Chapter I

INTRODUCTION

1.1 Importance of Foreign Trade in Indian Economy

The foreign trade plays significant role in the economic development of the country. The developing countries can follow various alternative strategies of economic growth according to their needs. There are two major benefits of foreign trade to the developing countries. The first benefit is that the surplus domestic production can be exported. The second benefit is that the foreign exchange can be earned to finance imports.

There are various advantages of foreign trade to the developing country like India. The export market is expanding due to liberalisation and globalisation of our economy and the imperfection of domestic market is removed. The mass scale production for export provides the economies of scale. The surplus production can be sold in the foreign market. The concentration on production on the basis of competitive advantage nationally would lead to the optimal global utilization of productive resources which would increase the global economic welfare. It facilitates to develop competitive ability of the Indian exporters to face world competition. There would be continuous pressure on the industry to improve technology and the production system to retain competitive edge. By exporting the surplus production a country can earn foreign exchange which can be used to finance imports of those which are indigenously not available, be it product or technology. The imports can energize the domestic production system by opening it up to global competition towards higher cost and management efficiency.

Today, we live in a global village. It is difficult to speak of matters that do not influence or are not themselves influenced by other areas of the world. Websites, Internet, E-Commerce, Jet age transportation, satellite television, computers and electronic technologies are reshaping and restructuring the patterns of business. The world is getting smaller. Interaction between the
people and governments of various nations is increasing rapidly. Multinational
comppanies based in Japan, United States and other developed nations feel
completely at ease offering their products in foreign markets. An organisation
that sells its products beyond its home nation’s boundaries is a multinational
trader engaged in international trade.

Many Indian companies are heavily involved in international trading. The
Indian government encourages Indian companies to enlarge their international
trading efforts. Yet another measures indicate that our degree of commitment
to international trading is relatively low. India’s share in the global trade is only
0.5 per cent. American exports amount to slightly less than 7 per cent of our
gross national product (GNP) compared to trading nations such as Japan (13
per cent), West Germany (27 per cent), the United Kingdom (20.5 per cent)
and Canada (29 per cent).

The explanation for this small percentage is, in part, the result of the large and
developed nature of domestic market in India itself. So many other countries
have such an extensive, well developed nature of the domestic market place.
Therefore, other nations have had to involved in international trading
activities. For many, it is an absolute necessity.

There is also a major impact on the domestic economy of any nation as the
volume of multinational trading activity increases. Foreign products are
imported into that country to fill need not being satisfied by domestic
manufacturers. Because India cannot supply all of its oil-based needs, it must
import oil from other nations. In this sense, imported products are necessary
to a way of life. World trade does help some countries meet certain needs
with continued growth, world trade can be expected to raise the standard of
living in many parts of the world.

In addition, world trade can stimulate and help improve domestic competition.
Consumers have complained that Indian automotive manufacturers are
unconcerned about quality and inattentive to market needs. Partly because
Japanese and European cars have gained such a large share of the world
auto market, Indian producers have recently begun to remedy these deficiencies. Such improvements in domestic competition spur improvement in living standards as well as general economic well-being.

By encouraging domestic companies to increase their involvement in world trade, a nation can develop its own economy. Capital investments in domestic production and the inflow of revenues from the sale of product to other nations certainly can trigger domestic economic growth.

For some countries, however, the costs of involvement in world trade are high. As trade between developed and under developed nations occurs, cultural differences emerge. A "Culture shock" may occur as the ideas, products and lifestyles of one culture begin to influence those of the other culture. Grumbling have been heard in more traditional societies about the decadent influences of western products and lifestyles. Certainly, the possibility for unwanted cultural change exists when world trade increases.

Another cost is more directly measurable. Some nations experience trade deficits when the money for imported goods and government payments made outside the country exceed revenues received for goods exported by that nation. When payments going out exceed the money coming in, there are difficulties. Such a deficit in the balance of payments of any country of often leads to domestic inflation as the government manipulates its money supply, domestic spending and taxes to help solve the deficit problem. India is one nation whose balance of payments annually shows a deficit. Clearly, international trading is important to many nations for many reasons.

1.1.1 International Trade:
Actually international trade refers to the movement of goods across national borders and relates exclusively to exporting and importing. Students of international trade analyse exports and imports and conditions under which such transactions take place. The academic study of international trade is concerned with trade flows, commercial policies, resource allocations and
adjustments, capital movements, balance of payments analysis, and international monetary arrangements.

1.1.2 Economic Policy:

Today many governments are committed to the policies of full employment and improving standard of living for their people. In such situations, immediate economic facts may be involved in guiding their commercial and investment policy. Emotion and pride spawn industries not justified by the country's resources or by the local and external markets available under the proposed cost structure. The desire to build a cadre of experienced administrators and to exercise control over the industrial base within its borders leads states to establish work laws requiring the use of national in executive positions or laws which restrict the investment of foreigners to that of minority ownership. Nations also vary in their reliance on economic planning and the degree of government control exercised over individual business units.

