CHAPTER III
EXPORT PROMOTION IN INDIA-AN OVERVIEW

INTRODUCTION

Globalization is the continuous process by which restriction and hurdles are minimized in the field of trade investment and flow of return. Today, there are 149 member countries of W.T.O. where 5 billion population live and 80% trade is involved. Interdependence of countries increased considerably after World War II. Developments in international transport and telecommunications caused the ‘shrinkage’ of the globe. Liberalization and globalization brought substantial and sustained expansion in world trade. India has become of W.T.O. and chosen the policy of globalization voluntarily.

Globalization has made multi-dimensional effects and impacts in India’s foreign trade. Transnational or multinational corporations which engage in international production increased interdependence. Increased labour flows between countries contributed to interdependence by way of enriching the capabilities.

India has trade relations with more than about 150 countries and deal in thousands of goods and services. Even though India’s share in the global trade is about 0.4% only but we have every opportunity to increase it. There are many problems and limitations like lack of standardization and better quality of exported goods, procedural delays, negative attitude of bureaucracy, confusing policies, rues and regulations made and implements, lack of professionalism etc.

Foreign trade is an important component of economic relations between countries. Interdependence of countries increased considerably after World War II. Developments in international transport and telecommunications caused the ‘shrinkage’ of the globe. Liberalization and globalization brought substantial and
sustained expansion in world trade. Another important factor in increasing interdependence is the transnational or multinational corporations which engage in international production. Increased labour flows between countries also contributed to interdependence. Foreign trade or international trade is important because it affects the domestic economy in several ways. The degree of the impact of foreign trade on the domestic economy depends on the size of the former in relation to the latter. This varies from country to country for quite a few reasons. Diversified climates, natural resources and geographic proximity are all the important factors.

The radical reforms in India’s foreign trade launched in July 1991 and international developments GATT 1994, WTO has its impact on foreign trade. Countries have started realigning their priorities to face the challenges. Foreign trade is necessary for understanding the nature and extent of economic interdependence among countries. Countries depend on each other for a variety of economic transactions and financial transactions namely transactions in goods, services and capital. A country not only has to depend for its growth and development on its own economy that is National economy but also with the World that is International economy. No country can therefore live in economic isolation or afford to keep out of the global economy. This is because, no country is self-sufficient with regard to its needs or requirements, and it cannot consume or use all the resources. The country cannot remain a closed economy. In other words, interdependence of countries is reflected in economic relations consisting of exchange of goods, exchange of services, inter-country movement of skills and labour.

The effects of foreign trade on the domestic economy may be at the macro economic level, i.e. the aggregate level or on the economy as a whole. It may be at the micro economic level, i.e. at the level of individual units, firms or particular
sectors of the economy. At the macro-level the impact of foreign trade may be on output, employment, income and prices. A country’s exports of goods and services in a given period constitute a part of the total demand for the country’s output. Similarly, the import of goods and services represents part of the demand for the output of a country producing them. Exports are part of GNP or National Income which is being released from current consumption, while imports represent a part of current spending in the economy. Exports provide employment directly in export industries and indirectly throughout the economy. Foreign trade affects prices.

An important macro-economic impact of foreign trade is the fluctuations in the level of output, employment and prices. An increase in exports relative to imports will stimulate the level of economic activity, while a rise in imports relative to exports may have the opposite effect. Besides, if foreign countries suffer a decline in economic activity, this would affect the exporting country.

Another important macro-economic impact of foreign trade is its contribution to economic growth of a country. Though there is no direct cause between foreign trade and economic growth, foreign trade does provide a stimulus to growth of the economy. Expansion of exports may lead to larger output and employment. Similarly, increase in imports may promote investment and thus facilitate larger output and income. Foreign trade contributes to economic growth; growth also influences the volume, nature and direction of foreign trade. Thus, the relationship between foreign trade and economic growth is one of continuous interaction between the two leading to mutual benefit.

At the micro economic level, the role of foreign trade is equally important. Exports provide important market outlets for a number of industries. Likewise, imports are a source of supply to many other industries. Some industries may depend
entirely or to a large extent on imports for their supplies, just as some other industries may be dependent to a large extent on export markets for their sales and income. This implies that changes in export outlets and sources of imports would affect the fortunes of individual industries in terms of production and sales income therefore employment in these industries. Allocation and utilization of available resources may become more efficient. There may be specialization in production on the basis of relative advantage. There may be increased competition among domestic industries. Another micro economic impact of foreign trade is that it would lead to economies of scale (i.e. economies resulting from the size of industries) leading to lowering of costs of production and therefore prices.

