INTRODUCTION

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GROWTH VIA FOREIGN TRADE

TRADE between nations has assumed greater significance for no other reason than that it could make the task of development easier to accomplish. It not only enables an economy to complement an otherwise incomplete industrial or agricultural structure and ensures diversified consumption for its people, but it is also instrumental in equalizing factor prices and results in a more efficient allocation of resources. It creates structural changes in a country's economic characteristics, proportions and relationships. It promotes capital formation and brings sectoral and external economies in the industrial activities of a country. It bestows number of economies of scale and enables a country to produce those goods which are economical, competitive and are based on rational cost proportions. It strengthens the relations, both economic and political, with the other trading countries and provides an opportunity to enter into customs unions which bring

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Chapter One

1.2 Trade is the foundation of modern economic activity. For producing a larger volume and variety of goods, to increase production and productivity and thus develop a society built upon the division of labor, foreign trade is an indispensable tool. If there was no trade there would have been no stimulus to create surplus. Trade alone is responsible for an organization of production entirely different from that kind of production which could be developed without trade. It induces new investments in new industries.

GLOBAL PICTURE: A RETROSPECTION

1.3 The idea of growth through trade is not a new concept, as trade has since long been termed an 'engine of growth', an 'activator of change', and a 'barometer of economic progress.' Alfred Marshall wrote at the turn of the present century that the 'causes which determine the economic progress of nations belong

to the study of international trade'. The economic progress of most of the present industrially advanced countries of the world is attributable to their ever expanding external trade. For instance, it was trade that brought growth to the United States of America. The United States of America received a large inflow of labor and foreign capital from Europe to which it exported food-stuffs and raw materials for which it was well-suited to produce. Another example is Japan which could entirely reconstruct its economy through development of foreign trade. Japan gets the bulk of raw cotton, raw wool and iron ore through imports. But a sizable portion of textile goods and light and engineering products is exported.

1.4 For the developing countries in the world, development of foreign trade is of crucial importance. These countries believe that without speedy industrialization they cannot solve their twin problem of poverty and unemployment. For them industrialisation has become a panacea for the economic and social ills which confront them. But the road to industrialization is beset with a host of obstacles which have to be overcome—A major obstacle is the lack of availability, on a massive scale, of capital goods, equipments and know-how. To enable them to build a sound infrastructure base for industrialisation, these have to be procured from foreign sources and paid for in terms of foreign exchange. Advanced countries are in a position to meet these requirements and they are in fact met, mostly through credit made available to

them from friendly nations and also from international agencies. In the process however, the developing countries have incurred large foreign debts which they find difficult to repay. Nearly all the developing counties are at present faced with balance of payment difficulties. They are obliged to utilize the bulk of foreign aid, loans, grants and donations received for servicing past debts. Their own export earnings are inadequate and unsteady.

1.5 Like other developing countries of the world, India too is faced with a chronic balance of payment deficit. Much of the aid received and its export earnings go towards the servicing and repayment of the loans. As industrialization proceeds, the country's exports are getting diversified with the inclusion of several manufactured articles. But its mounting expenses on imports, both for development and maintenance, are not being met from its export earnings.

INDIA'S FOREIGN TRADE: AN OVERVIEW

1.6 In the last three decades India's foreign trade has registered a manifold increase, but the situation has been far from satisfactory as imports grew at a much faster rate than exports. The export-import gap continues to widen to the deterrent of the economy. Table 1.1 gives an overview of India's international trade. The value of exports in 1950-51 stood at Rs.945.95 crores, rising to Rs.15,719 crores in 1987-88, an increase of 1,562 per cent in 38 years, whereas the import bill mounted to Rs.22,343
crores in 1987-88 from Rs.1,024.06 crores in 1950-51, rising by about 2,082 per cent. The trade deficit thus registering a whopping increase of 3,380 per cent. If we look at India's share in world export and in the exports of developing countries, it is noticed that the position of our foreign trade is rather vulnerable. In the year 1951, world's exports stood at 60,700 million dollars and India's exports stood at 1,646 million dollars, having 2.00 per cent share in the world exports. In developing country's exports, India's share stood at nearly 7 per cent. India's share in world exports however reduced to 0.47 per cent in 1987 and in developing country's exports it came down to 2.37 per cent. At the same time, other developing countries like Brazil, Singapore, Hong Kong, etc, are marching ahead by increasing their share in world trade. While South Korea, Hong Kong, Taiwan and Spain have joined the league of the top 20 exporters, Mexico, United Arab Emirates, Iraq, and Algeria now figure among the top 40 exporters. Unfortunately indeed, India has no place even among the top 40 exporters (See please Table 1.2 for larger details).

