Chapter V

OBSERVATIONS
AND CONCLUSIONS

5 Observations based on the questionnaire - At the micro level there has been the trend towards liberalisation and an attempt was made by the government to liberalise or decontrol key sectors of the economy. The import export policy also underwent some changes which were claimed to be liberal. The main aim of these changes was to reduce the trade gap, induce modernisation and achieve higher export growth. The policy of import substitution followed for forty years was gradually supposed to give way to export promotion.

However, it is important to recognise that liberalisation by itself does not constitute a sufficient recipe for export growth. It has to be set in a macro environment and should be able to remove the constraints faced by the sector.

The aim of this research study was to examine the changes which have been inculcated, identify the constraints and examine whether the policy has been able to achieve the stated objectives. The main observations made on the basis of the analysis, are mentioned below.

5.0 To increase the efficiency of the Indian industry and speed up the growth process, the government introduced certain liberalisation measures
in import controls but this process has been slow and limited because the recommendations and statements of general intention have not been supplemented by a coherent strategy. The marginal changes continue to rely on established precedents and criteria reflecting the protectionists lobbying interest.

5.1 The import export policy changes have mainly aimed at reducing the controls on imports and realigning the export promotion efforts hence the geographical location does not influence the response in any way. The changes which are claimed to be liberalisation are mainly aimed at products hence may affect a particular product group irrespective of its location in India. Neither did the changes have any effect on the location of the units chosen in the sample.

5.2 The exporters are divided into categories such as manufacturer, export house and traders as the scope of the benefits derived differed. The various aspects of limitations emphasised by them may have differed in emphasis but in general there seemed to be consensus regarding the four main limitations which were procedural delays, multiplicity of objectives restrictive imports and lack of sensitivity to world environment and lack of stability in policy decisions.

5.3 During the period 1985 to 1990 no marked change was observed in the destination of exports to support the argument that liberalisation will lead to more developed markets or hard currency areas. In a marginal number where a change was observed it was not necessarily due to the liberal policies but other factors which have been incidental such as bilateral pacts, collabor-
rations, company policy change. The destination of the exports however did not necessarily reflect the technological level. The low value addition items like garments or leather, food product were often exported to developed markets and higher technology items were imported by the developing countries or the East block. (4.4)

5.4 The changes in the trade policy had not brought about any major product diversification. In general the exporters depended upon the domestic product and attempted to export the same commodity. The factors which contributed towards the lack of diversification were stringent licensing policies, procedural delays possibility of rejections and low export prices. Among the ones which contributed positively towards variation were, foreign collaborations, multinational specific high technology products with no internal demand. (4.5)

5.5 In the case of units catering to the domestic market as well as export market it was observed that though there was an increase in terms of absolute exports the percentage of exports to the total turnover had not increased much, implying that the growth in exports was not necessarily related to the changes inculcated it was a phenomenon which was bound to occur as a natural process of growth. The spurt or the diversion of resources from the domestic sector to the export sector was not observed. In spite of the claims of liberalisation on an average in the case of large units the ratio of the exports the total sales hovered around the same value. In the case of some small units the growth seemed to be more but this may be due to the stage of the growth.
Relatively the trading group showed more resilience. The traditional sector seems to have grown at a faster rate than the non-traditional sectors. This seems contradictory to the purpose of liberalisation. (4.6)

5.6 The reasons put forward for entering exports were economic as well as non-economic. In order of importance they were government pressure, prestige, incentives and subsidies, profits, rationalisation and challenge. In view of these, the government should give due importance to the positive factors and attempt to remove the weaknesses. The present policy gives undue weightage to some such as subsidies and neglects others.

5.7 The factors contributing towards success in exports varied with the sectors but the most important factor quoted by each was observed to be follows. Engineering sector expressed that quality was the main factor and could not be compensated by any other. The garment sector pointed out that low cost of production and other factors were important; they gave relatively less important to quality at present but expressed that the cost advantage was gradually reducing with competition. The diamond exporters expressed labour intensity as an advantage at present but the changes in technology were reducing. This advantage as superior techniques were being developed to cut even small diamonds.

5.8 (i) The opinions of the exporters reflected that the objectives laid down had not really been achieved. In quantitative terms the changes in the policy had not led to any major change in exports as those who experienced growth had also increased import intensity, besides the removal of ban on
some commodities there was no major change, liberalisation had been used for
products unrelated to exports and a number of exports which had improved
performance did not depend upon imports.

5.8 (ii) Qualitatively there was scope to improve but it was observed
that the liberal moves were restrained by other policies like phased Manufac-
turing Programme, certification of essentiality, licensing controls, FERA regu-
lations.

5.8 (iii) There was absolute unanimity regarding the lack of stability in
the policy. In spite of the formation of the three year policy there were con-
tinuous changes being made which disturbed the working cycle considerably.

5.9 The main aim of the exim policy should be to achieve higher
export growth and other objectives should be left to be achieved by the domes-
tic policies. The earlier policies had laid excessive importance on import sub-
stitution this has lead to poor quality and high cost. This makes it difficult
for our exports to have an impact in the international market.

The controls, incentives and subsidies are not able to remove the
maladies and are an economic burden. The concept of comparative advantage
and traditional exports is becoming obsolete with revolutionary changes in
technology and cannot be relied upon Macro economic balance is essential to
forge ahead in exports and this will be best achieved with opening up the
economy to competition. The four factors mentioned in the query are intrin-
sically related and increased competition is bound to lead to cost reduction
further leading to better capability to meet international standards and in-
ccrease in exports.

5.10 The world trading environment was changing rapidly but the
Indian governments policies had remained relatively unresponsive. The opin-
ions regarding the major developments have been analysed and we find that
the exim policy is not able to mould itself to benefit the economy unlike other
countries. On certain issues like super 301 or the G.A.T.T. round of negotia-
tions the government adopted a staunch attitude which has not benefited the
exporters. Other countries like Japan, Brazil, Korea, Malaysia, Thailand and
Indonesia had adopted new policies to take advantage of the changes in Eu-
rope, Soviet Union G.A.T.T. and US trade clauses. The Indian government
had adopted a self righteous stand with no direct benefits. The problems
quoted with reference to each sector highlight the fact that the policy had not
been liberal enough to adopt to changes and this was likely to have an adverse
effect. The changes which are inculcated seem to be framed in a static envi-
ronment and loose their meaning in a dynamic frame. The main problems deal
with the following aspects of the world trading environment and the general
consensus points out that the exim policy has not been responsive enough.

a) E.E.C. - 1992

Effect - higher protection, increased competition stiff standards,
entry of other countries into Europe. No major changes in the exim policy are
observed to gear for this 'Fortress Europe'.
Soviet Economy Opening up

Effect - uncertainty over bilateral pacts, - competition from other countries who will be willing to supply to U.S.S.R. - low prices of exports to Soviet. - Need to diversify into Exim policy continues to rely on soviet market, no positive changes are made to encourage diversification.