The trade policy is an important adjunct of the foreign exchange policy. Trade, aid and exchange policies are interrelated with international politics, economic relations. International trade is basically as reflection, firstly, of the structure and trends in domestic production and secondly, the structure and trends in world production. But more importantly international political forces, regional affinities and socioeconomic factors play a vital role in deciding the pattern of aid and trade. In a developing country like India, trade depends on aid and composition and direction of trade are dictated by aid flows to some extent. Aid was necessary to pay for growing imports in a state of inadequate growth of exports. Planned investment could not be maintained without a minimum component of imports, despite the existence of a wide network of controls. It would thus be vital to promote exports to pay for imports which are themselves growing due to increasing costs and growing requirements of old debts and payment of interest, etc. In a country whose exchange reserves are exiguous and exports can meet only part of the requirements of imports and debt servicing liabilities, aid continues to play an important role. In fact, a prudent country has to plan to build up the exchange reserves by deliberate
export strategy to boost export surplus. The objectives of trade policy in India may be broadly set out as follows:

a) to allow imports which would facilitate planned investment and increased utilisation of capacity, 
b) Conservation of foreign exchange reserves to aim at maintaining a buffer stock of exchange reserves for debt servicing and for imports of essential requirements at home, and 
c) to promote export for generating foreign exchange to finance import.

1.1.3 Significance of foreign trade to the national income:
The role of foreign trade in the national economy can be judged by the contribution of foreign trade to the national income. As a proportion of national income export was about 8 per cent in 1951-52 which decline to 4.4 per cent in 1971-72 but increased again around 8 per cent in the seventies and eighties due to faster growth of exports. Imports as a percentage of national income have also declined from 10.7 per cent in 1951-52 to 4.9 per cent in 1971-72 but stood at 9-10 per cent in the seventies.

(Source: Economic Survey of India - 2020)

In 1993-94 the percentage share of India’s export in the national income was 8.7 per cent while the corresponding percentage for imports was 9.1 per cent.

This data would signify that, firstly, India today is less dependent on the world economy than it was three decades ago. Secondly, India’s exports did not grow adequately to keep its share in world trade due to the vast domestic market at home and inward-looking growth of the economy. Thirdly, world exports grew much faster than those of India due to the larger share in the growth by developed countries and a few oil rich countries. India’s share in world trade fell from 2.2 per cent in 1950 to 0.6 per cent in 1970 and further declined during eighties and nineties to around 0.5 per cent.

Although it is undesirable to have a declining share of world trade from the point of international importance of a country, this adverse development is because two reasons. Firstly, the pattern of growth of Indian economy is not export oriented. Secondly, the larger the size of a country, the smaller is its share in world trade.
The world trade grew at much faster rate than India's foreign trade during 1951 and 1990. The declining share in world trade is a common phenomenon for all developing countries which implies thereby that world trade had only benefited developed countries and not others. Not only the share is declining but the terms of trade have also moved adverse to them for a greater part of the period, if the oil-producing developing countries are excluded.

1.4 Economic Development:
Foreign trade make a significant and necessary contribution to the economy and the country's development and particularly in under-developed countries. It provides a sound base for the country's economy. The rapid progress of under-developed countries in the industrial field is mainly due to their exports. J.S. Mill has pointed out that “Efficient employment of the productive forces of the world is a direct economic advantage of foreign trade. But there are, besides indirect effects, which must be counted as benefits of a high order. One such is the tendency of every extension of the market to improve the process of production. A country which produces for a larger market than its own can introduce a more extended division of labour, can make greater use of machines, and is more likely to make inventions and improvements in the process of production.”

Thus, exports extend the market and the scope of the division of labour, it permits a greater use of machinery, stimulates innovations, overcomes technical invisibilities, raises the productivity of labour and generally enables the trading, the country to enjoy increasing returns and economic development. In practical, these effects are real and visible. The exports of our engineering goods have developed the engineering industry in India and now our engineering goods can compete with the rest in the world. The experience gained by the exporter in foreign market enables the exporter to improve the designs and incorporate the necessary changes in the product at the earliest. These improvements can be carried over to domestic production, thus giving improved product and performance. Prof. Gerald Muir puts the idea more briefly. “The export trade helps considerably in the importation of technical know-how and skills which is an indispensable source of
technological progress. It provides an opportunity to learn from the achievements and the failures of the advanced countries. By selecting, judicious borrowings and adaptation, it can act as an excellent stimulus for speedy economic development."

India is rather in a unique position among the developing countries. There is already available with us the prior development and sufficiently broad based infrastructure, which can provide positive and self-reinforcing response to the stimulus, it receives from foreign trade. One of the used indicators referred to in this connection is the rate of economic growth compared to the export trade. The rate is continuously increasing but still it is very low as compared to other western countries. The same case is with the share of India's export in the world exports. In this light, India should increase its share in the world exports. Thus export trade is very important for a nation's economy and for the individual business firm as well.

1.1.5 Importance of foreign trade in economic development:
Foreign trade is necessary from the point of view of economic development of the country, in fact all underdeveloped countries need trade and aid for their all-round development the importance of foreign trade can be realized under the following heads,

- *To meet imports of industrial needs* - No country today can survive in isolation. The developing countries need imports of capital equipment, raw material, technical know-how for building the industrial base in the country with the view to rapid industrialisation and developing the necessary infrastructure. The share of oil imports in the total import of the underdeveloped countries is much higher and its imports cannot be avoided as it is required as a means of energy to run the industries.

There is only option to avoid the situation is to establish the export oriented industries and to increase the existing installed capacity of these units. Industries should also be given stimulus to utilise their unutilised capacity and export the surplus production. Thus export is a
must for meeting the import requirements of the country because by exporting the surplus production, a country can also earn valuable foreign exchange that is necessary to meet the import bill.