3.1. GAINS OF FOREIGN TRADE

The gains are measured in terms of larger output, increased consumption and higher standards of living for the community, collectively termed as welfare. Welfare is measured not on absolute basis but on comparative basis, that is a comparison of welfare levels before and after trade. Gains from trade accrue in many ways and most directly from exports and imports. Increase in exports results in larger output, employment and incomes and therefore in increased consumption and higher living standards. Imports would fill up the gap between domestic demand and domestic supply. An important factor influencing is the exchange ratio of goods that is exports and imports. If imports can be obtained at less cost compared to its exports, then the ratio of exchange between its exports and imports is favorable. When the import costs are more compared to its exports the ratio of exchange is unfavorable. This ratio of exchange is called terms of trade. The terms of trade are measured by the ratio of index of export prices to the index of import prices. The government plays an
important role in maintaining balance in terms of trade so that the economic welfare of the community is maintained or increased.

Trade is the important item of economic transactions between countries. Trade or total trade is made up of transactions in goods or exchanges of goods or purchase and sale of goods between countries, collectively called Imports and Exports. Imports are goods consumed in one country, which has been bought from another country. Exports are goods produced in one country and sold to and consumed by another country. The sum total of exports and imports is called total trade. The difference between exports and imports is called Balance of Trade. The balance of trade is said to be positive or favorable when exports exceed imports. Similarly, trade balance is said to be negative or adverse (unfavorable) when imports exceed exports. These factors are called Trade Surplus and Trade Deficit respectively.

Trade between countries may be bilateral or multilateral. It is bilateral when trade between two countries is subject to government negotiations and agreements regarding quantities or values of exports and imports, prices and method of payment or settlement of claims on each other. Trade said to be multilateral when trade between several countries is carried by using an international currency for settlement.

Free trade refers to the situation where there is no State intervention in trade and where imports are freely allowed to compete with domestic products on equal terms. Autarky – a situation where a country isolates itself from international trade. In between these lie varying degrees of restrictions in the form of tariff (export import taxes), quotas (quantitative restrictions) and controls over foreign currency payments.

An economic transaction is an exchange of values in the form of goods, services and financial assets. The exchange among nations of goods for goods, goods for services, services for services or goods and services for money are all referred to
as international economic transactions. Economic transactions may take place between one country and another or between one country and many countries which may put together as the rest of the world.

Transactions in services and capital funds are the other important components of economic transactions between countries. The services comprise of shipping, insurance, travel and tourism, transfer of interest, profits and dividends currently earned, and other transfers such as gifts and migrants remittances. Transactions in capital between countries include all payments and receipts arising from transfers of funds for acquiring assets, for investment in productive activity or by way of extension of credits and loans. Capital transfers between countries may be on account of private parties or on government account or both. Governments’ capital transactions are mainly with foreign governments and international financial organizations like International Monetary Fund (IMF), World Bank, Asian Development Bank, etc.

Economic transactions between countries, i.e. exchange of goods, services and capital, involve receipts and payments in settlement of the transactions. Thus money flows take place between countries and these are described as international financial transactions. Conversion of domestic currency to foreign currency and vice versa takes place in export and import transactions. This conversion takes place in foreign exchange market. In international currency market purchase and sale of foreign currency takes place other than transactions in goods and services. International capital market deals with issue of bonds, securities and shares are dealt in foreign currency to raise funds. These three kinds of markets make up the International Financial System.
Banking systems of the countries play an important role by facilitating the financing or foreign transactions. The claims are settled or met by credits and debits to the accounts of the banks in countries concerned without physical movement of currencies.

Economic conditions differ between countries in respect of levels of development, availability of factors of production, credit, wages, costs and prices and so on.

Government policies, rules and regulations differ as regards tariffs, taxes, trade, investment, payments arrangements and related aspects.

**3.2. ROLE OF EXPORT TRADE IN ECONOMIC DEVELOPMENT**

Economic development is largely affected by a number of economic and non-economic factors. Among the economic determinants of growth, we may single out the rate of saving, the expansion of exports, the process of import substitution and the inflow of foreign capital.