The trade between U.S.S.R. and India has been growing rapidly in the 1980's. However there are some problems which need to be given due attention by the policy makers.

(1) While there is a substantial demand for Indian goods in U.S.S.R., the bulk of the increase in exports during the current year have been financed by Indian government credits to U.S.S.R. Obviously such a situation cannot be continued in view of the strong pressures on the Indian government to reduce their fiscal deficits.

(2) At the same time, with the opening up of competitors to Indian exporters are making inroads into the Soviet economy, both directly and indirectly. Thus while the South Korean government is extending huge credits to U.S.S.R., the Korean Corporation for Promotion of Trade (KOTRA) has opened an office in Moscow and is working actively. On other fronts also, they have been active in cultivating Soviet contacts. For example, they have contributed in a major way to the fund set up by the Soviets to aid Chernobyl victims. Apart from the substantial personal contribution made by the KOTRA staff and a number of representatives of South Korean firms in the U.S.S.R., the
Hyundai company has transferred $1,00,000 for the needs of the disaster victims. Another company, Samsung has supplied 12 diagnostic units worth $1,00,000. With increased activities by these firms, the traditional advantage of Indian firms in U.S.S.R. will slowly erode.

(3) Another factor that has made a difference in the way Indo-U.S.S.R. trade is being conducted is the change made in the institutional arrangements relating to Indo-Soviet trade and finance relations since 1989. The new arrangements are aimed at balancing trade and payments taken together, rather than trade balancing alone as was the case earlier. A result of this is the distortion that has taken place in Indo-U.S.S.R. trade in respect of parties that conduct the trade. Thus more than 80 per cent of imports from U.S.S.R. are by the private sector. This has had some serious adverse effects. The government imports from U.S.S.R. are mostly bulk commodities, especially crude and petroleum products. The U.S.S.R. has been facing some problems on its oil front and has had to restrict its crude exports. They were able to supply crude exports. They were able to supply crude to India only on account of crude from Iraq. The Gulf war is likely to restrict severely oil production in Iraq and it is not certain that Iraq crude will be available to India on Soviet account.

In that case, the Soviets are unlikely to be able to increase crude exports to India and this is likely to restrict rupee generation by them. Thus in all probability rupee generation by U.S.S.R. on account of bulk exports to India and on public account are unlikely to show major growth, unless of course, the oil prices shoot up substantially.
With the on-going decentralisation in U.S.S.R., Indian firms are finding it difficult to develop independent trade contacts with Soviet firms under the new regime. Unless this state of affairs changes with the expansion of the list of enterprises taking part in Indo-U.S.S.R. trade, both exports and imports, the level of trade between the two countries may not grow at the current rates.

For all these reasons, it is imperative that the whole gamut of Indo-U.S.S.R. economic relations be studied intensively with the active involvement of academics, businessmen, financial experts and the government with current data and with the knowledge of the operational procedures in U.S.S.R. and India. The major issues that need to be addressed are: i) Rupee trade and need to balance trade between India and U.S.S.R. ii) Diversification / enlargement of trade partners in the two countries and iii) Addressing the question of rupee / rouble parity, if necessary.

c) G.A.T.T. Agreement

No agreement in favour of L.D.C.'s, Protectionism and competition increasing, Trade policy cannot hope to benefit by being at the receiving end. An accommodating attitude on certain issues like I.P.R., on trade in services may benefit in the long run.

d) Indo - U.S. Relation

U.S. has put India back on the list of Trade act Super 301. The government should be aware of its implications and introduce changes in the trade policy accordingly. The sector which is most likely
to be effected is the pharmaceutical industry. One of the bright sports in India's recent export performance has been the spectacular growth of bulk drugs exports. Between 1985 and 1990, they registered a scorching growth rate of 85 per cent per annum - compared to the country's overall export growth of 26.3 per cent per annum. If existing trends continue, India bids fair to be one of the largest exporters of bulk drugs worldwide as it heads into the 21st century.

From a policy standpoint, a closer look at this performance is necessary in order to better understand India’s technological capability in this area. This, in turn is integrally related to the burning question of intellectual property rights, a major issue in the on-going Uruguay Round negotiations. A crucial ingredient in this success story appears to be the Patents of India Act of 1970, a "historical landmark" for many a developing country. Not only did this provide the basis for the rapid growth of the indigenous pharmaceutical industry, but it also facilitated the dynamic export drive overseas. As a result, the pharmaceutical industry's output has burgeoned from Rs. 10 crore at the time of independence to the current level of Rs. 4,000 crore. Simply put, this 1970 Act protects only processes and not products, which enables domestic manufacturers to cheaply produce drugs that are patented abroad. The pharmaceutical giants abroad who spend millions of dollars in R & D to produce a single drug term this "process" as piracy, while the domestic producers think it attests to their technological ingenuity. The level of domestic innovative activity remains rather low. The stage where basic R & D activity is undertaken for product development is only a chimera at present. While over 100

(196)
units in the industry are R & D centres recognised by the Department of Science and Technology, most of them either repeat processes well documented in the literature or, at best, make marginal changes in raw material and/or reaction conditions.

The question is where do we go from here? The debate on this question has not really provided the answer beyond the persuasive argument for not touching the Patents of India Act of 1970 at any cost. If the bulk drug industry is to be put on an evolutionary dynamic, then changes will have to be made to encourage domestic R & D. Which means that product patent protection will have to be introduced, at least over the medium term. There are already disturbing indications that such changes will be forced by relentless pressure by the US and other developed countries. The game will be up by the time the Uruguay Round comes to a conclusion. Some have, therefore, argued a case for making hay while the sun shines, which is necessarily a restrictive viewpoint. The US Omnibus Trade and Competitiveness Act of 1988, for instance, provides wide-ranging retaliatory powers. US process patent-holders have secured enhanced legal rights to block imports or collect damages from persons who import products using processes that are patented in the US. In such patent infringement cases, the burden of proof is on the person held responsible for the opposite of what obtains in the Patents of India Act. If this is accepted in the final version of the GATT agreement, dark days are indeed ahead for Indian exporters of bulk drugs as they could be involved in costly litigation.
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The US decision not to take India off the list under the special 301 provisions of the Omnibus Trade and Competitiveness Act of 1988 is a setback to the evolving bilateral relationship. This is the outcome of a meeting between the foreign secretary, Mr. Muchkund Dubey, and the US Trade Representative (USTR), Ms Carla Hills, in Washington in Jan. 91. India has so far resisted making any changes in the Patents Act of 1970. Ordinarily, the government would have refused to buckle but with growing American supremacy and assertiveness, it may well be necessary to consider suitable trade-offs, perhaps in areas like foreign investment, so as to wrest concessions in areas like intellectual property rights.