1.7 In the Seventh Plan period, of course, the position has been improved. During first three years of the plan, the exports grew at 42.74 per cent while imports increased by 13.66 per cent, and thus, the trade deficit decreased by 23.38 per cent. But we still have an adverse balance of trade of Rs.6,624 crores. Under such a situation there is a tendency to jump to the conclusion that this unhappy situation of the adverse balance of trade is the direct result of the liberalization of imports, which is to
India's Share in World Export

Amount in US Million Dollars (Millions)

Years

- World
- Dev.Econo.
- India

be dispensed with at the first opportunity. Adoption of a restrictive import policy to overcome the problem of trade deficit can be resorted to only at the cost of further development, which in the context of present socioeconomic scenario, can have a disastrous impact on the country's economic and political set up as a whole. The challenge therefore is to be met squarely by stepping up exports with a sense of urgency and dedication.

1.8 Considering the present situation of adverse balance of payment and India's shrinking share in world trade, the significance of exports can hardly be overemphasized. Generally a high rate of growth of total real product is associated with a high rate of growth of exports. It is said that with the increasing level of exports a country will enjoy the greater advantage of international division of labor which will assist in enhancing the efficiency of that particular industry. This will be followed by technological change which is important for accelerating economic growth. International competition will put pressure on export industries to keep cost low and consequently strive for more efficient operation. The sector in which a country enjoys comparative advantage becomes the most efficient sector of the economy and increasing exports tend to encourage investment, which increases productivity. Thus export industries tend to stimulate additional investment in the existing set up as well as encouraging investment in ancillary industries established to

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supply and service the operations of the main export industries. In contrast to this, low rates of growth of real product cannot encourage foreign investment within the country, but a rapid growth in exports may well serve as an inducement to foreign investment. In addition to stimulating domestic and foreign investment, a growing export sector may also encourage an increased flow of technological and target innovations as well as managerial skills.

1.9 There are three important aspects of exports in relation to economic growth: leading, balancing and a lagging sector of the economy. If foreign trade is a leading sector of an economy, then it will help in developing growing points which will accelerate the pace of the growth effort. For example, if the stimulus to economic development comes from abroad, exports rise and provide an incentive for the establishment and the expansion of other activities. Growing exports will give rise to new demand in the exporting country for inputs to increase the physical expansion of production and as a result factor income will increase. Further pressure on domestic capacity may stimulate technological change, which, in turn, will provide investment opportunities to entrepreneurs. Thus, through stimulating investment and technical change, the expansion of exports can lead to economic growth. Foreign trade as a 'balancing sector' of an economy will enable adjustment between production and consumption or between supply and demand. For example, if adjustment of trade keeps pace with

domestic transformation, and we ignore changes in stocks, we can say that trade is filling the gap between consumption and production. Finally, if foreign trade is a 'lagging sector' of the economy, the stimulus to development is internal and trade may also slow down growth. In this case if there is any export, this would be at the expense of domestic requirements.

1.10 Economists have also written quite extensively on the importance of exports to a country. Shu-Chin Young writes, "for most primary exporting countries, exports are the major dynamic factor in determining the level of general economic activity. In most of the less developed countries, exports are the most important active factor in generating economic activity. The slow growth of their exports, if not accompanied by the development of the home sector, would mean a slow economic growth in general." According to Lewis, "export industries, by stealing labor from home industries at the same time as they create more demand for these industries, stimulate the home industries into innovations designed to increase their productivity." Meier and Baldwin describe the export sector as the 'Propulsive Sector' in the process of economic development. They opine that it widens the


market, provides economies of scale and sets the base for the multiplier acceleration process in the economy. Deb Kalipada considers exports as an instrument for progress and prosperity for both developed and developing countries. NCAER (National Council For Applied Economic Research) in its book titled 'Export Strategy For India' observes that "an expanding export trade is a factor of necessity for the economic growth of any developing country. Higher rates of economic growth depend on higher rates of export growth. Moreover, to developing countries, foreign trade is of strategic importance." It further states that 'the structure of the developing economy makes them highly import hungry. Till the domestic production is made equal to meet this, imports would be necessary. Even necessities may have to be imported. Also the developing countries have now embarked upon a program of economic advancement, but the resources at their disposal for any rapid economic advancement are inadequate. The import needs on this account also are likely to grow. But, with their sluggish and small export earnings the import capacity of many of the developing countries is limited. Several devices are developed by the developing countries to meet this constraint, the most important of which is foreign aid. But no country can depend on aid permanently for its growth. It is in this context that the role of export earnings is of strategic importance.

