
<td>Jiangsu</td>
</tr>
<tr>
<td></td>
<td>Nantong</td>
<td>Jiangsu</td>
</tr>
<tr>
<td></td>
<td>Shanghai</td>
<td>Shanghai</td>
</tr>
<tr>
<td></td>
<td>Ningbo</td>
<td>Zhejiang</td>
</tr>
<tr>
<td></td>
<td>Wenzhou</td>
<td>Zhejiang</td>
</tr>
<tr>
<td></td>
<td>Fuzhou</td>
<td>Fujian</td>
</tr>
<tr>
<td></td>
<td>Guangzhou</td>
<td>Guangdong</td>
</tr>
<tr>
<td></td>
<td>Zhanjiang</td>
<td>Guangdong</td>
</tr>
<tr>
<td></td>
<td>Beihai</td>
<td>Guangxi</td>
</tr>
</tbody>
</table>

Source: Chung-Tong Wu. China's special economic zones: five years later - Asian Journal of Public Administration

With China’s entry into the World Trade Organization in sight, this Province is determined to step up its foreign trade and attract more overseas investment. To court more foreign investment and increase exports is on top of the province’s work agenda for the next few years. The foreign trade strategy of China is deeply affected by the five year plans. After initiating reforms China in its various plans has emphasised on the foreign trade which is evident from the study of current five year plans of China. During the 10th Five-Year Plan period (2001-2005), the province’s committed overseas investment was expected to reach US$2.9 billion, increasing by 2.6 percent year-on-year. Actual overseas investment will increase 4 percent annually to US$1.83 billion. The basic tasks set out in the 10th Plan were:
• Achieve an average annual economic growth rate of about 7 percent.

• Achieve a GDP of 12,500 billion Yuan by 2005, calculated at 2000 prices, and per capita GDP of 9,400 Yuan.

• Increase the number of urban employees and the number of surplus rural labourers transferred to the cities to 40 million each, thereby controlling registered urban unemployment rates at about 5 percent.

• Keeping prices stable, and to maintain the balance between international revenue and expenditure. Optimize and upgrade the industrial structure, and strengthen China's international competitiveness.

• Achieve growth for the primary, secondary and tertiary industries at the rates of 13, 51 and 36 percent respectively of GDP, with those employed by these industries accounting for 44, 23 and 33 percent of the total number of employees in the country.

According to draft guidelines submitted to 2006 National People's Congress session the Eleventh Five year plan guideline (2006-2010) clearly indicates the progressive agenda for the foreign trade, which is stated as below:

• GDP up 7.5 percent annually from 18.2 trillion Yuan in 2005 to 26.1 trillion Yuan in 2010;

• Per capita GDP up 6.6 percent annually from 13,985 Yuan in 2005 to 19,270 Yuan in 2010.

• Share of service industry's value added to GDP up from 40.3 percent in 2005 to 43.3 percent in 2010;
• Share of employment in service industry up from 31.3 percent to 35.3 percent in 2010;

• Share of research and development (R&D) spending out of total GDP up from 1.3 percent in 2005 to 2 percent in 2010;

• Urbanization rate up from 43 percent in 2005 to 47 percent in 2010.

On Monday, March 14th, 2011, the Chinese government passed the Twelfth Five-Year Plan which seeks to: address rising inequality and create an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social safety nets. The plan is representative of China’s efforts to rebalance its economy, shifting emphasis from investment toward consumption and from urban and coastal growth toward rural and inland development. The plan also continues to advocate objectives set out in the Eleventh Five-Year Plan to enhance environmental protection, accelerate the process of opening and reform, and emphasize Hong Kong’s role as a centre of international finance. The Twelfth Five-Year Plan was debated in mid-October 2010 at the fifth plenary session of the 17th Central Committee of the Communist Party of China (CPC), the same session in which Xi Jinping was selected as Vice Chairman of the Central Military Commission. A full proposal for the plan was released following the plenum and is subject to approval by the National People’s Congress during its annual session to be convened in the first quarter of 2011. The targets for the Twelfth Five-Year Plan are as follows: GDP to grow by about 8% in 2011, 7% annual growth of per capita income, to face the extremely complex situation for development in 2011, to implement prudent monetary policy in 2011, to intensify anti-corruption efforts in 2011, to accelerate economic restructuring in 2011, to spend 2.2% of GDP on research and development by 2015, to control population below 1.39 billion by
2015, to re-adjust income distribution to stop the yawning gap, and to firmly curb excessive rise of housing prices.

Following are the highlights of the draft of the plan, which was distributed to the media prior to the opening of the Fourth Session of the 11th NPC.

- Population will be controlled below 1.39 billion;
- Urbanization rate will reach 51.5 percent;
- Value-added output of emerging strategic industries will account for 8 percent of GDP;
- Foreign investment is welcomed in modern agriculture, high-tech and environment protection industries;
- Coastal regions to turn from "world's factory" to hubs of R&D, high-end manufacturing and service sector;
- Nuclear power will be developed more efficiently under the precondition of ensuring safety;
- Construction of large-scale hydropower plants will gain momentum in southwest China;
- Length of high-speed railway will reach 45,000 km;
- Length of highway network will reach 83,000 km;
- A new airport will be built in Beijing;
- China to build 36 million affordable apartments for low-income people.

In India as well as China Five Year Plans have remained important base for the development of the economy. The economy of India is based in part on planning through its five-year plans, which are
developed, executed and monitored by the Planning Commission. After liberalisation five year plans have given stress on the development of the economy on every aspect. In China also reforms have changed the entire structure of the economy and China has emerged as one of the strongest economies of the world.
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