5.11 The main shortcomings of the exim policy have been identified as procedural delays, Multiplicity of objectives and policies of indigenisation. These were caused by a number of factors such as the ones mentioned below.

The import export policy is bulky and incomprehensible, it lacks clarity this makes its understanding extremely difficult. The policy is guided by a number of agencies monitoring it creating problems of excessive documentation. The policy also laid more emphasis on the production aspect without considering qualitative aspects and marketing.

The non tariff barriers may have been eased little when compared to the throttling controls of the earlier decades but in effect there has been very little effective liberalisation for the importer to propagate modernisation. The web of indirect controls, bureaucracy and procedural delays permit very few imports effectively. The extent of the imports made against
unrestricted licenses that is OGL were very few. May be between 10-15% of the non-POL import and out these the share of imports directly competitive with domestic goods was even smaller probable five percent. Most of the firms felt that the O.G.L. products were no competition to their product implying that the list was restrictive and continued protecting the domestic industry.

In spite of changes introduced since 1985. The policy continues to be bogged down by above problems which come in the way of liberalisation.

5.12 Among the schemes to improve export performance the government mainly follows Price Support Measures, Bilateral Pacts and compulsory Export Obligation. Through the analysis of the questionnaire it was observed that the schemes had limited efficacy and did not have a long run qualitative impact on the exports. Among the six schemes put forward in the questionnaire almost 90% of the sample opined that the current three schemes were among the last three in order of ranking. Though their preferences among them may have varied.

The other three options that is the role of Foreign Capital, Superior Quality and Profitability, are not given much importance by the government and ironically these were considered to be much more effective.

The lacunae of the existing schemes and the strengths have been discussed in detail and that leads us to the conclusion of the current schemes have a short run view which may prove beneficial at the micro level but not at the macro level. Where as opening up of the economy will instill better quality and cost consciousness and in turn increase export profitability. This
was necessary to survive in the competitive world economy.

5.13 The import export policy changes are a manifestation of the controls and restrictions placed by any other Act in the Indian economy. Hence often it experienced conflicting changes. This slowed down the process of efficient globalization. Though officially the power to amend the exim policy rests with the commerce ministry it was indirectly controlled by the political inclinations of the ruling party, External Affairs ministry, Industrial Policy, Labour and Employment Policy, Exchange control regulations and Monetary Policy.

The analysis of the relevant questions leads us to observe that the interests of the different sectors often conflict. Hence in view of the fact that the export sector was barely 5-7% of the G.N.P. it would not harm the economy tremendously if it did not fall in line with all the domestic policies. In the formation of exim policy priority should be given to foreign exchange earning. The government seems to lay more emphasis on foreign exchange restraint than earning.

A recent example of this is the R.B.I. directive to curb all imports.

The Reserve Bank has imposed severe restrictions on imports (excluding capital goods) by stipulating hefty cash margins while opening letters of credit. Simultaneously, it has brought all import of capital goods, irrespective of value, under foreign currency lines of credit available with the
financial institutions.

A circular issued by the Reserve Bank to commercial banks in respect of new guidelines for financing of imports has even made it clear, in unequivocal terms, that no sale of free foreign exchange is permitted for import of capital goods under any circumstances.

Following representations from various export organisations, the Reserve Bank had on a couple of occasions relaxed the cash margin requirement on a selective basis. The present guidelines, however, are attempting to bring imports to a trickle.

The Reserve Bank has obviously been forced to tighten the import restrictions in the face of a severe foreign exchange crisis. The decision is also said to have been influenced by the IMF's prodding.

It has nor been stipulated by the Reserve Bank that banks must insist on cash margins while opening letters of credit as follows :

(a) imports under OGL... 133 1/3 per cent; (b) imports under specific licences - 110 per cent; (c) all imports for own consumption made by registered 100 per cent export oriented units, units located in export processing zones and free trade zones .. 50 per cent; (e) import under suppliers' credit of one year and above - 50 per cent.

The latest guidelines do not, however, apply to imports by Government departments, petroleum oil and lubricant, fertilisers, food-grains, edible oil, newsprint and life saving drugs.
For imports with a value of up to Rs. 25 lakhs, the cash margins will be cleared by bank branches provided the customers does not cover the amount through other banks. For imports up to Rs. 50 lakhs, the headquarters of various banks will clear the proposals and for imports in excess of Rs. 50 lakhs, the Reserve Bank okay is must. In addition, banks will not provide either to the public or private sector any additional financial accommodation to meet cash margins. They have to be met in-house.

As regards cases, where shipments have already been made before issue of this circular and which are not covered under letters of credit, and where the amounts involved are Rs. 25 lakhs and above, the remittances should be effected only after obtaining prior approval of the Controller, Exchange Control Department of the Reserve Bank. The intention is that the Head Office will carefully scrutinise all applications received from importers before effecting remittances as also opening of letters of credit for imports.

Even when alarm bells ring incessantly, India's policy makers are habituated to waking up only at the eleventh hour. There is no other explanation for the government allowing the economy's external payments situation to deteriorate over the years, and then months and weeks, before suddenly sitting up to realise that a payments crisis is at hand. The result of having to apply nine stitches where one would have done, if done in time, is that large parts of Indian industry will suddenly be crippled for want of raw materials, scores of projects will be stopped midstream, and chaos will prevail in several companies as they grapple with the unexpected demand for massive
sums of margin money and the new and cumbersome rules of the import game. The steps announced by the Reserve Bank of India on Wednesday evening will mean production bottlenecks, sharp upward swings in prices as shortages bite, and short-term disaster for the import-intensive sectors of the economy. The stock market will be forgiven for reading the signals correctly, and both the secondary and primary capital markets will be badly hit, with predictable results. Such are the ravages of neglect and governmental inaction. It is a pity that the same politicians who have brought about this situation, in the most recent instance by not going through with a proper Union Budget and thereby aborting further negotiations with the International Monetary Fund, will face the people with no thought for the consequences of their actions, while officials grapple with the situation by using economic instruments of unprecedented savagery.

Understandably, the single important consideration that has motivated the RBI to issue a directive severely restraining several categories of imports has been the finance ministry's concern with forestalling the rescheduling of India's debt repayments. With a caretaker government in office, the finance ministry was left with no option other than abandoning its earlier attempts to seek further support from the IMF. These developments have had the combined effect of heightening the concern among India's creditors about its political and economic prospects in the short run. Consequently, it has become increasingly difficult for India to mobilise hard currency credit abroad. The postponement of the meeting of the Aid India Consortium, the inability of a major financial institution like the Industrial Credit and Investment Cor-
poration of India to secure funding abroad, the delay in securing bilateral assistance from countries like Japan, have all begun to exert pressure on the reserves profile. As one would expect, the uncertainty with respect to the outcome of the Lok Sabha elections has added additional weight to the gravitational pull on India’s sovereign credit rating. The peculiar political conditions that the country is faced with have therefore left the finance ministry and the RBI with few options but to apply the guillotine. The finance ministry would like to ensure that the foreign exchange reserves, now placed as a little over Rs. 4,000 crore, do not fall below a rock bottom level of Rs. 3,000 crore by end-June, so as to give the next government adequate breathing time to negotiate the upper tranche loan with the IMF. It is in this context, of the certainty that until end-June no new initiative can be taken to acquire further external credit, that importers in general must now pay the price for the government’s economic sins of commission and omission.