Moreover, if a country fails in meeting the import bill by exporting the goods and services to the other country, the difference is trade deficit which can not be said to be a pleasant situation. Thus, positive measures and encouragement for the steady and substantial increase in the export trade is necessary to balance the imports.

In this way, export should be increased steadily especially by an underdeveloped country where trade deficit has become a regular feature.

- **Debt servicing** – Almost all underdeveloped countries, including India, have been receiving external aid for the years for their industrial development. The natural consequence of aid has been the need for debt servicing i.e. agreement of foreign exchange every year equal to the installment and interest assumed thereon as per terms of the aid or loan. Hence, it is necessary to aim at sufficient export earnings to cover both imports and debt servicing. This will lead to the availability of higher amount of foreign aid for development and consequently higher amount for a debt servicing.

- **Rapid economic growth** – An expanding export trade can be a dynamic factor in the country's development process. However, one has to plan imaginatively in increasing the production of exportable surpluses. The country should have to utilise domestic resources and to provide technological improvements and improved production at lower costs. For this purpose industrial development is inevitable which is not possible without making exports. Export and economic development of a country are inter-related, without export economic development of high order can not be imagined. In a study on "The
relation of exports and economic growth' conducted for a group of 50 countries by R.F. Emery, it was found that a higher rate of economic growth tends to be associated with the higher rate of export growth. The study also revealed that a significant co-relation exists between exports and GNP and that real GNP per capita recorded an increase of 1 per cent for every 2.5 per cent rise in exports.

It is now amply clear that countries that desire to grow economically should take serious view for creating exportable surpluses. In the best interest of the economy and exports, emphasis should be on increasing the overall production and expanding the export of non traditional products. This will lead to earning of more valuable foreign exchange which can be judiciously allocated for the import of necessary plants, machinery and equipment for the development of industries in the country in order of preference as spelt out in the development plans of the country. The foreign exchange can be used for the import of the agricultural equipments and fertilizers to raise the production of agricultural produce and that can provide a base for many agriculture based industries. New agricultural produce can be grown to establish new industries that may provide import substitution and may save necessary foreign exchange.

There are many benefits for the domestic consumer by exposing the industry to international markets and making it more competitive as well as conscious of costs and quality. It help to establish new industrial units for contributing towards export of making their domestic demand, sometimes 100 per cent export oriented units are established. To increase overall production for the purpose of exports helps to utilize all the resources available which are idle at present. It also helps to reduce the un-employment due to establishment of mass production industries. Thus, export marketing is really a dynamic force in the development of the country.
• **Profitable use of natural resources** - Natural resources are valuable assets of a country which should be exploited ideally keeping the interest in mind. This can be well done by export marketing. Earning from export can be utilized in establishing industrial units based on different natural resources available in the country by making the necessary import of plant and machinery for the purpose. Moreover, necessary equipments can be imported for the exploitation of natural resources such as digging machines to be used in oil exploration, etc. In this way, an increase in conservation of natural resources and their profitable use in the industry will reduce imports of a country.

• **Facing competition successfully** - In a thrust to export more, the govt. of the country, announces several concessions and incentive plans. Domestic producer in order to avail these concessions, concentrates his mind towards the improvement of quality of goods produced and reducing the cost of production so as to face the acute competitor situation in the foreign markets by making intensive use of latest technology. As because he is already marketing the goods in the domestic market, the advantage of other quality at reduced price is also made available to the domestic consumers and face competition successfully in the local market. Moreover, better quality and low prices improved the image of the producer as well as of the country in minds of foreign customer.

• **Increase in employment opportunities** – In an effort to increase the export, many export oriented industrial units are established, on the one hand, and the existing units produce more to get exportable surplus, on the other hand. This generates new opportunities for employment and increases the existing level of employment. In under developed countries, particularly in India, the problem of the employment and underemployment is very serious that can be solved to some extent by increasing the level of export. Moreover, new markets are surveyed exporting the goods and so many other persons
are also engaged directly or indirectly in the export trade. Employment opportunities can also be explored by entering new areas of exports.

- **Role of exports in national income** - Exports play an important role in the national income of the country and it can be increased to a sizeable extent through organised export marketing. Shares of export income in the national income of some countries are, Hungary 43 per cent, Netherlands 42 per cent, Japan 11 per cent, Canada 21 per cent, Belgium 42 per cent, West Germany 19 per cent and England 17 per cent. This shows a contribution of export in the national income of the country.

  (Source: Annual Report, EDBIM Bank, 1997)

- **Increase in the standard of living** - Export marketing improves the standard of living of the people of the country in the following ways, that the imports of necessary items for consumption can be made which may help improve the standard of living of the people. Such imports can be managed out of foreign exchange fund earned from exports. The exports increase the employment opportunities which, in turn, increase the purchasing power of the people by which they can purchase more for their consumption. The exports are responsible for the rapid industrialisation of the country. New items are produced for consumption in the domestic market. It increases the level of standard of living. In order to face the competition in the international market, the producers improve the quality of the product by applying the latest technology. Moreover, cost of production is also reduced because of large scale production and use of improved technology. In this way, people get better quality products at cheaper rates. It helps improve the standard of living of people.

1.1.6 Need of Foreign Trade for industrial Development:

Industrial firms are also benefited from the export trade. Due to these benefits, they are motivated to export. The following are some benefits from exports to the industrial firms.
• **Insufficiency of domestic demand** – If the domestic demand for the product is not sufficient to consume the production, the firm may take a decision to enter the foreign market. In this way, he can equalise the production and the demand.

