CHAPTER - II

INDIA'S FOREIGN TRADE POLICY
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INTRODUCTION

India achieved independence on August 15, 1947. That immediately necessitated foreign policy making by this country. India became a member of international community comprising sovereign countries. India's independence initiated the process of decolonisation, and India decided to support all anti-colonial, anti-imperialist struggles. Yet, India's foreign policy is largely based on her history and culture. Speaking in the Lok Sabha, Prime Minister, Shri Jawahar Lal Nehru had said in March 1950:

"It should not be supposed that we are starting on a clean slate. It is a policy which flowed from our recent history and from our national movement and its development and from various ideals we have proclaimed."

Even before the attainment of independence, India was given some voice in world affairs. This was done (a) by the British Government on behalf of India and (b) by the Indian National Congress by way of resolution adopted from time to time. The India office in London spoke for India on International developments¹.

EXPORT-IMPORT POLICY

India's foreign trade is regulated by the Foreign Trade (Development and Regulation) Act, 1992 which replaced the Import and Export (Control) Act, 1947. The Act of 1992 empowers the Central Government to formulate and announce from time to time the export and import policy and to amend it in like manner.

Before 1985-86, the annual export-import policy was announced at the beginning of the financial year. In 1985-86, a three-year export-import policy was announced for the period April 1985 through March 1988, providing a reasonable degree of stability to the policy framework.

The policy seek to:\(^2\)

- Import continuity and stability in foreign trade policy.
- Facilitate increased production through easier and quicker access to inputs that need to be imported.
- Strengthen the base for export production and strive for a major thrust in exports.
- Make all possible savings in imports to support indigenous production and to promote import substitution.

• Facilitate technological upgradation and modernisation in production, and

• Reduce licensing, streamline procedures and decentralise decision-making which should reduce costs in terms of time and resources.

EXPORT-IMPORT POLICY (1992-1997)³

The Government on March 31, 1992 had announced a new export-import policy for a period of April 1992 to March 1997. The policy has been made valid for a period of five years as against the earlier period of three years in order to provide stability. The direction of new policy is towards a fewer restrictions, greater freedom to trade and less administrative controls. The new policy is expected to provide a substantial boost to our exports and to lay a path for self-sustained of the economy. The main objectives of this policy are:-

• To establish the framework for globalisation of India's foreign trade,

• To promote the productivity, modernisation and competitiveness of Indian industry and thereby to enhance its export capabilities,

To encourage the attainment of high and internationally accepted standard and thereby enhance the image of India's products abroad,

To augment India's exports by facilitating access to raw materials, intermediates, components, consumable and capital goods from the international market,

To promote efficient and internationally competitive import substitutions and self-reliance under a deregulated framework for foreign trade,

To eliminate or minimise quantitative, licensing and other discretionary controls in the framework of India's foreign trade.

To foster the countries research and development and technological capabilities, and

To simplify and streamline the procedures governing exports and imports.

**AMENDMENTS IN EXPORT-IMPORT POLICY**

Some important amendments have been made in our export-import policy on March 31, 1993. The reformations made in the policy this time are of much significance. Earlier in EXIM Policy much more attention was paid to import. Since the Second Year Plan the government had been following the policy of import substitution.
Under this policy the government was emphasising imports of necessary goods for domestic production. The goal was mainly industrial development.

Though the government wanted to boost exports, the special attention was never paid on quality. Consequently our exports remained less than the expected target. Secondly, due attention was not paid to the export of agricultural products simply because the export of agricultural products might cause the scarcity of agricultural commodities in domestic market.

During the last few decades the situation has considerably changed. Rapid development has taken place both in the fields of industry and agriculture. Recently much more attention has been paid on quality in industrial products. So they are capable of meeting the challenge in international market.

After modification the New EXIM Policy has become export-oriented. The changes made in export-import policy will boost-up export not only of agricultural commodities but also in the service sector.
Important Modifications

The modifications include:

- 144 items have been removed from the negative list of exports. Now there shall be no need of export license for these items.

- 100 percent export-oriented units working in the field of Horticulture, Dairy, Poultry and Fishery have been allowed to sale 50 percent of their products in domestic market. The sale limit for other productive units in local market is 25 percent. Thus, agricultural unit will gain more profit from export than industrial units.

- Chartered Accountants, Economists, Doctors, Journalists and Engineers have been given exemption of 15 percent in import duty on import of essential instruments. The exemption will also be applicable to hotels and travel agents.

Special Import License

One more important change in EXIM Policy has been made, it has now become hard to obtain special import license and advance import license. Henceforth, first direction will be issued in respect of both quantity and value for export liability regarding advance license
and export liability will have to be realised on both these counts. Besides this, the percentage of import facility of trading houses and export houses has been reduced. Earlier star trading houses were granted license for 10 percent of the net foreign exchange earnings. Now it has been reduced to 4 percent of one O.B. Price.

Under the modified EXIM Policy whereas' on one hand more liberal policy about bank guarantee facility for importers had been adopted, on the other hand efforts have been made to make the EXIM Policy more logical.