Effects of the sudden directive:

Financial stringency of this nature would not only cripple exports but also have an adverse impact on the domestic economy. In the absence of essential imports for industrial production prices would shoot up, units in the small scale sector would be the worst affected as they would have to shut down rendering millions unemployed.

The new restrictions would only increase the time delays in the import licensing procedures and also in export production. This would only lead to loss of credibility with foreign buyers, he pointed out.
In one stroke the restrictions have been applied to all categories of licences including advance, REP and additional licences thereby increasing the burden on exporters, already the exporters are suffering on account of the non-payment of the CCS and the duty drawback claims. Since industry had worked out their import plans according to regulations in force at the time of making the import contracts, if individual importers are not able to effect payments accordingly, their credit rating on a long term basis would get affected. Industrial production would then nosedive, procedural delays would only disrupt production schedules.

Forty per cent of India's bulk drug production is based on imported intermediates. The list includes penicillin G, the mother of all antibiotics and two intermediates for rifampicin, the anti-TB and leprosy drug.

The RBI directive will also hurt India's booming exports.

India is the world's largest exporter of some bulk drugs which are again dependent on some imported intermediates. Some exporters have suggested that imports against advance licence should be allowed on nominal margin provided they incorporate a clause on 180 days or more credit. This will at once postpone liability to pay as well as prevent established buyers from turning to other sources of supply.

Exports of diamonds are soon expected to come to a halt rendering a large number of the more than half a million workers in the sector unemployed. Overseas suppliers have become reluctant to send rough dia-
monds to India and banks in Antwerp are no longer prepared to finance exports of roughs to India.

This is the immediate impact of the recent directive issued by the Reserve Bank, virtually stopping all major imports, including rough diamonds, by stipulating heavy margins against letter of credit facilities for the import of goods.

Import of raw inputs is necessary for this sector as rough diamonds and coloured gemstones, the basic raw material, is not available in the country. Informed sources fear that if the imports of roughs are not exempted from the purview of new margin requirements immediately, not only would value-added exports suffer, but some parties may not be able to meet their financial commitments, apart from rendering many jobless.

The diamonds trade has realised the gravity of the situation fully and feels that the foreign exchange resources should not be strained further. It, however, expects that atleast the trade could be allocated the funds for the next two / three months on the basis of remittances received.

India occupies a leading position in the world diamond market. Four out of 5 diamonds used in setting in jewellery in any part of the world come from India. Today, India accounts for upto 45 per cent in terms of value in world diamond export business. Exports of gems and jewellery during 1990-91 are likely to touch Rs. 5,400 crores against imports estimated around Rs. 3,900 crores. This provides a net added value of Rs. 1,500 crores or over 38
per cent of imports. On a monthly average of exports worth Rs. 475 crores, imports work out to less than Rs. 350 crores, thus earning net foreign exchange of Rs. 125 crore per month, all in hard.

The government should, meanwhile, be aware of the risk of distortions and companies resorting to subterfuge in order to get around the restrictions. Many firms, which have the requisite cash and fast moving products, are likely to distribute their existing imports over a large number of firms which they control in one way or the other. In this manner, each letter of credit opened by each of these firms would be for less than Rs. 25 lakh and certainly less than Rs. 50 lakh. Smuggling and havala transactions could also get a boost.

5.14 The import export policy permitted imports through the Open General License, Replenishment Scheme, Duty Free Licenses. Though there has been some expansion there exists considerable control below the surface which boils down to narrowing the possibility of importing.

The O.G.L. has restrictions like actual user conditions, removal of items from the OGL list, need for clarification each time.

The Rep License though beneficial to the exporter in some ways, as pointed out in the analyses, was often made extremely tedious by linking it to inputs used. The paper work involved was also uncalled for the sale of Rep was expected to be an incentive but often fluctuated due to the changes introduced by the government. Making its profitability uncertain often the
licenses were covered by the brokers and the benefit did not reach the exporter.

The Duty Free Licenses were helpful as it permitted the import of input duty free, but the accompanying conditions attached to it, were often clumsy time consuming and not so effective these were related to export obligation, time to complete this obligation, accounting of utilised material and paperwork. The incentive can be made more effective if the above shortcomings are streamlined.

5.17 The analysis leads us to the observation that export effort is also constrained by the trends in inputs that are non importable and continue to be a bottleneck such as electricity, transport, unskilled labour and inflationary conditions. The bureaucratic model of the import export regime also made it more susceptible to the possibility of delays, mistakes and corruption. The liberalisation was ineffective due to the supply side bottlenecks.

5.18 The import duties have increased considerably over the years. This may be because the rates have been enhanced considerably to replace the quantitative controls and also because the rupee has devalued considerably over the period 1985-89. The duties in some cases are as high as 350%. The government has further complicated the issue by announcing that, contrary to GATT code of valuation, government would arrive at its on value of goods imported. This will cause further delay and conflict. The high duties have a direct bearing on the indigenous producer and though the exporter is able to
claim drawback this system has number of short comings which have been dealt with in detail under the relevant question.

(a) The Indian tariff consist of

- basic customs duties mainly ad valorem

- auxilliary duties applied to c.i.f.

- additional or countervailing duties equivalent to the excise duties imposed on locally produced goods. The basic ad valorem varies from zero to 300%. The auxilliary was 40% but with the exemptions introduced it has come down to about 25%.

b) At first glance the tariff structure seems simple and uniform with a good degree of transparency. In practice it is complex in the extreme due to the large numbers of exemptions which have to be traced separately for different components. The proliferations of conditional exemptions is excessive and combinations and makes it difficult to identify the exemption suitable.

c) In general the tariff rates are undoubtedly high. About 60% of all tariff were in the range of duty of 120% to 140%, approximately 10% exceeded 200% duty and only 2% were in the bracket of less than 60% duty. This structure refers only to the basic and auxilliary and does not consider the countervailing duties. The exemptions do reduce the rate but it is still quite high.
d) Indian tariff rates are much higher than other developing countries. In a sample of ten countries including countries with large internal markets India had very high tariffs. Except China and Bangladesh the other seven countries Argentina, Hungary, Mexico, Morocco, Thailand, Turkey & Yugoslavia had a mean tariff rate 30 to 40% less than India. This was in 1986.

e) The increased tariffs have led to increased pressures for special exemptions, such exemptions are a source of scarcity rents created by the quota exemptions. This is a move away from uniform tariffs. The high rates of duties along with the special exemptions has increased the inefficiency of the system. Higher tariff should normally be accompanied by removal of quantitative restrictions. This has not happened and the exemptions along with the high tariff walls has created a quagmine of bureaucratic controls which rebate the intended Cif at all liberalisation.