• **Utilization of installed capacity** – If the installed capacity of the firm is much more than the level of demand of the product in the domestic market, it can enter the international market and utilise it unutilised installed capacity. In this way, it can export the surplus production.

• **Legal restrictions** – Sometimes, the Government of a country impose certain restrictions on the growth and expansion of certain firms or on the production and distribution of certain commodities in the domestic market in order to achieve certain social objectives. Such firms or producers of such commodities, then sell their production in export market. As a part of its import policy, Government of the country may impose certain export obligations on the industries and, therefore, they will have to export their production to meet the obligation.

• **Relative profitability** – The export trade is more attractive for its higher rate of profitability. The rate of profitability is also increased by export assistance measures offered by the Govt. of India. The higher profitability rate also gives extra strength to the firm for its competitive position in the domestic market.

• **Less business risk** – A diversified export business helps the exporting firm in mitigating the risk of sharp fluctuations in the business activity of the firm. Downward trend in one market may be partly or fully counterbalanced in other markets.

• **Increased productivity** – Due to certain social and technological developments, the industrial production has increased to a great extent. The production, will be higher at a cheaper rate. The surplus
production can, therefore, be exported. The company can, now, spend more money on research and developmental activities.

- **Social responsibility** – In order to meet the social responsibility, some business firms take the decision to contribute to the national exchequer by exporting their products. They are committed to exports.

- **Technological improvements** – Technological improvements also attract the business firm to enter foreign markets. It introduces new products with latest technological improvements and faces the competition successfully in the overseas markets.

- **Product obsolescence** – If a product becomes obsolete in domestic market it may be in demand in foreign markets. The firm has to make a survey for introducing the product in those markets.

1.1.7 Likely Spread Effects of Foreign Trade:
In addition to the agricultural and industrial development, the foreign trade helps in economic development of the country in different ways.

- **International collaboration** – Export trading results in international collaboration. Developed countries fix their import quotas for different countries and for different commodities. A country can export various commodities to these developed countries to the extent of its quota. In order to settle certain common issues some countries from a group or a common platform to discuss various issues concerning their international trade and take decision jointly. For eg. OPEC. In this way, international trade leads to international collaboration.

- **Closer cultural relations** – International trade brings various countries closer. Better trade relations are established among the countries. Government and non-government trade commissions or trade representations visit other countries from time to time. The local
representatives or other related persons came into contract with foreign representatives and come to know their habits and customs. Apart from this, exporting firms open their selling deposits, agencies or manufacturing units abroad. Their employees also come into contact with the persons of the countries of their posting. In this way closer cultural relations among various countries develop.

- **Help in political peace** – The economic relations between the two countries help improve their political relations. Various countries having different political ideologies import or export their product. The USSR was importing foodgrains from America, though they have a different rather opposite, political ideologies. Thus, to some extent, international trade helps maintaining political peace in the world.

To sum up, it is now undisputable that export trade contributes to the national economy, national exchequer, individual exporting firms and maintains international economic, cultural and political relations among various countries. Countries have come closer on account of international trading. In modern world, export trading is an inevitable part of business activity of a country.

### 1.2 Introduction of EXIM Bank of India

The Export-Import Bank of India, commonly known as the Exim Bank, was set up on January 1, 1982 to take over the operations of the international finance wing of the IDBI and to provide financial assistance to exporters and importers and to function as the principal financial institution for co-ordinating the working of other institutions engaged in financing of exports and imports of goods and services. The Exim provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

#### 1.2.1 Exim Bank – Its Objective & Mission

The Exim Bank is a public sector financial institution created by an Act of Parliament, the Export-Import Bank of India Act, 1981. The business of Exim Bank is to finance Indian exports that lead to continuity of foreign exchange
for India. The Bank's mission is "to develop commercial viable relationship with the target set of externally oriented companies by offering them a comprehensive range of product and services, aimed at enhancing their internationalisation efforts".

- **Position**:
There are three apex institutions in the country, which deal with three major economic activities, viz., industry, agriculture and foreign trade. The Industrial Development Bank of India extends term industrial loans, the National Bank for Agriculture loans, and the Exim Bank extends term loans for foreign trade. All these institutions are wholesale banks. They, therefore, work closely with commercial banks and other state level financial institutions that operate the retail banking system in the country.

- **Services provided**:
Exim Bank provides a range of analytical information and export related services. The Bank's fee based services help identify new business propositions, source trade and investment related information, create and enhance presence through joint network of institutional linkages across the globe assists externally oriented companies in their quest for excellence and globalisation. Services include search for overseas partners. Identification of technology suppliers, negotiating alliances, and development of joint ventures in India and abroad. The bank also supports Indian project exporters and consultants to participate in projects funded by multilateral funding agencies.

- **Support to the export consultants**:
Exim bank encourages Indian consultants to gain and enhance their international exposure by assisting them in securing assignments overseas.

Assignments are awarded under programme sponsored by International Finance Corporation (IFC) in Washington to promote private sector development in select countries and regions. Arrangements set in place cover: Africa Project Development facility, African Management Services Company,
Africa Enterprise Fund, Business Advisory and Technical Assistance Services etc.

Exim bank assists these agencies in the recruitment of Indian consultants and meets the professional fees of the consultant selected by IFC. Consultancy assignments undertaken comprise pre-feasibility studies, project and investment related services, management information systems, operations and maintenance support mainly for SMEs in a variety of sectors, like agriculture, agro-industry, consumer goods, light engineering and telecom.