**EXPORT-IMPORT POLICY 1997-2002**

The Export and Import Policy 1997-2000 aims at giving a major thrust to acceleration of India's exports through restructuring and revamping of various export promotion schemes and wide ranging measures for simplification and streamlining of procedures with a view to making them more transparent and easy to administer. The Policy aims at continuing the process of trade reforms and trade liberalisation with a view to achieving a higher rate of export growth. The new EXIM Policy focused on the need to allow the exporters to concentrate on the manufacture and marketing of their products globally in. an environment unhindered by discretionary controls and procedural bottlenecks. The Policy aims at enabling the industry to enhance its competitiveness in the global market and to

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achieve its full potential in the areas of its strength. The policy has been modified from time to time. It was revised on March 31, 1999.

**SALIENT FEATURES**

(1) **Computerisation and Electronic Communication with Exporters:**

Electronic filing of application is being started on pilot basis for issuance of advance license at Delhi. This will enable the exporter to file his application electronically and received a response through e-mail. All status holders will have the facility to collect the hard copy of their license within 24 hours of filing their application. This facility will gradually be extended to all other ports within a prescribed time frame. The objective is to bring about transparency and reduce physical interface between the exporter and the DGFT. This would also result in ensuring time bound sanction of licenses.

(2) **Duty Exemption Scheme made flexible:**

A provision for annual advance license has been made to reduce the avoidable interface between the exporter and the DGFT. This facility would provide necessary flexibility in the import of duty free inputs. The exporter would now be able to import any prescribed inputs as per input-output norms right through the year without approaching DGFT. The license would be issued without stipulation of minimum value addition.
In such cases where input-output norms are not fixed, licenses can be obtained from all the Port Offices on the basis of self-declaration. They will not have to await the decision of RALC/ZALC for fixation of ad hoc norms. The items and quantities permitted against such licenses would be subject to subsequent fixation of norms by the SALC. To promote exports to Russia, the value addition norm for exports to this country has been reduced from 100 percent to 33 percent.

(3) **Benefit of Zero Duty EPCG Scheme Extended to other Sectors:**

Threshold limit for EPCG Zero-Duty Scheme for several sub-sectors under the Chemicals, Plastics and Textiles sectors has brought down from Rs. 20 lakhs to Rs. 1 crore.

No additional customs duty would be charged on import of Capital Goods and Zero-Duty EPCG Scheme in Marine and Electronics sectors.

(4) **Gems and Jewellery - Additional Facilities:**

Having achieved the leadership position in the cut and polished diamond sector, a new thrust for jewellery and studded jewellery sectors has been provided through the following measures:
• Import of consumables required for the gems and jewellery industry has been allowed to the extent of 1 percent of FOB value of the exports of the previous year.

• Personal carriage of jewellery has been permitted.

• The limit of exports of sample of Rubber, Wax and Silver models has been increased from Rs. 10,000 to Rs. 1,00,000 per year.

• Import of jewellery for repairs/re-making for re-export has been allowed.

• Export of jewellery through courier service has been permitted.

• A new concept of diamond imprest license for import of cut and polished diamonds for mixing with cut and polished diamond and export with 10 percent value addition has been incorporated.

(5) **EOU/EPZ - Further Rationalisation:**

Net foreign exchange earnings as a percentage of exports (NFEP) requirement for the units operating in EPZ and EOUs has been made uniform at 20 percent. However, for Hardware units, Biotechnology and Toys sectors, this NFE requirement has been reduced to positive NFEP.
The entitlement of DTA sale has been increased to 50 percent of the FOB value of the preceding year.

The procedures for operation of the units in the EPZ and EOU's have been simplified considerably and, a number of operations have been permitted on the basis of self-certification. The EOU/EPZ units shall have the option to supply the goods to bonded warehouses for exports.

(6) **Export of Services - A New Beginning:**

A new chapter has been added in the Policy recognising the importance of export of services and the potential in the sector. Apart from extending all possible facilities applicable to merchandise exports, the threshold limit for recognition as Service Export House etc. has been pegged at one-third of the level prescribed or merchandise exports.

(7) **Encouragement to Small-Scale Sector Export:**

In an attempt to encourage export from the small-scale sector, the exports made by small-scale sector manufacturer exporters will be given triple weightage for the purpose of recognition as Export House, Trading House, Star Trading House, and Super Star Trading House.
All such exporters who attain the recognition of Export House/Trading House/Star Trading House/Super Star Trading House for three successive terms or more shall be eligible for Gold Status Certificate which would enable them to enjoy all the benefits in perpetuity irrespective of their actual performance in future.

(8) **Involvement of States in Export Promotion:**

A scheme is being evolved to involve the State Government in the export promotion effort particularly for encouraging agro-exports. Assistance for infrastructure development for exports would be broadly linked to export performance of each State.

(9) **Ombudsman:**

For on the spot solutions to the problems faced by exporters, an institutional mechanism, 'Ombudsman' is being put in place. To begin with it will be made operational in Mumbai and later on similar arrangement will be considered at other major ports as well.

(10) **Other Features:**

- Provision has been made to recognise the national service rendered by exporters by issuing green cards to exporters exporting 50 percent of their production with a minimum of Rs. 1 crore per year entitling them to various facilities.

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5 [Ibid page 1-5.](#)
• In line with the facility of free imports of components for textile garment sector, leather garment and handicraft exporters have been allowed duty free import of inputs to the tune of 2 percent of the FOB value of exports during the previous year.