As a result of the web of controls discussed in the preceding points, the domestic producer is unable to import the required input, component or machinery according to his requirement and therefore kept away from the benefits of modernisation. In the developed world this coupled with the strong, protected market with pent up demand reduces his desire to improve the quality of the product to suit world demand or lower his price. If exports are to be increased we cannot expect the buyers to purchase whatever we produce with a promise to improve quality. We must be able to produce commodities which are at par with our competitors.
The recent trade policy changes have not facilitated modernisation or rapid growth due to the half-hearted changes introduced. The need for this will be felt only with the opening up of the economy.

5.19 The effect of the policy changes on certain crucial indicators was observed to be as follows. A substantial portion felt that it had contributed to technology upgradation especially in the engineering sector. The other two sectors felt there was scope but had not availed of it. Over the period 1985-90 there was no marked change in the export basket, almost 80% of the producers continued to export the same product. Import intensity of the goods in engineering sector had gone up considerably mainly so in the case of large units. The diamond sector had also availed of imports considerably as rough diamonds were imported to a large extent.

Growth in exports was observed in rupee terms but this was considerably low in dollar terms. The absolute exports increased in case of almost all the units interviewed but the proportion of exports to domestic sales hovered around the same value and in some cases it was even lower. The net foreign exchange earning in the case of smaller units experienced an upward trend where as in the case of engineering or the technology exports seemed to be rising at a slower rate. This seems contradictory to the benefits of liberalisation.

5.20 The easing of the import controls was severely restricted by the segmentation of the categories of importers. Besides this the list of importables
was continuously subject to change in response to the dwindling foreign exchange situation.

In fact the exporters complained that narrowing down was a continuous process and was done without any warning.

a) The import control regime grants protection to domestic producers by means of non-tariff on Quantitative restrictions as well as tariff barriers. The non-tariff barriers earlier dealt with in the analysis relating to the questionnaire are

- import licensing
- actual user policy
- canalisation
- industrial licensing
- purchase preferences to domestic sellers.

Though changes have been announced claiming liberalisation in effect the non-tariff imports are very restrictive.

b) The import licensing system has been divided in the following manner
From the above break up which gets further subdivided it has been observed through the preceding analysis that the system of a "negative list" has not really functioned because of the qualifying conditions in each category of the positive list also and the list of controlled items include a number of broad categories which encompass many areas; e.g. "all consumer goods in semi knocked down conditions" except those on O.G.L.
c) The "actual user" policy prevents most of the consumer goods even if the present ban was lifted. This policy greatly restricts the imports and inspite of the item being on O.G.L. there may be no imports. e.g. items like tyres have been on the O.G.L. since 1978 but there have been no imports, partly because of high duties and partly because of the above condition. The replacement market for tyres that is the bus, car and truck owners do not qualify as actual users and the producers are prevented by the 'Phased manufacturing Programme'.

d) Phased Manufacturing Programme: The concerned firm agrees to replace importables with domestic components. To ensure implementation of the agreement the import of all items requires prior clearance. This runs counter to the general claim of easing import restrictions.

e) Industrial Licenses: The applications for licenses are to be approved by the capital goods committee which reviews the foreign exchanges content. Hence acts as a non tariff barrier that protects the machine & engineering industry. The reservations for various sectors also prevents import competition.

f) The canalised imports account for about half the total imports. Policies, pricing and distribution are determined by the concerned ministries' and Chief Controller of Imp & Exports. This imposes a non-tariff discretionary control over imports subject to conflicting objectives and leading to inefficiency as observed in the analyses of questionnaire.
g) The licensing system is discretionary in many ways. Each applica-
cation is treated on a case by case basis. In each decision the 'Sponsoring
agency' must certify that the import is essential and has clearance from 'indig­
enous angle'. The value of raw material is linked to the size firm and though
no quota is announced the government is at freedom to change norms or shift
items out of the list announced.

In general licenses are granted on a ad-hoc manner subject to constraints.

From the above broad discussion we can conclude that the
Quantitative Restrictions have not been eased to a great extent and whatever
liberalisation has been there, it is tremendously restricted, and in some cases
almost non existent.

5.21 The exporters faced several problems, some of them were created
by the policy itself, others were due to the lack of a comprehensive view, some
due to infrastructural bottlenecks and yet others created world trading envi­
ronment. The main problems which were highlighted by the interviewed sample
were as follows, procedural delays due to the intricate bureaucratic network,
excessive paperwork, inflationary conditions in the domestic economy, non
importable inputs like poor roads, electricity etc., lack of clear cut objectives,
competition from newly industrialised countries exchange control restrictions,
collegial policy changes by the government arising out of short term responses.
The earlier points have been dealt with in the analysis of the questions. The
lack of logical policy changes can be focused upon by the following change
announced in February 91 in relation with the cotton export quota. The Union

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Commerce Ministry wants the current year's cotton quota to be fixed at 15 lakh bales against 13 lakh bales last year despite a smaller crop this season. When one considers the Balance of Payment crunch, this is understandable, but this alone cannot determine the level of exports. As for Krishi Bhavan, it has a single-track mind - a rise in quota year after year so that growers are able to realise high prices. But, overall, no one can ignore the ground realities. Had the production been up to about last year's level of 133 lakh bales, a marginal rise in the quota would not have been a cause for concern. But the situation is such that the Cotton Advisory Board (CAB) is convinced that there is "no scope for further exports during the current season (September-August) unless the production in the coming months increases on the basis of better pickings'. As traders, procurement agencies and some members of the CAB have further lowered the crop estimate, the Government should have given thought to a rise in the export quota. still the quota is up by about a lakh bales, and now the Textiles Ministry says that it would like a further enhancement. There is even some talk of a quota of 20 lakh bales. This is nothing but ridiculous. Politicians may want to please the growers with the elections two months away, but the question is at what cost?

The Government must bear in mind that open market prices for most varieties presently are higher than support prices by 50 percent or more. As support prices themselves are remunerative, there is obviously no case for raising exports to protect growers. With cotton production down and prices up, the cotton textile mills are having problems producing goods that can sell. During the lean season, things are going to be still more difficult. The industry's
cotton requirement has gone up the Government has raised customs and excise levies on synthetic fibres. While this is worrying enough, the expectation that the current season would close with a small closing stock has led to fears that prices would remain at a high level. Quite clearly, this kind of a situation is not conducive to a jump in exports of yarn and other textile items. One might say that the firmness in cotton prices would encourage growers to improve their productivity, benefit the industry and cloth users, but this, one supposes, is a long shot given the ways of the farming community.