1.11 It has, thus, been well established that exports constitutes an important factor in the growth process, not one of political astrology but of empirical fact. And a high rate of growth of total real product is associated with a high rate of growth of exports and a low rate of growth of total real product is associated with a low rate of growth of exports. We can safely conclude that there is a causal relationship between exports and economic development. Undoubtedly, exports are the key factor in promoting economic growth and a rise in exports stimulates an increase in aggregate economic growth, rather than vice-versa. A country that tries to promote growth while ignoring its export performance may succeed in the short run, especially if it can count on an inflow of capital or drawing down reserves, but it will be hard pressed to sustain growth over a long period of time.

VITAL TRENDS

1.12 India is engaged in the gigantic task of economic development in order to provide the people the richer and fuller life. In the building up of our industrial structure, we have been in need of machinery and other capital equipments that we do not ourselves produce. From time to time we have also been procuring the basic necessities like foodgrains from foreign countries. Thus our import bill has been high. Export earnings have not been able to keep pace with it, resulting in serious difficulties with regard to our balance of payments. Though we have been fortunate in having enough of financial and technical assistance
from developed countries and other international agencies, the need for earning foreign exchange through exports has always been of paramount importance. The most discernible feature of our exports has been the virtual absence of any dynamic policy for a very long period. And in this, it would appear that we have been the diction of a tradition. Once the East India Company and its successor, Her Majesty’s Government of Great Britain were successful in crushing Indian industries and reducing them to a position from where it was difficult to compete in overseas markets. At that time, the Government had no export policy as such. It is significant that even after we achieved independence in 1947, the national Government had nothing positive to build the country’s exports on sound lines. It was only after a decade of planned development that the Government thought about exports and accordingly it was in the Third Five Year Plan that certain measures of importance were taken in this direction.

1.13 Another striking feature of our exports is their heavy reliance on traditional items. From Table 1.3 it is obvious that the traditional items still constitute more than 50 per cent of the total exports. Non-traditional items account for about 26 per cent. Market-wise trends of exports have been highlighted in Table 1.4. It depicts that on an average, nearly 50 per cent of India’s exports are made to only five countries, namely, USA, UK, USSR, JAPAN and FRG. And 16 per cent exports are made to France, Belgium, Netherlands, Canada, Australia, Iran, Iraq, Saudi Arabia, GDR and Kuwait. This clearly reflects India’s heavy dependence on a few markets. Table 1.5 relates India’s export growth
with the rates of growth in GNP, NNP and GDP. It may be seen that in 1950-51, India's exports constituted 10.35 per cent of GNP; 10.72 per cent of NNP and 5.39 per cent of GDP. After one decade i.e., in 1960-61 the share of exports in GNP decreased to 7.23 per cent; in NNP to 7.63 per cent and in GDP to 3.96 per cent. In 1986-87 these percentages stood at 4.84, 5.48 and 7.73, respectively. These trends clearly reveal that exports in our country have rather failed to keep pace with the growth swings. In a period of 37 years (i.e. from 1950-51 to 1986-87) the increase in GNP, NNP and GDP were 2,736 per cent, 2,496 per cent and 825 per cent respectively. As against this the increase in exports has been to the tune of 1,226 per cent during the aforesaid period. Thus, the growth in exports has not even been half of the growth of GNP and NNP; GDP, of course, has grown at a slower rate vis-a-vis the exports.