- **Facilities provided to Indian companies:**
  Exim bank provides financial assistance to Indian companies by way of variety of lending programmes, like non-funded assistance e.g. Bid bond, Advance payment guarantee, Performance guarantee, Guarantee for release of retention money, Guarantee for raising borrowings overseas, Other guarantees.

It also provides funded assistance in the form of Pre-shipment rupee credit, Post-shipment rupee credit, Foreign currency loan, Overseas buyer's credit, Lines of credit, Refinance of export loans.

- **Forfaiting as an export financing option:**
  Forfaiting is a mechanism of financing exports by discounting export receivables evidenced by bills of exchange/promissory notes without recourse to the exporter. Exim Bank plays the role of intermediary for facilitating the forfaiting transaction between Indian exporter and the overseas forfaiting agency.

- **Facilities provided to EOUs for export capability creation:**
  Exim Bank provides financial assistance to EOUs for export capability creation by way of a variety of lending programmes like Lending Programmes for EOUs, Production Equipment Finance Programme, Import Lines of Credit, Export Marketing Finance Programme, Lending Programme for Software
Training Institutes, Programme for Supporting Product/Process Certification, Programme for Export Facilitation : Port Development, Export Vendor Development Lending Programme, Foreign Currency Pre-shipment Credit, Working Capital Term Loan Programme for EOUs, etc.

- **Financial Assistance in setting up of joint ventures:**
  Assistance is extended to Indian promoter companies by way of the following programmes that address to different requirements of the promoter company in setting up of the joint venture. The bank operates Overseas Investment Finance Programme for setting up of joint ventures and wholly owned subsidiaries abroad. It also conducts Asian Countries Investment Partners Programme for creation of a joint venture in India with East Asian Countries, through four facilities that address different stages of a project cycle.

1.2.2 Capital resources of the Exim Bank
The authorised capital of the Exim bank is Rs. 200 crores and paid-up capital is Rs. 100 crores, wholly subscribed by the Central Government. The Bank can raise additional resources through borrowings from the Govt. of India, from RBI and from the market through the issue of bonds and debentures. It can borrow foreign currency from other countries.

1.2.3 Functions of Exim Bank
The EXIM Bank provides financial assistance for exports and imports of goods and services, not only of India but also third world countries. Financing of exports and imports of machinery and equipment on lease basis is also treated as specialized function. It finances joint ventures in India and also in foreign countries. It provides loans to Indian parties to enable them to contribute to the share capital of joint ventures in foreign countries. It undertakes limited merchant banking functions such as underwriting of stocks, bonds or debentures of companies engaged in export or import and provide technical, administrative and financial assistance to parties in connection with export or import.
At present, the Exim Bank undertakes nine lending operations under three broad categories, as for example:

- Loans to Indian companies are provided as under:
  It provides direct financial assistance to exporters, technology and consultancy services, overseas investment financing for equity participation by an Indian company in joint ventures abroad, and pre-shipment credit in case of export contract for capital goods.

- Loans to foreign governments, companies and financial institutions:
  It provides financial assistance in the form of various schemes such as overseas buyer's credit scheme, lines of credit to foreign governments, and re-lending facility to banks overseas etc.

- Loans to commercial banks in India include export bills re-discounting scheme (short term bills), and re-finance of export credit.

1.2.4 Funded Assistance
The above nine forms of lending by Exim Bank are collectively called funded assistance programmes which are extended to enable Indian exporters to operate in international markets. Exim Bank's funded assistance facilities amounted to Rs. 240 crores during 1982, had risen gradually to Rs. 1600 crores during 1992-1993. Construction projects accounted for two-thirds of the assistance sanctioned under funded programmes. Power generation and distribution equipment, commercial vehicles, transport equipment and textile machinery were other important projects which received assistance from Exim Bank. Region wise, West Asia and Africa are accounted for major share of funded commitments of Exim Bank till recently, but now South and South-East Asia got a major share of Exim Bank's assistance.

1.2.5 Non-funded Assistance
The second form of assistance, known as non-funded assistance, is by way of guarantees of various types. Guarantees available are advance payment and performance guarantees, retention guarantees and guarantees for raising
finance abroad. The Exim Bank participates the commercial banks in India in issuance of guarantees in foreign currencies on behalf of Indian exporters/contractors in favour of overseas importers / exporters and banks. The Exim Bank executed export guarantees of Rs. 102 crores in 1982, Rs. 75 crores in 1983 and only Rs. 50 crores during 1989-1990. The decline in guarantees was due to the fact that this facility was mostly extended to civil engineering construction contracts and this facility had come down due to economic problems faced by some countries in West Asia and the continuing war between Iran and Iraq. Of the total un-funded assistance, the major share (86 per cent) was claimed by construction industry.


In 1984, Exim Bank introduced the financing programme to suggest deemed exports which occur in case of specified transactions within India which result in foreign exchange savings. For instance, supplies made by Indian manufacturers to units in free trade zones and cent percent export units qualify as deemed exports. Exim Bank also extended in 1984 term finance to export oriented units set up in free trade zones and units recognised by govt. as cent percent export oriented units.

During last three years, Exim Bank has actually promoted Indian participation in projects funded by multi-lateral agencies such as the World Bank, Asian Development Bank & African Development Bank.