• Rationalization of DEPB rates has been done to account for the revisions in Customs duty and the surcharge thereon.

• Pre-export DEPB credit entitlement increased from 5 percent to 10 percent of previous year's export performance.

• A number of ports added for availing facilities under the Duty Exemption Scheme, including DEPB. The admissible limit for import and export of samples to promote export has been considerably relaxed. Export of samples marked 'Not for Sale' has been allowed without any limit. In other cases, export of samples up to US$ 10000 per consignment has been allowed. Limit of import of bonafide technical and trade samples appearing in restricted list has been increased from Rs. 2,000/- per consignment to Rs. 1,00,000/- per consignment.

• To promote export of branded products, a beginning has been made by providing benefit of SIL to all such exports.
Appreciating the problems of exporters in their inability to fulfill export obligations undertaken in the past, an additional period for fulfillment of past obligation has been granted both for EPCG and Advance License holders.

Export Oriented Units (EOUs) relating to Agricultural/Horticulture etc. have been allowed to install equipments/inputs/consumables in the farmers' field, outside the EOU.

Branded products exported under various schemes allowed to be re-imported to the extent of 5 percent of FOB value of the preceding years exports subject to the refund of export related benefits.

**OBJECTIVES OF EXPORT-IMPORT POLICY**

The principal objectives of this policy are:-

- To accelerate the country's transition to a globally oriented vibrant economy with a view to derive maximum benefits from expanding global market opportunities.

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6 Ibid Page 111-3.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.

- To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and encourage the attainment internationally accepted standards of quality.

- To provide consumers with good quality products at reasonable prices.

The objectives will be achieved through the coordinated efforts of all the departments of the government in general and the Ministry of Commerce and Directorate General of Foreign Trade and its network of Regional offices in particular, with a shared vision and commitment and in the best spirit 'of facilitation, in the interest of export promotion.

**EXPORT-IMPORT POLICY 1999-2000**

In its effort to further dismantle the import control regime and hasten the integration of the Indian economy with the world economy, the Government announced a revised export-import policy on March 31, 1999 which came into force on April, 1999.
The new EXIM Policy freed import of 894 items of consumer goods, agricultural products and textiles from licensing requirements. Another 414 items were removed from the restricted lists, allowing these to be imported against special import license. India's international commitments require it to remove licensing curbs on imports by the year 2003.

The latest round of import liberalisation means a number of consumer items can now be imported license free subject only to the payment of import duty. In other words, physical controls on imports are being removed gradually and the only control over imports will be fiscal in nature i.e. adjusting import duty to regulate imports. These adjustments have to be made with in the upper limits prescribed by WTO.

**INCENTIVES UNDER THE NEW EXPORT-IMPORT POLICY 1997-2002, MARCH, 1999 ED**

The new Export-Import Policy 1997-2002, March, 1999 Ed. provides a number of incentives to the exporters. These are enumerated as under:-

(1) **Duty Exemption Scheme:**

The scheme has been liberalised and rationalized. The scheme broadly comprises:-

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7 Ibid Page 1-56.
(a) **Advance Licensing Scheme** (corresponding to the quantity based advance license), which permits imports of items required for export production and that too without payment of customs duty, subject to fulfillment of prescribed export obligation with a period of 18 months (with further extension of 6 months available on payment of 1 percent of the value of unfulfilled exports).

Advance Licenses with Actual User condition will be allowed based on Positive Value Addition only without stipulation of minimum Value Addition.

Advance Licenses to Export House/Trading House/Star Trading House/Super Star Trading House will be issued automatically.

With effect from July 1, 1999 Annual Advance Licenses shall be issued to manufacturer exporters with export performance of Rs. 1 crore in the preceding year. Export House, Trading House, Star Trading House, Super Star Trading Houses holding the certificate as merchant exporter, shall also be entitled for Annual Advance License if they agree to the endorsement of the name(s) of the supporting manufacturer(s) on the License. This would enable the exporter to import any prescribed inputs as per input-output norms right through the year without approaching DGFT. There shall be no minimum value addition stipulation.
(b) **Duty Entitlement Pass Book (DEPB) Scheme**

Under this scheme, the exporter is given duty entitlement at notified rates, which would enable him to import inputs required for export production duty-free. He can also make use of this credit to import only freely importable item and such creative can be transferred but will be valid within the same port. The scheme covers both manufacturer exporters and merchant exporters.

Pre-export DEPB credit entitlement has been increased from 5 percent to 10 percent of previous year's export performance.

(2) **Export Promotion Capital Goods Scheme:**

The EPCG Scheme allows an exporter to import capital goods at a concessional duty of 10 percent or zero duty subject to fulfillment of prescribed export obligation.

The threshold limit for Zero-duty EPCG Scheme has been reduced for Chemical, Plastics, Electronics, Textiles, Leather, Gems & Jewellery, Sports goods and Food Processing sectors from Rs. 20 lakhs to Rs. 1 crore and for agricultural and allied sectors from Rs. 5 lakhs to Rs. 1 crore. This limit has been brought down to Rs. 10 lakhs for Software sector.
Besides, no additional custom duty would be charged on import of capital goods under Zero-duty EPCG Scheme in Marine and Electronics sectors.