1.14 In view of our huge import requirements of capital goods, raw materials, technical know-how and very often basic consumer goods, we have to rely upon exports as the principal means of financing. Seeing the increasing competition and protectionism in the world markets, we have to take all possible steps to ensure expansion of exports for financing our foreign exchange requirements of developmental process as well as to find out the outlets for the resulting large-scale production. To achieve this objective we have to go for market as well as product diversification along with the improvement in our marketing capabilities and overall competitiveness. India has to shift from exports of traditional products like jute, tea, cotton, textiles, cashew,
Proportion of India's Exports to GDP, GNP & NNP
oil cakes, spices, coffee, tobacco etc., to non-traditional products such as engineering products, chemicals and allied products, leather goods, sugar sea-foods, garments, gems and jewelry etc., of particular importance seems to be the exports of engineering goods, projects and consultancy services whose purchase by nature require a lot of funds. The exports in future, therefore, can be increased only when the exporters from our country are able to provide sufficient credits to their buyers. As a strategy option, India will have to take care that exporters from this country do not suffer in future just because of the non-availability of finance. Market wise also, we need certain changes. In view of growing protectionism in the markets of the developed world we have also to divert our exports inter alia to other developing countries which are on a large scale embarking upon the industrialisation of their economies of capital as well as consumer goods. In recent years, the growing imports in countries of West and South-East Asia and Africa provides a glaring example of growing opportunities for exports to these countries. However, these countries, them selves running short of funds, prefer to buy only from those countries which can provide them with some credit and other financial assistance. So in future, a diversification of exports from developed countries to developing countries would depend upon to what extent exporters are able to provide finance facilities to their importers at competitive terms and conditions in the markets of the developing countries. Thus, it is clear, that in our endeavors to promote exports the thrust has to be upon the diversification of the country's ex-
ports from primary to manufactured products and from developed to developing countries. And this diversification itself would inter-alia depend upon the extent to which export finance is made available to the exporters to carry out the export transaction on credit basis.

STRATEGIC DETERMINANTS OF EXPORTS

1.15 Exports of any country are influenced by a number of factors mainly: export-import policy of the country, its political relations with other countries, availability of infrastructure facilities (e.g. raw materials, labor, machinery and tools, repair facilities, consultancy services etc.), state of competition in the foreign markets, foreign exchange regulations, stability in exchange rates, export assistance, availability of information about foreign markets, marketing and selling facilities and availability of other promotional facilities. In any case, the following are the minimum conditions for multiplication and diversification of our exports:

a) Prices of goods to be exported must be competitive. But our cost of production is generally higher and due to higher prices, we are priced out of the world market. This means, we have to increase our industrial productivity and efficiency and reduce our cost of production per unit of output.

b) Quality of goods to be exported must also be comparable with that of our rival nations. This requires compulsory quality controls.

c) Extensive market research is essential to find out the size,
nature and trend of consumer demand and the degree of foreign competition.

d) Planned diversification of exports is also essential. Instead of an extra-ordinary emphasis on traditional items, the efforts should be made to diversify the exports.

e) Adequate provisions for tax concessions, relief from export duty, excise duty, sales tax, efficient and cheaper transport and warehousing facilities, adequate compensation against export risks, liberal and cheaper export finances.

ROLE OF CREDIT AND GUARANTEE FACILITIES

1.16 Among the various measures essential for the promotion of exports, existence of adequate credit and guarantee facilities is of fundamental importance. Because of prohibitive investment in export contracts and substantial delays involved in payments from importers abroad, exporters are forced to trade on credit. All other measures to encourage exports would be of little importance in the absence of proper finance facilities as only a few exporters would be self sufficient to trade in competitive foreign market. If we can handle the financial side of exports correctly, there is no reason why our exports should not accelerate and the balance of payment problems virtually non-existent. As pointed out earlier, India, in order to strengthen her exports, has to go in for product as well as market diversification and this diversification is possible when inter-alia export finance is possible. While promoting exports of manufacturers, our exporters need
to supply goods to buyers on credit, which they find quite difficult on account of the acute shortage of foreign exchange resources and the absence or inadequacy of export financing facilities.

1.17 For understanding the importance of export credit in the export promotion efforts, it is necessary to understand the differences in the financing procedures followed in exports of primary commodities and manufactures. Primary commodities are generally sold against cash or against a letter of credit. However, in certain cases production itself is financed by prospective buyers. Even if exporters have to obtain credits to finance their sales, usually for a very short duration, they can without difficulty raise funds from commercial banks. Moreover, trade in these commodities is conducted through well established commercial channels and exporters and importers, generally speaking, have established a substantial degree of mutual trust and confidence. The major part of such trade, in fact, is handled by foreign companies which has long been active in the extraction and consignment of primary commodities from developing countries. Since developing countries are the major or the sole suppliers of several primary products, they face very less competition from developed countries in this area. However, the situation with regard to exports of manufactures and semi-manufactures is entirely different. The successful promotion of exports of manufactured goods, especially capital and semi-capital goods and consumer durables, depends upon not only on the quality, price and delivery periods and after sales service, but also on the capaci-
ty of the supplier from the exporting country to offer deferred terms of payment. For offering these terms, the need for export finance need not be over emphasise. Adequate and timely availability of finance can thus act as an important factor as better quality and lower prices of products and thus can greatly help in augmenting the competitiveness of exporters in securing foreign bids and capturing export markets by offering their products and services at competitive credit.