With the view to promote exports, Exim Bank has introduced three schemes in recent years:

a. Production equipment finance programme – This offers rupee term finance to eligible export units for acquisition of equipment.
b. Export marketing finance – This helps Indian manufacturing companies to undertake stragetic export marketing activities based on long term and structured export plans with advanced country markets.
c. Export vendor development finance – This provides integrated financing packages to manufacturer-exporters and export/trading houses to prepare and implement strategic vendor development plans.

Apart from these functions, the Exim Bank undertakes merchant banking and development banking functions as considered necessary to finance promotional activities and undertake counselling services. The Exim Bank is thus the latest apex banking institution in the country and has been specially set up to give a boost to India's export promotion effort.

1.2.6 Exim Bank Act
Exim Bank of India has completed 19 years of operations in March 2001. It was set up by an act of Parliament in September 1981 and commenced operations in 1982. It is wholly owned by the Government of India.

The Export-Import Bank of India was set up for the purpose of financing, facilitating and promoting foreign trade in India. It is a principal financial institution in the country for co-ordinating working of institutions engaged in financing exports and imports.

1.2.7 Evolving Vision
The bank has evolving vision for financing, facilitating and promoting India's foreign trade. It is creating export capability by arranging competitive financing at the various stages of the export cycle to the exporters. It is developing commercially viable relationships with a target set of externally oriented companies by offering them a comprehensive range of products and services aimed at enhancing their internationalization efforts.

Offices
The bank has registered head office at Mumbai. It has a network of twelve offices in India and abroad. The domestic offices are situated at Ahmedabad, Bangalore, Kolkata, Chennai, Mumbai, New Delhi, Pune. The overseas offices are situated at Budapest, Johannesburg, Milan, Singapore, Washington DC.
1.3 Exim Bank – Business Profile
The bank has wide range of operations since it’s inception. It operates various functions and programs for providing various facilities to the exporters and importers to develop India’s foreign trade. The Bank provides export credit on Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms. It also provides lines of credit / buyer’s credits are extended to overseas entities i.e. governments, central banks, commercial banks, development finance institutions, regional development banks for financing export of goods and services from India.

1.3.1 Export Capability Creation
The bank has very ambitious export capability creation program. Under this program the bank provides various facilities like Export Product Development, Export Marketing Finance, Project Finance, Working Capital, and Production Equipment Finance etc.

In addition to finance, Bank provides a range of information and advisory services to Indian companies to supplement their efforts aimed at globalisation of Indian business.

1.3.2 Exim Bank : An Organisational Environment conducive to achieving excellence
• Organisational Chart
  ➢ Exim Bank is fully owned by the Government of India and is managed by a Board of Directors with representation from Government, financial institutions, banks, business community.

  ➢ The Bank is professionally run with a total staff of 171 who are drawn from six major streams : commercial and development banking, engineering, economics, accountancy, computer technology and business school graduates.

  (Source: Annual Report, Exim Bank - 1999)
Culture

Bank offers congenial and challenging work environment. The salient features of the work environment are emphasis on office automation, hierarchical constraints in organisational functioning and multidisciplinary inputs in decision making. The skill upgradation is a continuing process in the Bank. Bank’s professionals undergo training in areas of relevance to the Bank in India and abroad. The training programmes are chosen and designed to develop technical and managerial skills in the professionals and an ability to initiate and innovate.

Eximius Display Centre

The Bank offers to Indian companies, product display facilities of international standards in India and abroad. It has display centre at the head office was set up in 1994. Centre exhibits range of products manufactured and exported by Indian companies to discerning markets including USA and Japan. Around 50 companies whose products are displayed at H.O. are among the five hundred that have been financed and nurtured by the bank. The products represent three broad categories: industrial product, consumer durables and consumer products. Its offices in Budapest and Milan have display centers which allow Indian companies to display their products for longer periods.

Eximius Centre For Learning : A Place of Global Excellence

The Concept

Eximius, from the Latin language means ‘set apart and eminent’. It is Exim’s initiative addressed at enhancing the capabilities of industrial and financial communities in India and other developing countries and bringing proposals of trade and investment to them. It offers them access to contemporary thinking in international trade and finance, entry to markets and technologies, support in joining the global economy.

The programmes are result-oriented and practical, designed to ensure that concrete outcomes emerge from every meeting.
The eventual is to establish an international hub of information interchange between industries and institutions, and amongst industries in different countries; a beacon for all developing countries and a place of global excellence, in learning and in business.

**Activities**
The Centre aims to keep the companies, which wants to go global, abreast the changing global scenario. It conducts two events viz. organizes meeting between industry groups in different countries and businesspersons in India, involves skill building through interactive workshops and seminars that involve the participant in the learning process thus enhancing the competencies of the participants. “Virtual Faculty” – is a concept which enables it to source the best available instructors to address the issues of the day.
The Centre has tailor-made courses for the officials of the export credit agencies in other developing countries. It also holds in-house programmes. Apart from organizing the above programmes, it also conducts research on issues of importance to its constituency that focuses on generating information, its usefulness and its immediate implementation within reasonable time frame.

**Finance & Services**
Confirmation of Letters of Credit (L/C) By Exim Bank Under the Trade Facilitation Programme of the The European Bank for Reconstruction and Development.