(3) **Gems and Jewellery Export Promotion Schemes:**

Under the scheme, import consumables have been allowed up to 1 percent of FOB value of the previous year's exports. Personal carriage of jewellery has been permitted. The limit of exports of samples of rubber, wax and silver models has been increased from Rs. 10,000/- to Rs. 1,00,000/- per year. Import of jewellery for repairs remarking for export has been allowed. Export of jewellery through courier service has been permitted. A new concept of diamond impressed license for import of cut and polished diamonds for mixing with cut and polished diamonds and export with 10 percent value addition has been introduced.

(4) **100 percent Export Oriented Units and Free Trade/Export Processing Zones:**

Net foreign exchange as a percentage of exports (NFEP) requirement has been made uniform at 20 percent except for Hardware units, Biotechnology and Toys sectors, in which case only positive NFEP is required. The DTA sale entitlement has been increased to 50 percent of the FOB value of the preceding year.8

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8 The Hindustan Times, Daily, Dated April 1, 2008.
(5) **Deemed Exports:**

Deemed exports will be eligible for the benefits of Special Imprest License/Advance Intermediate License, facility of drawback, refund of terminal excise duty and Special Import License @ 6 percent of the FOB value.

(6) **Special Import Licenses:**

The benefit of Special Import Licenses (SIL) at prescribed percentage is available to EOU/EPZ/EHTP/STP units, Export House/Trading House/Star Trading House/Super Star Trading House, Quality Status Exports and Deemed Exporters. SIL benefit has been expended to WHO-GMP, HACCP and ISO-14000 Certificate holders. Additional SIL will be given to Export House/Trading House/Star Trading House/Super Star Trading House based on incremental exports.

(7) **Duty Drawback:**

Under the duty drawback scheme, the export products get relief of incidence of Customs and Excise Duties paid on raw materials and components used at various stages of production.
(8) **Exemptions from Income Tax:**

Under the various sections of Income Tax Act, in respect of profits and gains from projects outside India (Sec. 80HHC); Export Turnover (Sec. 80HHC); Earnings in convertible foreign exchange (Sec. 80HHD); Export of Computer Software (Sec. 80HHE); Export of Film Software (Sec. 80HHF); Ten year Tax Holiday for newly established 100 percent export oriented units (Sec. 10B) are entitled for deduction, subject to certain conditions.

(9) **Exemption from Sales Tax:**

By virtue of Section 5 of Central Sales Tax Act, a dealer who is registered with the Sales Tax Authority can claim the exemption from sales tax in respect of sales of such goods in the course of exports out of the territory of India. The exporter can buy the goods from dealer/manufacturer for the purpose of export trade without payment of sales tax by issuing Form H to the selling dealer from whom he purchases goods for export.

**EXPORT-IMPORT POLICY (2001-2002)**

The export-import policy for 2000-01 was announced on March 31, 2000 by the Central Government. In this policy, the Union Minister indicated that 100 percent foreign direct investment (FDI) would be allowed in all products in SEZs. He also said that the
Government may set a 20 percent export growth target for next fiscal after consultation with exporters. The Commerce Minister also released a list of 714 items that could be freely imported after having lifted quantitative restrictions (QRs) following a bilateral pact with the US. Import restrictions have been lifted on commonly used items like agricultural products, consumer durables, food items like fish, fruits and vegetables. Meat, milk, milk powder, coffee, tea, fish, pickles, tobacco items like bidis, cigars, cigarettes and chewing gums, electronic items like TV, radios, tape recorders and fabric items like quilts and dyed stuff can be imported freely. Also footwear, umbrellas and precious stones can now be imported without any permission. But most of these items will attract a peak duty of 44 percent.

Simultaneously, items under the Special Import License (SIL) list have been pruned to 16. This list is sought to be phased out completely in the next two years.

Taking clue from the Chinese model, two SEZs would be set up shortly. One of them would be located at Poistra in Gujarat and the second one would be at Nangunery in Tamil Nadu. Industrial units located in these zones will be exempted from a plethora of rules and regulations governing exports and imports and full flexibility in operations would be accorded to them. All capital goods and raw materials have been made duty free. Job works can be taken from Domestic Tariff Areas (DTAs). The entire production
will have to be exported from these zones. But sales/job works for DTAs can be done only on full payment of customs duty and other additional duties without any concession.

The Commerce Minister indicated that several Export processing Zones (EPZs) would shortly be converted into SEZs. EPZs located in Kandla, Vizag and Cochin are sought to be converted into SEZs immediately. He also announced a diamond dollar account scheme for gems and jewellery exporters. They will be allowed to retain proceeds in the dollar account. For Agro-chemicals, biotechnology and pharma units, regarded as knowledge-intensive, the centre has allowed duty free import of laboratory equipment, chemicals and reagents up to 1 percent of the total FOB value of exports. The main characteristics of new EXIM Policy are:

- Special Economic Zones to be set up,
- States to be actively involved in export efforts,
- Group set up to look into policy changes to help hardware electronics,
- Quantitative restrictions on 714 items removed,
- EPCG Scheme extended to all sectors without any threshold limits at 5 percent duty.
- Duty free replenishment certificate scheme for over 5,000 products introduced,
• Major sector scientific initiatives in Gems and Jewellery, agro-chemicals, biotechnology, pharmaceuticals, leather garments, silk etc.,

• Rationalisation of export promotion schemes-DEPB to continue,

• Boost to e-commerce - electronic filling of applications to be the norms.