1.18 Export credit and credit guarantees go hand in hand. Both are required because exporters are forced to sell on credit basis. Need for guarantees arise because every credit transaction involves an element of risk. The buyer may default, he may go bankrupt. He may be a victim of war, quake or typhoon, which may wreck his fortunes. There may be an import restriction, a moratorium or an embargo on remittances, there may be an insurrection, or a coup d’etat in the buyer’s country. In all such events the exporter’s money might be blocked abroad, and he may find himself in serious difficulty. Even at the best of times, payment for exports are open to risks. Today, due to far-reaching political and economic changes that are sweeping the world, the risks have assumed large proportions. An outbreak of war or civil war may block or delay the payment for goods exported. A coup or insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, one has to contend with usual commercial risks of insolvency or protracted default of
buyers. The commercial risks of foreign buyer going bankrupt or losing his capacity to pay are heightened due to the political and economic uncertainties. Conditions of uncertainty is fraught with dangers. The loss of a large payment may spell disaster of any exporter, whatever his prudence and competence. On the other hand, too cautious an attitude in evaluating risks and selecting buyers may result in loss of hard-to-get business opportunities. Export credit insurance is necessary to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

1.19 Aside, for most of the times exporters, in order to meet their short and medium term financial requirements, look towards their banks. But the chief consideration of any banker in financing an export transaction will be the security of his funds besides his relations with his constituent. The volume of credit which he would be prepared to place at the disposal of his exporter client would, therefore, be based on his assessment of the exporter's financial position and credit-worthiness. Cases may arise, as they do frequently, where the exporter needs credit in excess of the limit sanctioned by the bank. If the extra credit is not made available, a promising avenue of exports—and a source of foreign exchange earning—may be lost to the country. Yet the banker may hesitate to increase the limit for the simple reason that he may expose himself to undue risks.

1.20 Export credit insurance is also necessary for creating a favorable climate in which exporters can hope to get timely and
liberal credit facilities from banks at home. For this purpose, export credit insurance provides guarantees to banks to protect them from the risk of loss inherent in granting various types of finance facilities to exporters.

SURVEY OF THE EXISTING LITERATURE

1.21 Though not precisely identical in nature, several studies on the subject have come to be completed both in and outside the country by Indian and foreign academics/research institutions. A brief review of the same is as thus.

STUDIES ACCOMPLISHED ABROAD

1.22 Not many studies have come to be completed by foreign academics on the subject under study with a direct bearing to our nation. However, the important among these are mentioned here. Angus Dunn and Martin Knight produced a title, 'Export Finance' (1982) which discusses both theory and practice of export finance. This book has two parts. The first part describes the theoretical aspects of export finance, and the second analyses the export finance system of the world. Thus, the book provides an insight into the export financing system of the world. The International Trade Centre UNCTAD/GATT brought out a volume


entitled,'The Financing of Exports from Developing Countries'(1984) which contains a review of the variegated aspects of export financing and of some essential support services available for the benefit of developing countries.

1.23 In United States of America, Harry M. Venedikian and Gerald A. Warfield accomplished the work entitled, 'Export Import Financing' (1986). This text is meant for providing guidance and orientation to international traders, corporate officers and bankers who are concerned with financing and otherwise facilitating exports and imports in United States. It gives an analytical description of the functioning of institutional vehicles, and processes in the movement of cross border trade. Recently, the Organization for Economic Co-operation and Development revised its book, 'The Export Credit Financing System in OECD Member Countries'(1987). The book describes the main features of the systems of governmental support for export credits in as many as 22 countries who are members of the OECD Trade Committee's Group on Export Credit and Credit Guarantees. On the system of each country a distinct Chapter has been devoted for describing the pertinent export credit insurance and another Chapter on government support for export credit financing. The export credit system of these countries have been described with regard to the


representative organizations of that country, their functions, organization structure, resources of the organizations, schemes of the organizations, cost of providing facilities and financing and refinancing procedures.