**Technology Upgradation Fund Scheme for Textile and Jute Industries**:
EXIM Bank of INDIA offers a range of financing programmes that match the menu of EXIM policy of the industrialised countries. However, the Bank is a typical in the universe of the Exim Banks in that it has over the years evolved, so as to anticipate and meet the special needs of a developing country. The Bank provides competitive finance at various stages of the export cycle covering Import of technology, Export Product Development, Export Production, Export Marketing, Pre-shipment, Post-shipment, and Investment abroad.
EXIM Bank operates a wide range of financing and promotional programmes. The Bank finances exports of Indian machinery, manufactured goods, consultancy and technology services on deferred payment terms. EXIM Bank also seeks to cofinance projects with global and regional development agencies to assist Indian exporters in their efforts to participate in such overseas projects. The Bank is involved in promotion of two-way technology transfer through the outward flow of investment in Indian joint ventures overseas and foreign direct investment flow into India. EXIM Bank is also a Partner Institution with European Union and operates for facilitating promotion of joint ventures in India through technical and financial collaboration with medium sized firms of the European Union.

1.4 Exim Bank of India: Profile

- **Manpower:**
  In comparison with other organisations with similar asset levels, Exim Bank's staff strength is less. As of May 3rd, 2001, total personnel in the Bank numbered 171. The Bank is able to operate with such a small staff size because of the emphasis on office automation as well as its innovative work culture. The human resources of the Bank include 66 professionals who are drawn from a variety of backgrounds embodying various disciplines which are required for the Bank's functions. They include bankers, business school graduates, chartered accountants, economists, engineers and computer specialists.

- **Work culture:**
  Right from its inception, Exim Bank has attached a great deal of importance to a congenial and challenging work environment. The objective has been to achieve excellence in its area of operations, not only in comparison with national organisations but also in a global context. The public sector ownership of the Bank has not served as a constraint in implementing radical innovations. An important reason for this has been the relatively young age of the organisation which enabled the Bank to cast itself in a different mould right
from inception without being saddled with a legacy automated work practices. Some salient features of the work environment are the emphasis on office automation, an open office system, an independent “doer’s” work culture, minimisation of hierarchical constraints in organisational functioning and multidisciplinary inputs in decision making. Exim Bank is an officer oriented organisation. Officers work independently and self-sufficiently in all the activities that their job entails. Such self-sufficiency is made easier because of the access to office technology. A sense of togetherness and common purpose is sought to be fostered by the Bank’s in-house publication Eximius, and the annual staff get-together. The Eminent Persons Lecture Series brings persons who have achieved eminence in diverse fields to interact and share their experience with officers.

- **Administration of EXIM Bank:**

Exim Bank operates at the frontier of available office automation and technology. The Bank believes that human resources should only be utilised for activities that require knowledge, skills, analysis and discretionary choices. An array of state-of-the-art computer hardware, software, and telecommunications are available to the Bank’s personnel. Members of the staff make use of these facilities to the fullest extent feasible not only for non-discretionary activities but also as necessary tools for maximising their work output both in terms of quantity and quality. The lean starts strength makes it possible for the bank to provide each officer with his/her own personal computer as well as unlimited access to other types of office automation and technology.

- **Organisation Structure:**

While the bank does have a variety of designations for its professionals, they are meant more for the purpose of establishing accountability and do not have much relation to the work content. Externally, the titles serve a purpose akin to protocol fielding queries. Internally, the bank functions more like a horizontal organisational structure minimising the hierarchical levels to hasten
decision making. Consequently, internal communication is free and fast flowing.

- **Decision Making Process:**
The complexity of the Bank’s function requires cross-disciplinary inputs for effective and correct decision making. Thus, all important decisions are taken with the aid of inputs from relevant specialists within the bank. It enables a comprehensive micro and macro level assessment of risks and rewards. Through this process of collegiate decision making, team work and interpersonal skills are deployed to the fullest extent so as to make optimum use of bank’s diverse human resources.

- **Young Professionals Programme:**
The Young Professionals Programme is the entry-point for a career with Exim Bank. The Bank requires skills relating to various disciplines e.g. business management, banking, economics, accountancy and engineering. Prior work experience is neither expected, nor considered necessary. Right from the very first year, young professionals are working independently on challenging assignments. The young professionals programme offers an exciting and challenging career to those with the capability and desire to operate at the cutting edge of India’s globalization process.

- **Career Opportunities:**
Except for those positions where highly specialised skills are needed, the Bank does not normally recruit directly to higher professional positions. Thus, young professionals who are committed to a long-term career in the Bank, can expect to rise to the upper echelons of the Bank’s management in due course of time. Career growth is determined by performance and merit, based on an objective and structured system of evaluation. The Bank anticipates a major expansion and diversification of its activities in the medium and long run, largely because of the opportunities arising from India’s ongoing globalisation efforts. Therefore, young professionals can look forward to a fruitful career with the Bank.
• Training Programme:
Given the complexity of the Bank's operations, as reflected by the many specialised groups and work-skills, Young Professionals need to spend time gaining exposure and knowledge of the various activities and skills utilised in the Bank. This is necessary because efficient decision making in the Bank requires knowledge of a variety of skills and practices. Therefore, the Young Professionals Programme involves a one-year training period during which the young professionals are rotated through the operating and service group of the Bank. During their stints in the various groups, young professionals become fully conversant with all the critical functions and activities. They are also actively involved in appropriate assignments entailing individual responsibility.