Professor Habuler lists four advantages of trade which are as follows:

- It provides material means, viz. capital goods, machinery and raw, semi-finished materials, which are indispensable for economic development.
- It is an important source of technological knowledge, managerial talents and entrepreneurship.
- It is a transmitter of capital, and
- It brings an atmosphere of healthy competition by checking monopolies and restrictive trade practices.

An expanding export trade is a dynamic factor in a country’s development process. Foreign trade has worked as an ‘engine for growth’ in the past and even in

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more modern times the ‘outward oriented growth strategy’ adopted by the Newly Industrializing Economies of Asia, viz. Hong Kong, Singapore, Taiwan and South Korea has enabled them to overcome the constraints of small, resource, poor underdeveloped economies. Foreign trade contributes to economic development in a number of ways. First, the primary function of foreign trade is to explore means of producing imports of capital goods, without which no process of development can start. Secondly, it is a means to price stability. The demand supply imbalances, which are likely to be severe in the initial stage of growth, can conveniently be connected through the mechanism of foreign trade. Thirdly, it generates pressures for dynamic change through:

- Competitive pressures from imports,
- Pressure of competing for export market, and
- A better allocation of resources.

Fourthly, exports allow fuller utilization of capacity, increased exploitation of economies of scale and separation of production pattern from domestic demand.

3.3. EXPORT PROMOTION MEASURES

Export development has an important place in the economic policy of the Government. Export development is important to the economy. The benefits of export to the economy are many.

When the domestic market is small, foreign market provides opportunities to achieve economies of scale and growth. Secondly, the supply of many commodities, as in the case of a number of agricultural products in India, is more than the domestic demand. Thirdly, exports enable certain countries to achieve export-led growth. Fourthly, export markets may help mitigate the effects of domestic recession. Fifthly,

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a country may need to boost its exports to earn enough foreign exchange to finance its imports and service its foreign debt. It may be noted that many countries are suffering from trade deficit and foreign debt. Lastly, even in the case of countries with trade surplus, export promotion may be required to maintain its position against the international competition and the level of domestic economic activity.

Objective

The principal objectives of the export promotion measures are to:

a) Compensate the exporters for the high domestic cost of production.

b) Provide necessary assistance to the new and infant exporters to develop the export business; and

c) Increase the relative profitability of the export business vis-à-vis the domestic business.

3.4. ORGANIZATIONAL SET UP

Government has established or sponsored a number of organizations to provide different types of assistance to the exporters. Apart from the organizations established exclusively for export promotion, there are also a number of other institutions which assist the export sector. An outline of the important organizations which help to promote exports is given below:

3.5. MINISTRY OF COMMERCE

The Ministry of Commerce, Government of India, is the most important organ concerned with the promotion and regulation of foreign trade in the country. The ministry has elaborate organizational arrangement to look after various aspects of trade regulation and promotion. The Department of Commerce in the Ministry of Commerce is assigned a very important role in different matters concerned with foreign trade of the country including commercial relation with other countries,
promotion and regulation of foreign trade, state trading, etc. Matters related to foreign trade are dealt with eight divisions in the Department of Commerce, namely, (i) Administrative and General Division, (ii) Finance Division, (iii) Economic Division, (iv) Trade Policy Division, (v) Foreign Trade Territorial Division, (vi) Exports Products Division, (vii) Services Division, and (Viii) Industries Division.

3.6. AUTONOMOUS BODIES

3.6. i. Commodity Boards:

The following are the statutory Commodity Boards namely Tea, Coffee, Cardamom, Rubber, Coir, Coconuts, Handicrafts, Handloom and Silk responsible for production, development and export.

3.6. ii. Export Inspection Council:

The Export Inspection Council, a statutory body, was set up in 1964 under the export quality control and Inspection Act 1963, is responsible for the enforcement of quality control and compulsory pre-shipment inspection of various exportable commodities.

3.6. iii. Indian Institute of Foreign Trade:

The Indian Institute of Foreign Trade an autonomous organization, registered under the Societies Registration Act 1964. It is primarily concerned with developing training programme, research and marketing studies. The main functions of the institute are:

(a) Training of personnel in modern techniques of international trade;

(b) Organization of Research in problems of foreign trade;

(c) Organization of marketing research, area surveys, commodity surveys and market surveys; and
(d) Dissemination of information arising from its activities relating to research and market studies.