1.24 Aside the aforesaid prominent works, a few reports are also found covering specific aspects of export credit and guarantee system. In New York a Round Table was convened from March 24 to 28, 1969 to consider export credit as a means of promoting exports from developing countries. The Committee in its report considered that export credit insurance and export credit financing schemes constitute an effective means of expanding trade among developing countries and felt that due importance should be attached to these aspects in future. On the recommendations of the Round Table, a seminar was organized on Export Credit Insurance and Export Credit Financing from September 28 to October 7, 1970 at Belgrade, Yugoslavia. The observations of the Seminar were in line with those of the Round Table. It felt that export credit financing schemes could play an important role in stimulating the flow of exports from developing countries. It also felt that United Nations should intensify the technical and financial assistance to developing countries by setting up sub-regional fiscal and financial expert teams in selected areas which would include experts in these fields. The Staff of the


World Bank also prepared a working paper on 'The Changing Nature of Export Credit Finance and Its Implications for Developing Countries', (1980). The purpose of this paper was to create awareness among the Bank Staff towards the growth and developments that are taking place in the area of export credit and insurance facilities, apart analyzing their implications for the developing countries.

STUDIES CONDUCTED IN INDIA

(i) RESEARCH WORK /STUDIES

1.25 While the subject of export credit and guarantee has been discussed in various titles on institutional finance/export management/foreign trade financing etc., yet we could not come across a comprehensive research work on this subject solely devoted to our country. Even so we may review the important research endeavors of Indian academics/research and financial institutions. An exhaustive exercise for gathering the considered opinions of the officials indulged in financing exporters in banks, IDBI and ECBC on the one hand, and of exporters on the other, was undertaken by Mr. Yoshiaki Toda as early as 1968 when the system of financing the exporters was just in its infancy in this country. While presenting the findings of his exercise Mr.


Chapter One

Yoshiaki Toda gave valuable suggestions for improving our system drawing lessons from the similar system found operating in Japan. Quite a good number of his recommendations were accepted and implemented too. The Indian Institute of Foreign Trade published a title on 'Export Credit and Credit Insurance Facilities in India and Abroad' (1970), to provide an overview of these facilities in India vis-a-vis foreign countries. Sh. P.B. Satagopan, in 1971, made a comparative study of various aspects of export credit insurance as practiced in India and in some of the foreign countries. The Study covered organizations of 10 foreign countries besides those of India. These 10 foreign organizations (Countries) being: Herms (Germany), Treuarbeit (Germany), Coface (France), ECGD (UK), TIC (UK), FCIA (New York), EXIM Bank (USA), OPIC (USA), MITI-EID (Japan), and EDC (Canada). Further, it concentrated primarily on ten aspects of export insurance namely, Organization, Credit Limits for Buyers, Insurance Policies, Risks Covered, Premium Under Insurance Policies, Claims, Assignment to Banks, Guarantees to Banks, Investment Guarantees and Export Financing, and Buyers' Credit. Again in 1971 another study was conducted by Shri P.N. Arya. It also investigated into the export credit facilities as are found available in India. Though of short duration, it was an in depth study covering a critical

1. IIFT. Export Credit and Credit Insurance Facilities in India and Abroad. 1970.


analysis of short term finance, medium/long term finance and guarantee and insurance facilities. C.P. Aggarwal and Shakuntla Aggarwal too have made an extensive analysis of export credit facilities in India in their title on, 'Export Credit and Financing In India', (1972). In 1972 itself the Indian Institute of Management, Ahmedabad, conducted a study which relates to the working of the Export Credit Guarantee Corporation of India. In its report, the IIM gave various suggestions to improve the functioning of the Corporation. Broadly its suggestions were divided into six sub-headings: Corporate Objectives, Insurance Policies, Bank Guarantees, Organizational Structure, Capital Structure and Investment Policy, and Marketing Approach. Of these, a few were accepted and implemented by the Board of Directors of the Corporation. S.K. Verghese, in her research effort, 'Financing of Exports and Imports' (1976) included an in-depth study of the procedural aspects of the financing of exports and imports in India. But it is limited only to the working of commercial banks. This work is in three volumes; while Volume-I deals the general aspects of export-import financing, Volume-II and Volume-III devoted to export financing and import financing, respectively. However, this study covers the details of the export financing


schemes of commercial banks only and in passing, refers to the Credit Insurance and Guarantee Facilities. Similarly, in his research work entitled, 'Financial Institutions and Economic Growth of India' (1979), O.P. Goyal attempted to describe the export financing system in India and forecasted the demand for and supply of export credit in the country for the period 1974-79 (i.e. for the Fifth Five Year Plan). P.P. Thakurta's study on, 'Export Promotion and Export Finance' (1981) synthesizes the important research papers of prominent bankers and academics on the subject.