Indeed, the situation is such that instead of raising cotton exports in a short-crop year, the Government should lay emphasis on exporting clean cotton. Being the administrative Ministry for ginning and pressing factories Krishi Bhavan has a bid responsibility in this regard. High trash content and other deficiencies in Indian cotton have an adverse bearing on price realisation by exporters. The Government had earlier thought in terms of stringent norms in this regard for improving both the marketability of cotton and its unit value realisation. However, under pressure from the farm lobby, it dropped the move.

Modernisation of ginning and pressing factories has remained elusive. Export-oriented mills and procurement agencies in the public sector such as the Cotton Corporation of India (CCI) and the Maharashtra Federation are, however, doing their bit by consciously patronising quality-conscious ginning and pressing units. The CCI has, however, found that, unlike overseas buyers, most mills at home, whether in the public or private sector, are unwilling to pay a higher price for clean cotton. This is despite the fact that
use of items enables exporters to secure a higher unit value realisation. This obviously cannot go on. The textile mills, cotton procurement agencies and the Government must join forces to expedite modernisation of ginning and pressing units. The Cotton Advisory Board (CAB) has recommended imposition of a cess on cotton to mobilise funds for modernisation of ginning and pressing factories. In view of the importance of expeditious upgrading of cotton processing. New Delhi must act on the Board’s recommendation. Quite clearly, the Government can help cotton exporters realise higher prices by encouraging exports of quality cotton. The policy of CCI not to export damaged or sub-standard cotton is unexceptionable. After all, refurbishing the image of Indian cotton in the eyes of overseas buyers should be high on the list of our priorities. It is because of stringent quality control Egyptian cotton is snapped up by overseas buyers even at fancy prices. Thus, Krishi Bhavan must evince more than passing interest in the technological up-gradation of ginning and pressing activity in different parts of the country.

5.22 The government was often not sensitive to the problems mentioned, and it was felt that the policy changes were often a backlash of some other ministry’s change as reflected in the example of R.B.I. directives on the cotton export quota policy. The export policy was expected to manage the balancing act of pacifying other ministries and then to compensate the exporter subsidies were given. This made it administratively clumsy and created delays. The export policy lacked firm commitment on the part of the government and hence it was subject to changes from time to time. It lacked thrust and coherence.
On one hand it encourages a particular sector and at the same time creates restrictions. Some examples highlight the problem.

The Commerce ministry should accept some responsibility for the fact that the tyre industry is unable to face the challenges of export promotion. The overseas demand is mainly for tyre fabric and yarn, instead of bringing these under the permissible quota limit they have been kept on merit list and the items with lower demand such as cord have been under limited ceiling. Due to this stipulation, the exporters have to seek a license for each consignment and comply with cumbersome time consuming procedures. Where as the overseas demand for cord is limited and the export quota may even remain unutilised. What prompted the ministry to prefer one over the other is known! Similarly software exports are supposed to provide the spring board for increasing exports however besides the problems faced by the industry which need a lot more attention, the industry is not even able to get the benefits derived by the physical exports. It was announced by the Finance Ministry that software exporters would be eligible for the section 80 H.H.C. benefit which allows 100 per cent income tax exemption. In view of this several exporters made expansion plans with the hope that they would save on tax, they had also not paid advance tax which is normally paid in September, December and March. In March it was announced that they would continue to be under the earlier provision of section 80 D where only 50 percent deductions are made. Hence again the priorities of the finance ministry prevail over those of the commerce ministry affecting exports adversely.

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5.23 The domestic profitability was much higher than the export profitability in the case of most of the commodities. This dampened the export effort. As dealt-with earlier the domestic market is strong protected and inflation is rampant. All this makes it more attractive for the producer. The greater the domestic profit the lower the export effort. The exporter looks at the overseas market only if he feels that domestic demand is reaching saturation and he has excess capacity. The government aims at reducing this gap by providing subsidies but this increases the inefficiencies and in facts perpetuates the existing gap. The export promotion councils reimburse the exporter the difference between the international and the domestic price of inputs the international price is declared every quarter and holds true for the following period of three months. The subsidy may benefit the exporter but it often encourages him to buy inefficiently produced material resulting in an overall loss in terms of quality leading to low returns in international market.

5.24 The essential prerequisites for increasing export profitability were identified as removal of delays control of inflationary pressures, availability of inputs of international quality and price, marketing, improvement in transport and communications to remove delays and finally a basic change in work culture where efficiency must be given emphasis and the present system of supporting inefficiency should be removed. A number of them could be tackled simultaneously by introducing more open competition.

5.25 The duty drawback granted by the government was absolutely essential but suffered from several administrative procedural drawbacks such
low rates, exclusion of items, delays in disbursement, suspension of payment due to scarcity of funds, lack of co-ordination between customs and Commerce Ministry. For a long time the suggestion to shift the drawback payment to the Commerce Ministry has been pending and is not being brought into practice due to vested interests.

5.26 Direct Tax Exemption: The profits from exports are fully exempt from I.T. this is a major incentive however the exporters who also sell in the domestic market are continuously under suspicion as it is feared that they will launder their black money. This necessitates detailed accounting of every declaration (G.R.) of foreign exchange earnings and involves a waste of productive time.

There is evidence of the fact that the incentives provided by the government have encouraged exports but the new measures along with the earlier schemes do not seem to be sufficient to generate rapid growth suited to India’s diversified industrial base. The fear that the highly protected market will induce abuses of export incentives leads to the adoption of complex schemes meant to prevent illegal use. Many of these are outdated hard to administer and have yielded poor results.

The income tax relief granted to the exporters was definitely an encouragement and export trade should benefit from it considerably but there were problems in its enforcement and often the genuine exporter did not benefit much where as the formula as it was led to the misuse of the benefit. The misuse leads to loss of revenue and also a burden in terms of other benefits derived through Rep licences, blanket permit, favoured treatment.
The formula also encouraged inefficient exports as it was not directly related to profits but the ratio of export turnover to total turnover. Section 80 HHC was introduced primarily with a view to offering fiscal incentives to exports. This section was a replacement of the earlier Section 35B of the Act under which weighted deduction was given to certain expenditure incurred for promotion of exports. Section 80HHC in the present form gives total exemption from tax for export profits.

A specific formula has been laid down under sub-Section (3) for arriving at export profits when the business carried on by the assessee consists of both export profits and non-export profits. According to the simple formula laid down in the case of joint activities, the export profits have to be arrived at by apportioning the total profit between export turnover and the other domestic turnover. This looks simple enough but is capable of gross misuse. There have been several instances in which an assessee when he has got huge profits, just buys "export entries" on which he does not make any profit at all, but this export turnover helps him in reducing tax in respect of profits derived from other domestic business. By combining the activities of acquiring "export performance" and domestic business assesses are able to derive the advantages of loopholes in the Act, it is stated.