3.6. iv. Indian Institute of Packaging:

The Indian Institute of Packaging is registered under the Societies Registration Act 1964. The main aims of the institute are to undertake research on raw materials for the packaging industry, to organize training of programmes on packaging technology, to stimulate consciousness of the need for goods packaging technology, to stimulate consciousness of the need for good packaging, etc.

3.6.v. Export Promotion Councils:

There are number of Export Promotion Councils under the administrative control of Ministry of Commerce. These Councils are registered as non-profit organizations under the Companies Act. The Councils perform both advisory and executive functions. These Councils are also the registering authorities under the Import Policy for Registered Exporters.

3.6. vii. Federation of Indian Export Organizations:

The Federation of Indian Export Organizations is an apex body of various export promotion organizations and institutions. It also functions as a primary servicing agency to provide integrated assistance to Government recognized Export Houses and as a central co-coordinating agency in respect of export promotion efforts in the field of consultancy services in the country.

3.6. viii. Indian Council of Arbitration:

The Indian Council of Arbitration set up in 1965 under the Societies Registration Act 1964, promotes arbitration as a means of settling commercial disputes and popularizes arbitration among the traders, particularly those engaged in international trade. Its main objectives are:
(a) Maintenance of panels of some persons to act as arbitrators.
(b) Popularization and propagation of the idea of commercial arbitration in relation to foreign trade.
(c) Through the panel of members founded by it, arranging arbitration of disputes in international trade.
(d) For matters concerning international commercial arbitration, having collaboration with international organizations and arbitral bodies.

3.6.ix. Marine Products Export Development Authority (MPEDA):

The Marine Products Export Development Authority is set up by the government in 1972, is responsible for development of the marine products industry with special reference to exports.

3.6.x. Agricultural and Processed Food Products Export Development Authority (APFPEDA):

The Agricultural and Processed Food Products Export Development Authority, set up in 1986, serve as the focal point for agricultural exports, particularly the marketing of processed foods in value added forms.

3.6.xi. India Trade Promotion Organization:

The ITPO was brought into being in 1992 by merging together the erstwhile Trade Fair Authority of India (TFAI) and the erstwhile Trade Development Authority of India (TDA). The functions of the ITPO are to:

- Develop and promote exports, imports and upgrade technology through fairs in India and abroad.
- Compile and disseminate trade related information.
- Undertake publicity through the print and electronic media.
- Organize visit of foreign buyers and trade.
• Delegations to industry and trade establishments in India with a view to promoting trade contracts.
• Assist Indian companies in trade development; organize export development programmes, buyer-seller meets; and conduct promotion programmes and integrated marketing promotion programmes for the trade and industry in India.

3.7. ADVISORY BODY

3.7.i. Central Advisory Council on Trade:

Government of India established the Central Advisory Council on Trade in 1962, consisting of representatives from different organizations and individuals with business standing and expertise in the field of trade and commerce, the Commerce Minister being the Chairman of this council to advise Government on matters relating to:

1. Export and import policy programme.
2. Operation of import and export trade controls.
3. Organization and development of commercial services.
4. Export Credit Guarantee Corporation.

3.7.ii. Zonal export and import advisory committees:

There are four such committees, one each for the Western, Eastern, Southern and Northern zones. There were set up in July 1968 to:

➢ Consider difficulties faced in the operation of providing import and export policies and procedures and to suggest measures for improvement in disbursement of cash assistance.
➢ Consider difficulties in the matter of customs clearance, shipping credit, insurance and export inspection and to suggest measures for improvements and
➢ Suggest improvements in the methods of working and public relations of the Import and Export Trade Control Organization and other government departments concerned with trade and industry. The members of the committee have a 3-year term and the committee meets thrice a year.

3.8. ATTACHED AND SUBORDINATE OFFICES

3.8.i. Office of the Director General of Foreign Trade (DGFT):

The DGFT is responsible for the execution of the export and import policies of the Government. Import and Export Licensing of iron and steel and ferroalloys is also looked after by this organization. The DGFT with the head office at New Delhi has subordinates offices located at different parts of the country. Earlier the office of the DGFT was known as the Chief Controller of Imports and Exports (CCIE).