As such, the policy aims to give a certain direction for modernisation and technological up gradation for cost-effective export production. Now the Government must ensure that industries with export potential avail themselves of the facilities now offered on liberal terms for these purposes. Some specific measures would possibly facilitate import of capital goods at concessional duty rates against export obligations. Now, therefore, our export base needs to be strengthened appreciably and for this purpose we would require constant monitoring and appraisal of performance on all fronts concerning foreign trade.

**EXPORT-IMPORT POLICY (2002-2003)**

The export-import policy for 2002-03 was announced on March 31, 2002 by the Central Government. In this policy, the Centre listed all quantitative restrictions on exports and announced fresh fiscal incentives for Special Economic Zones (SEZs).

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9 The Hindustan Times, Daily, Dated April 1, 2009.
The steps, part of the five-year EXIM Policy announced by Commerce Ministry is expected to take India's share in world trade up to 1 percent ($80 billion) from the prevailing 0.67 percent ($46 billion).

Specific concessions have been given to exports in agriculture, small-scale and cottage industry, leather, textiles, gems and jewellery, electronic hardware and chemicals and pharmaceuticals.

The Government has also decided to continue with duty concessions and remission schemes for exporters, defying pressure from the US, EU and Japan.

The EXIM Policy includes a transport subsidy on exports of fruit, vegetables, flowers, poultry and dairy products. Income tax concessions will be offered for SEZs through amendments to the Finance Bill in Parliament.

For the first time, the Centre has permitted Indian-registered banks to set up overseas banking units (OBUs) that will act as foreign branches of domestic banks. The OBUs will offer cheap foreign funds to units in SEZs at internationally competitive interest rates.
Units operating in SEZs have been freed from all restrictions in accessing the international debt market through external commercial borrowings, besides being allowed to hedge In commodities.

SEZ units have been exempted from paying central sales tax. They can make overseas investments without being bound by finance ministry restrictions. The EXIM Policy is, however, silent on the liberalisation of labour laws to attract investments in the SEZs.

To boost exports from about a hundred industrial clusters, fresh incentives have been announced. The shops be available initially to Tirupur in Tamil Nadu (80 percent of whose hosiery produce is exported), Panipat (blankets) and Ludhiana (woollen knitwear). A fund of Rs. 775 crores with the Commerce Ministry will be used to create technological services and fill gaps in infrastructure.

A 'Focus Africa' campaign has been announced with the aim of diversifying markets for Indian exports. A similar programme aimed at expanding trade in the former Soviet Union states and Latin America had been very successful.

The Commerce Minister also announced measures to reduce transaction time and costs for exports. Fuel used in the production of goods for overseas markets has been made duty free with a value cap ranging from 3 percent to 7 percent depending on the item.
EXPORT-IMPORT POLICY 2002-2007

The EXIM Policy for the period 2002-07 announced on March 31, 2002, aims at making international trade as a vital part of development strategy. It is a comprehensive package intended to give a massive thrust to India's exports. The policy targets the agricultural sector, cottage and handicrafts and the small-scale sectors to give an additional fillip to the country's exports. The Policy has geared towards doubling India's present exports of US $ 46 billion to more than US $ 80 billion over the Tenth Five Year Plan by 2007, envisaging a compound annual growth rate of 11.9 percent in exports.

Some of the important features of the EXIM Policy 2002-07 are as follows:

- The EXIM Policy has removed, all Quantitative Restrictions on exports-except for a few sensitive items.

- To make India's Special Economic Zones (SEZs) internationally competitive, for the first time in India, Overseas Banking Units (OBUs) will be permitted to be set up in SEZs. These units would be virtually foreign branches of Indian banks but located in India.

- With a view to reducing transaction cost, various procedural simplifications have been introduced, covering DGFT, Customs and Bank.
- The Policy gives special focus on cottage sector and handicrafts which forms 50 percent of India's exports.

- Benefits for export oriented industrial clusters has been announced, with a view to maximising their export profiles and upgrading them to move in-the higher value chain.

- An incentive package to give a boost to the electronic hardware industry has been announced. The Electronic Hardware Technology Park (EHTP) Scheme is being modified to enable the Sector to face the zero duty regime under the Information Technology Agreement (ITA) of the WTO.

- To ensure participation of states in the export endeavour, a new scheme named, Assistance to States for Infrastructural Development for Exporters (ASI-DE) has been announced. This new scheme would provide funds to the states based on the twin criteria of gross exports and the rate of growth of exports from different states.

- The scope of the Market Access Initiative Scheme for undertaking marketing promotion efforts abroad on country-product focus approach basis has been broadened.