As per the July circular issued by the CRDT, export profit of an assessee having local business is to be derived by dividing the multiplication product of 'export turnover' and 'total profit' by 'total turnover'. The ambiguity on 'total turnover has been cleared by excluding export incentives from gross sales income.
Exporters here say that the July 1990 circular has been creating undue hardship. It is quite likely that most of the exporters do have local business and export business separately and that assesses keep a separate books of accounts for their separate establishments for export business and local business. In that case, as per Section 80 HHC(1) when an assessee can himself derive the export profit to which this section applies, then there is no need to apply this circular and derive his export profit by applying the formula given in the circular. They suggest that the circular may be amended to read in such a way that where an assessee has been maintaining separate books of accounts and export profit has been maintaining separate books of accounts and export profit has been identified separately, then there is no need to derive his export profit by the formula given in the circular. Although 80HHC tax savings are within the parameters of the law and are aimed at avoiding taxes and not evading taxes, the authorities cannot initiate any action, it is stated. But, if genuine exports are to be encouraged and if 'racketeering' is to be avoided, an amendment to this Section is necessary.

5.27 The C.C.S. scheme was a direct subsidy and was expected to cover unrebated taxes, freight disadvantage and provide resources for market development. The exporters felt that it was not sufficient for all three but a large majority agreed that it was a welcome incentive and encouraged exports at the micro level, like any other scheme it suffered from procedural delays as it involved the cumbersome case by case regulation of export incentive.

At the macro level it involves a huge burden on the budget in 1980-81 such subsidies amounted to Rs. 344 crore and in 1989-90 they were
in the range of Rs. 1775 crore. In fact the CCS has already exceeded the current years budgetary allocation by Rs. 600 crore. Another disadvantage is that it supports the inefficient products and reduces the possibility of a shift in the export basket and finally it covers up the root of the inefficiencies by providing monetary compensation. This involves a burden to the exchequer and allows the maladies to continue.

Encouragement to Export Market Development is provided through the 'Blanket Permit Scheme, for travel, Promotion councils, Trade Development Authority, Indian Institute of Foreign Trade and Export Inspection Council and C.C.S. benefits. The help provided has diminished the impediments but their contribution has been limited by the detailed conditions and controls imposed to prevent the misuse of foreign exchange provided. The export marketing has mainly relied on services provided by the government with little importance to assistance to individual firms to market directly.

The EPC's and the other institutions have weakness inherent in their mandates and bureaucratic structure. They most often pursue objectives other than marketing.

5.28 The canalisation of imports was not considered to be beneficial it was stated to be an inefficient bureaucratic organisation, contributing to the profits of the public sector but not towards export effort. The main criticisms against the agency were the inputs rarely matched the production cycles, the prices were much higher, small producer often did not benefit as specific inputs were not imported in small quantities and often the exporter was forced to purchase unwanted material which was in excess supply with the agency.
5.29 The main objective of export promotion had remained elusive and the changes in the import export policy had not been able to induce better export performance. A very substantial majority of the sample expressed that there was no liberalisation in the real sense, secondly the increase in rupee terms was highly inflated due to the depreciation of the currency, thirdly the policy had not been able to make exports profitable but exporters continued to export as they could avail of other benefits. This involved a net burden for the economy and was bound to become self defeating.

5.30 Efficacy of the Overall Import-Export Policies

a) The protective regime may have created a vast industrial base, but it has been done without keeping international specialisation in mind. The industries which have developed do not necessarily have a comparative advantage. This has nurtured an inefficient industrial structure.

b) In spite of the export incentives provided, the protection available in the domestic market has made domestic sales more profitable, secure and easier than the export market.

c) The case by case exemptions offered in import licensing and tariffs has led to a large administrative beaurocracy and involves high costs for the government and firms in terms of time, attention, delays and uncertainties. The role played by lobbying and acquiring exemptions divert the attention of industrial managers from productive activities to political and clerical follow up lowering their efficiency.

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d) The costs of import protection and export incentives are not necessarily symmetrical. An import ban benefits domestic industry by protecting it and is not really challenged by customers. Hence the local producer gets protection and improves his scope for higher profits without incurring any additional costs however to obtain an export incentive or exemption the exporter has to lobby or spend considerable amount of time and money and very often the benefit is not as high as that accorded to the domestic producer. There exists an asymmetry between import protection and export promotion.

e) Delays uncertainties and lapses on the part of the government can lead to disruptions in production cycles. To prevent this producers tend to hold large inventories locking up funds.

f) The performance of the canalising agencies was poor, it did not cater to the needs of the exporter, but was mainly catering to the governments profit motive. The larger exporters emphatically felt that it was much cheaper to import directly. The small exporter found their performance merely 'tolerable' as they were unable to import through intermediaries and were not geared to the network.

g) Small-scale enterprises are making a large contribution to our export earnings. Out of the total export revenue of Rs. 31,000 crores the small-scale sector accounts for around Rs. 14,000 crores in direct exports and another Rs. 7000 crores indirectly.
There is a yawning information gap between the small-scale producers and the international markets. Relevant information such as the emerging demand patterns and new markets for traditional Indian goods, could go a long way in boosting the exports. But such information is almost impossible to come by. This is because at the grass roots level there is no mechanism for channelising information to the producers who are for the most part left to tend for themselves.

Linkages between the large and the small-sectors have not developed in India because of two reasons; first, the relationship between the two sectors is not based on mutuality of interests. The large industry tends to exploit the weakness of the small enterprises rather than backing them in a manner that is beneficial to both; second, the kind of support that big business houses should be extending to the small suppliers of components for export-oriented goods, by the way of raw materials, technological and financial inputs and prompt payments, is just not forthcoming. Thus the small entrepreneur is wary of going to the big brother for any kind of assistance. Thus unfortunately enough not more than ten percent of all the exports done by the small sector goes through the large-sector.

There is, however, an attractive incentive in the Exim policy for the trading houses to pick up and promote the products of the small-scale sector rather than their own. The trading houses are entitled to the sops in the policy only if they are able to show a certain minimum level of performance in terms of sales -- Rs. 12 crores in a period of three years at an average of

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rupees four crores a year. If, however, they are engaged in selling products coming from small-scale manufacturers, they can avail themselves of all the benefits with a performance just half as good - that is sales of rupees six crores in three years.

The exim policy provides concessions to the established exporter with a turnover of more than Rs. 4 crores, but none of the subsidies are applicable to the new entrant.

In view of the role played by the small scale exporter this attitude is quite callous.

Observations at the macro level

FOREX MOVEMENTS - 1980.61 TO 1989.90.

(Fig. No. 1)
The efficacy of the exim policy can also judged from the macro indicators. The available data and statistics from reliable sources reveal certain features which to some extent support some of the observations arrived at in the thesis.