(ii) REPORT OF THE MAIN COMMITTEES/WORKING GROUPS

1.26 As a part of export promotion drive, the government of India has been evaluating the working of our export credit and guarantee system with a view to adapt the system to the changing environment in the country via constitution of Committees/Working Groups comprising of prominent academics/bankers. The important among these are reviewed here. In 1956 a Committee on Export Credit Guarantee was set up under the Chairmanship of Shri T.C. Kapoor to consider the scope of the Export Credit Guarantee Scheme in India. It was as a result of the acceptance of the recommendations of this Committee that ECGC emerged on the finan-


cial scene of our country. A Working Group was appointed by the Ministry of Commerce and Industry on May 31, 1962 with a view to review the credit facilities available in the country in order to initiate necessary measures which may promote India's export trade. This Group was headed by Shri K.P. Mathrani. And it submitted its report on April 30, 1963. While recommending measures necessary for strengthening and supplementing the existing structure of financial institutions, this Group nicely analyzed the demand for and supply of short term export credit and term export credit beside the available insurance and guarantee facilities.

On February 14, 1964, the Ministry of International Trade, Government of India, appointed a Committee under the Chairmanship of Dr. S.P. Chablani in order to go into the details of the question of rates of interest chargeable on export credit in India and make appropriate suggestions for making them competitive to those of the different countries of the world. Specifically, the Group was to study: (i) the mechanism of export finance in India in its short, medium, and long term aspects; (ii) the incidence of the cost of credit on export; and (iii) ways and means of reducing the cost of credit and their implications. The Committee submitted its report on October 20, 1964. The Committee suggested a systematic reduction in the rates of interest chargeable on export credit, however the reduction suggested was not of

the tune that of Mathrani Committee. Under the Chairmanship of Shri D.S. Joshi another Working Group came to be constituted by the Government of India in March 1966 with a view to examining the possibility of utilizing more fully the current facilities provided by the RBI within the broad framework of its Credit Policy. The Committee reviewed the working of the existing system and reached to the overriding conclusion that in our country, the existing credit facilities are not being utilized to the full extent. And for doing so enough of scope exists for both streamlining of the procedures and that for resorting to extensive publicity. It felt that within the framework of existing policies, it is possible to ensure an adequate flow of credit at reasonable cost to the export sector. But this calls for a cooperative endeavor of all concerned - the commercial banks, the Reserve Bank, and the Government. Another Committee headed by Shri M. Narasimham was appointed in April 1973 with the assigned task of investigating into the various issues concerning export finance (including deferred payment) and connected facilities for Indian exporters in general and exporters of engineering goods in particular. This Committee clearly recognized the urgent need for expanding financial assistance to hitherto neglected sectors of the economy and suggested that every effort should be made to promote financing of exports and removal of disabilities in the way of enlarging exports.


(iii) RESEARCH PAPERS

1.27 We may also present here the review of the important research papers published on the subject by the Indian Scholars in prominent Dailies. The role of IDBI was critically evaluated by Shri S.K. Jain in his research articles entitled 'IDBI and Export Finance-I, direct and indirect schemes; and 'IDBI and Export Finance-II, analysis of export credit' (June, 1981). As of late, EXIM Bank has attracted the attention of several scholars. Shri R.L. Mathur appraised the role of EXIM Bank in India's foreign trade in his paper titled, 'Role of Exim Bank in India's Foreign Trade' (April, 1982). Kalayan Banerji's focus in his articles, 'New Dimensions in Export Credit' (Sept, 1982) and 'Exim Bank of India - A New Source of Finance' (April, 1983), has again been on the appraisal of the functioning of the Exim Bank. The challenges likely to be faced by the Exim Bank in financing exports constitute the main theme of the paper titled, 'Export Financing - The Challenge Ahead' (Feb., 1983) produced by S.Sharma, B.M. (1983). Export Financing - The Challenge Ahead. Business Standards. Feb., 4.


by Shri B.M. Sharma. Likewise, in Shri B.K. Mukhopadhyaya's paper, 'Exim Bank: Its Role in Helping Exports' (August, 1983); Shri R.P. Rana's article, 'Role of Export Import Bank in Promoting Exports' (August, 1984); Shri R.M.V. Raman's research paper, 'Role of Exim Bank in Financing Export' (June, 1984) and Shri V. Agnihotri's article, 'Role of Exim Bank in India's Foreign Trade' (Nov., 1984), the role of Exim Bank in financing and promoting exports has been highlighted at length and for different periods.