- Diversification of markets with new programmes for Africa and CIS has been announced.
PRESENT POLICY OF INDIA'S FOREIGN TRADE

The FTP 2004-05 announced in August 2004 had the twin objectives of doubling India's share in global merchandise trade and of acting as an effective instrument of economic growth, especially through generation of employment opportunities. The policy also aimed at unshackling controls and creating an atmosphere of trust and transparency by bringing down transaction costs and identifying and nurturing focus areas to develop India as a global hub for manufacturing, trading and services. The Annual Supplement to the Foreign Trade Policy 2004-09, announced in April 2005 incorporated additional policy initiatives and further simplified the procedures. State governments would be actively involved in providing an enabling environment for boosting international trade, by setting up Interstate Trade Council. Different categories of advance licenses were merged into a single category for procedural facilitation and easy monitoring. The Supplement provides renewed thrust to agricultural exports by the extension of Vishesh Krish Upaj Yojna to poultry and dairy products, and removal of cess on exports of all agricultural and plantation commodities. As per the Supplement, the incremental direct and total (direct plus indirect) employment generated by exports in 2004-05 was 10 lakhs and 1 crore respectively. Achievement of the US$ 150 billion target would generate another 1 crore jobs. Government also decided to set up a National Export Insurance Account to provide export credit risk cover to large value export transactions and project exports.10

The Special Economic Zone (SEZ) Bill was passed by Parliament in June 2005. To implement the provisions of the SEZ Act, 2005, SEZ rules have been framed and notified. The Act provides for very attractive fiscal incentives and tax concessions for the developers as well as manufacturers. Other salient features of the Act relate to establishment of free trade and warehousing zones to create world class trade-related infrastructure; establishment of an Authority for each SEZ to impart greater administrative autonomy; and designation of special courts and single enforcement agency to ensure speedy trial and investigation of notified offences committed in SEZs. The Act will provide confidence and stability to domestic and foreign investors and signal the government's commitment to SEZ policy framework. At present there are 15 functional SEZs, and in principle approval has been given to 62 others.

Contingency trade policy and non-tariff measures (NTMs) have become significant barriers to exports from developing countries. Such barriers are considerably stiffer for products with lower value addition and technological content (e.g. agriculture, textile and leather products), which are of major interest to developing countries like India. Keeping this in view, India has been actively pursuing for negotiations on NTMs in WTO. Use of contingent protection measures like anti-dumping duties and countervailing duties has increased overtime. With its diversified manufacturing base, India has been one of the major users as well as one of the major targets of anti-dumping measures in the world.11

11 Ibid Page 119.
AN APPROPRIATE EXIM POLICY FOR INDIA

The success of an EXIM Policy is to be evaluated from the point of view of achievements i.e. to what extent the policy has been able to fulfill the desired objectives. With the main objective of economic development, the goals of our EXIM Policy as expected are:12

- To encourage industrial development,
- To compensate for domestic market imperfections,
- To expand employment opportunities,
- Providing consumers with good quality products and services at reasonable prices,
- To improve the balance of payments position.

In general, with the objective of economic development EXIM Policy in an under-developed economy has a preference for direct control of imports rather than just a policy of protection through tariff. A growth oriented EXIM Policy must aim at generating the highest export surplus and converting it into capital goods because creation of surplus for investment is a preliminary to economic growth. In India, since the beginning of planning, trade policy has been liberal for the items essential for economic development, but special emphasis has been laid down since 1969-70.

12 New Import-Export Policy and Handbook of Procedures, 2008-09.
During First Five Year Plan imports of capital goods and industrial raw materials, iron and steel, precision and measuring tools, transport equipment, chemical elements and components were made liberal to a considerable extent for economic development.

The Second Five Year Plan's developmental programmes were much larger and that required considerable imports of capital goods and raw materials. In general, the Government of India followed a system of priorities for import of essential materials. Basic undertakings such as steel and heavy engineering, etc. were given considerable facilities for import of capital goods machinery and essential components. At the commencement of the Second Plan, the Government was somewhat liberal in permitting imports of capital goods and machinery, but later on, it had a strict vigilance on imports entering the country. In March 1957 a policy for the import of capital goods under deferred arrangements was formulated. Indian firms were allowed to import machinery on deferred payment basis, but after sometime it was suspended and foreign capital was invited for industrialisation and economic development. This type of collaboration gained considerable importance during the second half of the Second Plan and also during the first year of the Third Plan. In April 1960 a system of annual licensing regarding raw material requirements of some industries was introduced in order to enable the industrialists to plan their production programmes and to secure regular and steady supplies economically. Under this scheme, 177 engineering industries such as machine tools, agricultural
implements, air conditioning, machinery etc, and 32 industries i.e. cement, drugs and medicines could secure licenses. Licenses in respect of taper roller bearings, electric valves, ball bearings of special size etc were increased. Quotas for the import of components and spare parts of textile, sugar and earthmoving machinery, watches and musical instruments were enlarged.\textsuperscript{13}

During Third Plan regarding the import of machinery and essential components, Government of India laid down priority principles from time to time taking into account the foreign exchange position. In order to maintain the acquired level of economic development, imports of raw material, components and replacements were made in sufficient quantities. Quotas for drugs, machinery, and spare parts were made liberal.

During Annual Plans import policy was considerably liberal in order to meet the domestic developmental requirements of the country. It was liberal for the imports of essential items, i.e. raw materials, components parts, etc. for production purposes in order to encourage exports, so that greater capital goods could be secured. During subsequent plans also our import policy was directed towards economic growth. Greater emphasis on import substitution and export promotion was laid down and a liberal EXIM Policy was adopted for securing essential raw materials, components and spare parts to fulfill the objectives.