• Position of Young Professionals:
After successful completion of the training period, young professionals are absorbed as "Deputy Managers" and are posted in one of the Groups or domestic offices. The Group in which the young professional is posted, after completion of the training programme, is decided on the basis of his/her skills, preference and aptitude as well as the Bank's requirements for staff in different groups. During their careers, professionals are periodically transferred to different groups or to other offices of the Bank, in India or overseas. Such transfers provide valuable opportunities overseas for professionals to widen their skills and exposure, which are important for career progression within the bank. Since the Bank believes in constant upgradation of skills, there are opportunities for overseas travel and training for professionals at all levels, related to their current assignments.

• Overseas placements:
Overseas offices of the bank are manned by individual officers, assisted by local staff, where necessary. To be posted at an overseas office, an officer must acquire an in-depth understanding of and command over the various functions of the bank. He must also be capable of representing the bank in
interaction with external world. Young professionals will need to spend time on absorbing the Bank's functions and must demonstrate their capabilities before being considered for overseas postings.

- **Remuneration to the professionals**:
  During the training period, young professionals are paid a monthly stipend of Rs. 10000.00. Thereafter, upon absorption as Deputy Manager, salaries would correspond to the scale for this cadre. Currently, gross emoluments at the minimum of the scale amount to about Rs. 11350.00 "D.A.", which constitutes a component of salaries, changes at quarterly intervals to reflect movements in the price index. Therefore, actual salaries in the scales alter periodically.

- **Other Benefits To The Professionals**:
  Apart from the salary, the bank provides attractive perquisites, the monetary equivalent of which is considerable, in relation to the salary. A major perquisite which the bank endeavours to provide young professionals is furnished bachelor accommodation, based on need and subject to availability. Individual rooms in the bank's furnished flats with common kitchen and lounge room are allotted to young professionals wherever possible. Until now, all young professionals joining the bank have been provided with accommodation. As regards family accommodation, the bank can consider the same subject to availability. Another valuable perquisite is the scheme for reimbursement of fees the purpose of acquisition of skills considered useful to the bank — for instance, computer skills, foreign languages.

**Advisory Services**

**Multilateral Agencies Funded Projects Overseas Services**
Information & support services to Indian companies to help improved their prospects for securing business in multilateral agencies funded projects. It provides information about Allotment of business opportunities in funded projects, Providing detailed information on projects of interest Information on procurement guidelines, policies & practices , multilateral agencies, Assistance
for registration with multilateral agencies. Advising Indian companies on preparation of expression of interest, capability, and bid intervention etc.

Promoting Indian Consultancy

Tie-up with


EXIM Bank as Consultant

The bank plays an important role as consultant in various areas like feasibility study for establishment of an export credit and guarantee facilities for Gulf Cooperation Council Countries, regional cooperation in Export finance and export credit guarantee, study on promotion of international competitiveness & export of manufactures goods, designing of Export Financing Programs-Turkey, setting up of an EXIM Bank in Malaysia, setting up of Afrexin Bank, Designing up of export marketing seminar for SME's in Vietnam, Export development projects: Ukraine, Enterprise support fund: Armenia, establishing an export credit guarantee corporation in Zimbabwe, and advisory services to industrial development corporation of South Africa for international finance products etc.

- Promotional Programs

Project Preparatory Services Overseas Program set up in 1987 to promote Indian consultancy at preparatory stages in project overseas with potential of multilateral funding & downstream linkages for Indian exports. It conducts project feasibility studies, project formulation & provides advisory services.

- Finance facilities for various export activities

RBI Guidelines for project & services exports:
The Bank provides information regarding R.B.I guidelines projects and services exports. The guidelines issued by RBI under section 47 of Foreign Exchange Management Act, 1999. It covers various types of exports transactions like export of goods on deferred payment terms (e.g. Export of machinery, Equipment, Manufactured Products), turnkey projects (e.g. Setting up of Sugar plant, Cement plant), Construction Projects (e.g. Construction of Roads, Dams, Bridges), and Consultancy & Technical Services (e.g. Operation & Maintenance Contracts) collectively referred to as 'Project and services exports'.

Deferred Payment Export:
In terms of Regulation 9 of the Foreign Exchange Management Act 1999, the amount in representing full export value of goods exported must be realized and repatriated to India within six months of date of export. Exports where more than 10% of the value is realized beyond the prescribed period, i.e., six months from the date of Shipment, are treated as deferred payment export.

Turnkey, Construction & Supply Bids / Contracts
- Up to Rs.50 crores: Scheduled commercial banks
- Up to Rs.200 crores: EXIM Bank
- Above Rs.200 crores: Working groups

Services Bids / Contracts
On cash terms
- Up to Rs. 5 crores: Scheduled commercial banks
- Up to Rs. 10 crores: EXIM Bank
- Above Rs. 10 crores: Working groups
Summary
The EXIM Bank of India plays a very important role in generating foreign exchange through export promotion with the help of Exim policy prepared by Govt. of India. The guidelines given under the Exim policy are followed by EXIM Bank while functioning as a principal institution for export financing & coordinating the activities of the other institutions engaged in export financing. There are many facilities of financing & promotion of foreign trade are extended by EXIM Bank in view to achieve different objectives set by Govt. in the Exim policy. The EXIM Bank always try to provide necessary facilities to the exporters as per the guidelines given by Govt. of India. It is keenly observed that the EXIM Bank is functioning under the guidelines given by Govt. of India. It can be said that the EXIM Bank is fully owned by Govt. of India and working under government control. There is limited autonomy given to EXIM Bank which is not sufficient to function as an export facilitator. This limited autonomy is a constraint to reach each and every exporter of the country.
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