Some other research papers on the subject under study include: 'Finance for Exporters - Where to Get and How?' (Shri M. Balasubramanian, 1980); 'Export Finance - An Emerging Bottleneck' (Shri M.N. Bhat, 1981); 'Problems of Export Finance' (P.P. Thakurta, 1982); 'Export Financing - Suggestions for Structural Changes' (Shri Y.P. Sivaramakrishnayya, 1984) and the 'Role of


Banks in Export Promotion' (Shri V. Vaidyanathan, 1986). On the functioning of ECGC also we find a series of articles. Shri U.K. Sharma provides an insight into the ECGC programmes through his article titled, 'How Does ECGC Helps Exporters' (July, 1980). Shri A.V. Venkatesh analysed ECGC policies in his article on 'ECGC Policy Sans Cover' (August, 1984). A few editorials have also discussed the progress and working of ECGC. In 1982 the editor of Economic and Commercial News wrote on 'ECGC's contribution to Export Efforts'. In the year 1983 the editor of Business India expressed his opinion on, 'ECGC : 25 and Raring to Go'. In 1986 again the editor of Economic and Commercial News wrote on, 'ECGC Makes Steady Headway'.

1.28 From the foregoing review of existing works on the subject chosen for study, it's amply clear that to this date no comprehensive and analytical study has been accomplished on the Export Credit and Guarantee System of India. Hence, the need for the study.

OBJECTIVES OF THE STUDY

1.29 This study is to accomplish the objectives mentioned hereunder:

- making an estimate of the aggregate supply of short and terms export credit via all the organised institutions found operating as at the moment in the country;

- assessing the existing demand for short and medium/long term export credit as well as projecting existing supply of and demand for export credit for the period 1990 to 2000;

- attempting a critical appraisal of the existing system of financing exporters with a view to identify the existing and prospective credit gaps on the one hand, and other shortcomings of the system on the other;

- suggesting an optimum model for the Export Credit and Guarantee System for the accomplishment of desired results.

PERIOD OF STUDY

1.30 A 30 year period ranging from 1957 to 1987 has consciously been chosen for this Study. While the type of data that has been envisaged are not available for the period prior to 1957, the year 1987 constitute the terminal year for which data were available.
Chapter One

METHODOLOGY OF THE STUDY

SOURCES OF INFORMATION

1.31 Both secondary as well as primary sources have been used for collecting information for the present study. For the secondary data we primarily depended upon the Annual Reports, Brochures and other ad hoc publications of the various export financing institutions. The Plan Documents, Reports of Various Committees and the works produced by the academics both of India and abroad. The primary data have been gathered through Questionnaires (Given in Appendix I, Exhibit-1) addressed to the exporters and the executives of the export financing institutions. Informal discussions were also held to clarify certain doubts with the aforesaid executives. Since the primary information gathered by the author was of very erratic nature, the same could not be tabulated and analysed in the scientific manner. However, the same has been extensively utilized while attempting a critical appraisal of the existing export credit and guarantee system. Also, we have freely used it for developing the proposed optimum model.

PATTERN OF ANALYSIS

1.32 The information so gathered have been tabulated and analysed to reach detached inferences on the issues focussed in this study. For analysis we have employed simple statistical techniques. And, for forecasting the supply of export credit regres-
Y = a + bX

By using this equation we can find, an estimated value of Y, the dependent variable. A straight line trend can also be traced through this equation. In the equation 'a' denotes that how high above the regression line the X-axis started, and 'b' connotes what has been the increase/decrease in this line for each unit of X. In order to find the value of 'a' and 'b', the following two normal equations have been employed:

\[ EY = Na + bEX \]
\[ EXY = aEX + bEX^2 \]

THE ORGANIZATION PLAN

1.33 The present study has been divided into six chapters. Chapter - One is an introductory chapter which establishes the roots of the present study. It discusses the position of India's foreign trade, its composition, direction and its relations with nation's GDP, GNP, NNP. It also lucidly describe the significance of credit and guarantee facilities in promoting exports. Also, it outlines the research design as followed in this Study. In Chapter-Two we have discussed the nature of credit and guarantee requirements, the institutional arrangements for the same and the major schemes of various institutions found engaged in financing exporters on the one hand, and insuring and guaranteeing the
export credit on the other. While the trends noticed in the supply of short-term and long-term export credits have been highlighted in Chapter-Three, the Chapter-Four covers an identical picture in respect to ECGC's guarantees. Critical appraisal of the system constitute the main theme of Chapter-Five. The main thrust in doing so has been on the identification of Credit Gaps in the demand for and supply of short and term export credit on the one hand, and the organizational and operational shortcomings in the variegated schemes, on the other. With a view to ensure optimum results, a Model, free from all the noticeable drawbacks has been developed which finds its place in the last Chapter of this dissertation, viz., Chapter-Six.