\textsuperscript{13} Mathur, Vibha, "Foreign Trade of India". New Century Publication, New Delhi, 2009.
It is expected that EXIM Policy will have favourable or adverse effect on the pattern on industrialisation. If restrictive import policy of consumer goods is adopted, the consumer goods industries will develop to meet the internal demand. Moreover, if controlled import policy is followed for raw materials, not domestically available, particularly industry requiring that raw material will suffer. If imports of capital goods are restricted, capital goods industries will develop. Of course, in case of capital goods production in the country, it is feasible after a considerable lapse of time because in the early stages such controls may not be practicable. In the initial stages of industrialisation, import policy should be discriminating and generally restrictive.

During Fourth and Fifth Five Year Plan, import control policy had to be tightened because of considerable fall in foreign exchange reserves. Imports of consumer goods were considerably cut down. Import substitution and export promotion influenced the import control policy. Even regarding capital goods, imports were limited to foreign aid and loans. Imports of capital goods were allowed, provided they encouraged the basic strategy of import substitution and export promotion. But, later on, developmental and maintenance imports were permitted, since they were regarded to be necessary to stimulate the industrial expansion through full exploitation of industrial capacity.
During Sixth Five Year Plan imports of fertilisers, non-ferrous metals, crude oil, industrial raw materials and machinery were permitted. With the improvement in foreign exchange position EXIM policy during Seventh and Eight Five Year Plan and subsequent years has been more liberalised in order to assist diversification of exports, to encourage full utilisation of installed capacity, automatic expansion of selected engineering industries, replacement, modernisation to increase production and export earnings. Special emphasis was provided to the industries of small-scale sector. But in 1997-98 liberal EXIM Policy has been replaced by a restrictive one with a view to supply required inputs to increase production and reduce the dependence on imports, to provide export incentives and utilise available capacities of the country. Even in this policy, essential raw materials, components, spares and machinery are allowed to import in order to increase industrial production of the country.

At the aggregate level, the over-all structure of our imports is that capital equipments, industrial raw materials and petroleum products are pre-dominant in out imports and imports of consumer's articles rigorously controlled. Thus, it is clear that the move towards the import of capital goods and falling trend in consumption imports are the steps towards industrialisation and economic development in plans.
So far as the relation between the pattern of industrialisation and import policy is concerned, no logical relationship can be established in India as indicated by industrial performance records. Our import policy in respect of consumer goods has, generally, been restrictive. So consumer goods industries ought to have developed at a faster rate.

In case of capital goods, our import policy, in general, has been liberal and that should have discouraged the domestic expansion of capital goods industries. In the initial stages of development, when the essential equipments were not domestically available, liberal import policy has been suitable for domestic expansion of such products and has not discouraged production. Imports of essential machinery, plants, and transport equipments have been liberalised for the expansion of capital goods industries. So, capital goods industries have expanded a lot.

Of course, the pattern of industrialisation depends not only upon EXIM Policy but also upon various other factors, e.g. industrial policy, industrial licensing policy, taxation policy and several other internal elements such as subsidies, inflationary and anti-inflationary policies and price policy, etc.

Import substitution programmes are necessary for industrial expansion and creation of new opportunities for employment. Industrialisation via, import substitution has been enlisted in our
development programmes, but the desired level is not yet achieved. Regarding selected commodities, i.e. bicycles, sewing machines, bleaching powder and sugar mill machinery, etc. import substitution is about 100 percent.

Considerable efforts are being made to push up industrial development in terms of import substitution. Both quantitative restrictions and tariff mechanism have contributed sufficiently in this regard. Heavy tariff up to 100 percent or more, exchange control measures, devaluation, system of import licensing, quotas are, often, practiced in order to restrict imports and to encourage domestic production of these items. Still, a lot of constructive efforts will be required to push up import substitution. The efforts regarding import substitution should be well organised, so that, required improvement can be made easily and if import substitution programmes fail, modifications for make up can be made. Public and private sectors together should co-operate in import substitution. Government should provide infrastructures and social overhead facilities because these are the pre-requisites for import substitution and general economic development. At the initial stage inflow of foreign capital and technology is unavoidable and should be permitted by the Government in order to set up import substituting industries, and the import policy should be liberal, but this should be only stop gap arrangements and we should not depend on foreigners for the supply of equipments for ever. Need for self-reliance to the maximum
possible extent is the ultimate objective. Government should have proper supervision other the use of foreign capital, so that, it may be economic and not wasted. Moreover, import substitution should be based on research and development, growth of technical skill and managerial efficiency in the country.

Import substitution should not be operated alone but should be integrated with the scheme export promotion as well. Import policy should economic the economic growth by leading to positive steps at import substitution and also to export promotion. This requires a thorough integration of import policy with the plan of development. Actually, efforts regarding import substitution are taken into account in the very objective of planning, which is nothing but the systematic use of available resources. Hence, the plan of development should be so formulated that nothing which can be produced within the country, is imported. Import policy well integrated with the plan, not only saves foreign exchanges from non-essential imports, used them in essential imports and reduces the problem of payments, but also encourages economic growth and open up opportunities for large exports, an energetic import policy should be pursued.