The trade balance position reflected in the fig. 1 shows that the gap between imports and exports has widened in the post liberalisation period. The imports experienced a considerable spurt in the year 1985-86 immediately after the liberalised policy was announced leading to a very adverse trade balance of Rs. 8763 crores. This was a natural consequence of the expansion of imports and it was expected that the gap would soon get narrowed down as exports begin to respond. The export earnings did go up but the trade gap did not reduce. From a pure monetarist point of view this reflects the inefficacy of the policy change as it represents a negative balance having repercussions on the foreign exchange reserve position which almost reach the rock bottom in 1990 with the declaration of the Gulf War.
The foreign exchange rate is a manifestation of the demand and supply position of foreign exchange and is greatly influenced by the trade balance. Fig. 2 reflects the deteriorating value of the rupee against the three major currencies US dollar, Deuche Mark and Pound Sterling. We can observe that in the VI plan period the rupee was considerable stable vis. a vis. the Deuche Mark, Strengthened against the US Dollar and marginally declined against the Pound Sterling. In spite of this favourable situation the imports during this period were relatively controlled and the exports stable.

**RUPEE EXCHANGE RATE CHANGES**
**SEVENTH PLAN PERIOD**

![Graph showing rupee exchange rate changes](Fig. No. 2 b)

During the VII plan period which coincides with the post liberalisation period we observe that the value of the rupee worsened against all
the three currencies considerably. Logically this should have had a curbing effect on imports and a positive effect on exports reducing the trade gap, but this is not observed. The imports in fact increased considerably and though the exports experienced a rise they were not able to catch up with the imports. The disequilibrium does not seem to be responsive to exchange rate movements. An IMF study some years back had concluded that depreciation devaluation led to an improved balance of payment position only in respect of some countries, which were supported by a free trade regime. The relative inelasticity of imports and exports continues to persist due to several problems analysed earlier, hence cannot be relief upon to remove disequilibrium. The shortcoming of the exim policy could be removed with more pragmatic and direct changes.

The analyses of the data through Fig. 3, 4, 5 relating to the destination of the exports of the three major groups (engineering, gems & garments) draws our attention to a revealing feature.
The gem and jewellery exports are mainly directed towards the developed block and a relatively small proportion is directed towards the other areas as represented in the pie charts. This sector is mainly dependant on the traditional workmanship and so far is not into high technology production.

A similar situation is noticed in the case of apparel exports. Both these relatively traditional sectors have been able to sell to developed markets. They have been major foreign exchange earners in the recent past but we should keep in mind that they have not been the major beneficiaries (especially the apparel sector) of the changes in the exim policy and have shown better performance as compared to the engineering sector.
The pie diagram based on the available data represents the destination of engineering goods and we observe that a very small proportion of these goods went to the developed block. The major destinations were East Europe and U.S.S.R. and other countries mainly belonging to the underdeveloped economies. This seems paradoxical as the aim of the liberalisation was to improve the technological ability of industrial sector. The exports to the relatively underdeveloped market reflects that the engineering sector has not really been able to contribute towards higher exports to areas with hard currency. A large proportion of the units continue to export products which have a demand in the less developed markets reflecting low technology and hence pointing to the fact that changes in the import export policy have been inefficient in this aspect.
**EXPORT DESTINATION ANALYSIS**

TO U.S.A./GERMANY/JAPAN

- GEMS/JEWELLERY: 35.69%
- APPAREL: 18.96%
- ENGINEERING GOODS: 3.23%
- TRADITIONAL GOODS: 10.74%
- AGRO.PRODUCTS: 15.4%

(Fig. No. 6)

**EXPORT DESTINATION ANALYSIS**

TO EAST EUROPE/U.S.S.R.

- AGRO.PRODUCTS: 33.32%
- ENGINEERING GOODS: 17.43%
- APPAREL: 10.11%
- TRADITIONAL GOODS: 10.22%

(Fig. No. 7)
The figures 6,7,8 also emphasis the same point they reflect the major items of import of a few trading partners. This also reflects that the developed economies are mainly importing traditional items where as technology products are being imported mainly by East European and USSR market. The imports of Singapore reflect the demand of certain South East Asian economies, or even African nations for which Singapore operates as an entrepot. This again reflects the demand for relatively higher technology products to less developed markets.
EXPORT PERFORMANCE OF DIAMOND TRADE
IMPORTS v/s EXPORTS

(Fig. No. 9 a)

(Fig. No. 9 b)
The analyses of imports and exports of diamonds (fig. 9) reflects the increasing contribution of this sector but the comparison between the two figures reflects that the gap between imports and exports in carat value is very wide. This is either because a substantial proportion on the imports are utilised domestically.

The value of the exports is in excess of the imports but this difference is very marginal implying that there exists scope for improving contribution from this sector and the aim of the import export policy should be to mobilise this sector by providing better facilities for value addition.

**GARMENT EXPORTS ANALYSIS.**

POSITION IN INDIA v/s WORLD MARKET.

The garment sector (fig. 10) has been showing promising performance in the Indian export sector and the growth over the period 1985-90 has been note-worthy.
Its share in India's total exports has gone up as represented by the line graph but this growth seems static when compared with the growth of some other developing countries like China and Hong Kong. While both these countries have captured an increasing share of the world market, India's share in the world market has remained at 2% throughout. This shows much more effort needs to be directed towards this sector which appears to be promising but will not remain so if other newly developing countries acquire a larger share of the market we may lose. The phasing out of the M.F.A. may not after all work out in the interest of an inefficient country. The euphoria over the performance of the garment exports may not last long if once the quotas are removed.

**PROFILE OF INDIA'S IMPORTS.**

**GDP ELASTICITY OF IMPORTS (E)**

\[
\frac{E}{MPM}, \frac{E}{MPM1}
\]

![Graph showing GDP elasticity of imports and marginal propensity to import (MPM)](Fig. No. 11)

**E1 & MPM1 - IMPORTS ADJUSTED FOR RUPEE DEPRECIATION**

(Fig. No. 11)

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The gaping trade gap has been attributed to large imports but the (fig. 11) shows that through the intensity of imports has been increasing in nominal terms it does not seem so severe a problem when adjusted to the internal and external depreciation of the rupee. The elasticity of imports with reference to the G.D.P. and the Marginal propensity to imports appear to be much lower after the adjustment. This points to the fact that the trade gap is not only due the widening imports but also due to the inability of the export sector to respond. The exim policy should therefore focus greater attention on export promotion instead of import control.
Finally as discussed in the thesis the role of export promotion needs to be looked into. Presently the export subsidies play a very important role and several other bottlenecks are ignored. The figure 12 reflects the share of export subsidies as a proportion of total subsidies and also as a percentage of the fiscal deficit. We observe that throughout the period 1985-90, this has been increasing causing heavy burden to the government and widening the fiscal deficit. Instead a more pragmatic policy with more emphasis on efficiency and market mechanism will be more effective.