Export substitution has been given top priority in India. Several monetary and fiscal devices are adopted to reduce the domestic consumption of export items. The establishment of several institutions, i.e. Export Promotion Councils, Board of Trade, State Trading Corporation, Minerals and Metal Trading Corporation,
Handicrafts and Handlooms Exports Corporation, participation in international fairs and exhibitions, visits of delegations abroad in order to find out foreign market, several export incentives, i.e. cash compensatory support, reduction or removal of export duties, duty drawbacks, credit facilities at concessional rates, etc. market research, survey and advertising, quality control, etc. are various steps taken in the direction of export promotion. Moreover, Government has invested on a large scale in infrastructures and social overheads for promoting export products.¹⁴

A relationship exists between balance of payment and economic development. In the early stages of economic development deficit in balance of payment resulting from the import of essential materials is unavoidable, but at subsequent stages of development it is to be rectified. Deficit in balance of payment is a main feature of developing countries. Overall tendency of import exceeding export exists. A persistent deficit in balance of payment of an under-developed economy hampers developmental efforts. In a developing economy, scarce foreign exchange cannot be left to the working of price mechanism. An appropriate EXIM Policy is necessary. EXIM Policy should be integrated with the balance of payment of a country otherwise the economic development will suffer. Import controls are considered as a significant means for improving the balance of payments position of developing countries. Restriction on imports of

luxuries or non-essentials is inadequate to meet the requirements of economic development and remove the deficit in balance of trade and payments. A priority list for imports in accordance with the strategy of planning is to be formulated.

The unfavourable balance of trade and payment position was a serious hurdle in the path of India's economic development. The scarcity of foreign exchange worked as a brake on the rate of economic growth. It not only prevented the process of setting up of new industries, but also restrained the full use of installed capacity due to the country's inability to import raw materials, components, spare parts and replacements. Scarcity of foreign exchange has held up production and hindered the utilisation of country's capital and capacity, land and labour. Hence, it was imperative to restrict imports relating to consumer goods and regulate them strictly in respect of producer goods. A review of India's EXIM Policy indicates that it was primarily concerned with the objective of balance of payment. It was made liberal when there was favourable movement in balance of trade and payment and when there was deficit in trade balance, generating shortage of foreign exchange, import control was made more restrictive either by tariff or by quota and other instruments.

With the objective to improve balance of payments position, import policy should balance aggregate imports on Government and commercial accounts to total foreign exchange earnings from
different sources. It should distribute available foreign exchange resources in most equitable and justified manner among the commodities required for the planned development of agriculture and industry.

Import policy should involve the capacity to reduce fluctuations in prices of particular items, where they have unexpectedly raised the parity of general price level because of the paucity arising from irregularities in supply or other aspects.

Having considerable internal demand on the one hand and art items is falling.

Domestic market expansion is desirable to meet the internal production, so that problem of glut may not arise in case international trade is squeezed.

Programmes for import substitution and export promotion should be encouraged to improve the balance of payments position. In India, import substitution programmes started, particularly in luxury and semi-luxury goods which were once imported. If under import substitution programme every conceivable luxury goods is allowed to be produced in the country, a considerable fall in investment rate in the priority sector is inevitable. Import substitution with regard to capital goods sector is mainly in minor machinery items, rest of the sector is, still untouched. On the
contrary, chemicals such as fertiliser manufactures, petroleum and petroleum products, etc. and machinery and transport equipment i.e. machinery other than electric, electrical machinery, transport equipments occupy significant place in our import composition which are responsible for deficit in our balance of trade and payment. Hence, import substitution programmes should be implemented in the field of chemicals, machinery and transport equipments.

Export promotion programmes should be carried on in regard to traditional as well as non-traditional items. New sources of demand for traditional items should be created and demand for non-traditional items should be enhanced. Bilateral trade agreements and various export promotion incentives can be adopted for this purpose. Bilateral trade agreements should be flexible and subject to change within the specified period of agreement. Moreover, payment of remaining balance should be made in convertible foreign currency.

In this regard, the following order of priority may be considered regarding imports in India economy:

- Raw material, including semi-manufactures raw materials for existing industries;
- Spare parts, and accessories of existing industries;
- Machinery and equipment essential for agricultural production;
• Plant and machinery for replacement or for balancing of the existing capital equipment for industries;

• Consumer goods essential for life and health of the community i.e. pharmaceutical products etc.

• Machinery and equipment essential for the growth of established industries or for other schemes, where the restriction on imports is likely to prevent immediate increase in production or to enhance the cost already suffered;

• Machinery and equipment necessary for the establishment of other industries; and

• Essential consumer goods.

Surplus, amount of the trade balance should be used for the import of items which are essential for economic development such as raw materials, components, spare parts, machinery and transport equipment. It should not be spent on edible oils, cotton and other consumer goods, for popular support to the Government. EXIM Policy of a country is to be always matched with the long-term policy of development. Perhaps it will not be out of place to point out after the prolonged discussion on the subject that an EXIM Policy should be one which can sustain itself in the face of changing events at least for a reasonable length of time. It may be concluded that regarding the EXIM Policy, it is the proper time for a more matured and integrated policy as a hand tool for development.

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