3.8.ii. Directorate General or Commercial Intelligence and Statistics:

This Directorate is the primary Government agency for the collection, compilation and publication of the foreign, inland and ancillary trade statistics and dissemination of various types of commercial information. The Directorate brings out a number of publications, particularly on trade statistics which are utilized in framing economic policies, formulating trade agreements with foreign countries and monitoring these agreements. These publications are also used by trading public and research scholars. The Directorate conducts studies on various topics relating to promotion of trade. It also helps in the settlement of commercial disputes and provides Indian businessmen going abroad with letters of introduction to Indian
Commercial representatives concerned. It maintains Commercial library which is widely used by the exporters, importers, research scholars and others.

3.8.iii. Offices of Development Commissioners, FIZ/EPZs:

For each of the free trade zone/export processing zone in the country, there is an office of the Development Commissioner responsible for the administration of the zone.

3.9. PUBLIC SECTOR UNDERTAKINGS

The following trading/service corporations are functioning under the administrative control of the Ministry of Commerce.

3.9.i. The Export Credit and Guarantee Corporation (ECGC)

With the expansion of export trade in India it was felt to provide adequate export finance and export insurance facilities to Indian exporters. With this in view the Government of India set up in 1957 one agency called Export Risks Insurance Corporation Private Limited (ERIL). Later on this agency was reconstituted and its name was changed as Export Credit and Guarantee Corporation Ltd. (ECGC) in 1964. Its major activities are:

Export credit insurance:

As an insurance company the corporation provides two types of insurance policies to protect Indian exporters from commercial and political risks. It provides safety cover to exports from commercial risks. It also provides safety cover on the adverse development causing financial losses to Indian exporters like war, cancellation of import licences, natural calamities, etc.
**Financial Guarantee:**

In addition to providing insurance policies, the ECGC provides pre-shipment and post-shipment financial guarantee in relation to packing credit, turnover credit, merchant credit, etc.

**Special facilities:**

ECGC has started some special facilities which are provided to small scale exporters under various schemes from 1982. It bears the main brunt of the risks and pays the exporters 90 per cent of the exporter’s loss on account of commercial and political risks.

**3.9.ii. STATE TRADING CORPORATION OF INDIA**

This Corporation was set up under the Indian Companies Act, 1956 on 18th May, 1956. The main objective is to maintain proper balance between prices by importing and exporting goods on Government order and to organize the inland and foreign trade in the general interest of the country and to organize the export trade.

**Functions:**

Following are the important functions of State Trading Corporation in Foreign trade:

1) To arrange for long-term contracts with other countries for large quantities of goods.

2) To make possible the export of those goods that is exported by other traders with some difficulties.

3) To arrange for raw materials and other facilities for those institutions want to export.

4) To import those goods on large scale that is useful for the country and which the private businessmen cannot import.

5) To import goods to stabilize the local market prices.
6) To import the goods whose demand fluctuates very much.

7) To encourage the export of new products by participating in international exhibitions or trade fairs.

8) To provide financial and technical assistance directly and indirectly to exporters.

The importance of this State Trading Corporation is evident from the fact that according to new export policy of the Government of India, salt, leather, shoes, cement, nylon, clothes, fish, dry fruits, etc. are being exported through this corporation.

3.9.iii. MINERALS AND METALS TRADING CORPORATION (M.M.T.C)

This Corporation was established under the Indian Companies Act on 26th September, 1963. It was established to deal exclusively in minerals and metals which were previously undertaken by the State Trading Corporation of India. M.M.T.C was formed to fulfill the following objectives:

1) To arrange for the imports of basic minerals and metals.

2) To extend the trade of minerals and metals.

3) To arrange for the import and distribution of manures.

According to the recent announcements of Government policy, manganese, bauxite, iron, coal and coke are exported to this corporation.

Functions

(a) To give long term loans to the persons engaged in mining works.

(b) To arrange for the purchase of machinery on easy installments.

(c) To improve in the quality of the minerals and metals.

(d) To arrange for easy loading of goods on seal ports.

(e) To give facilities to canal transport.
(f) To arrange for heavy road transport.

(g) To arrange for weighing of goods at the port and at the main stations.

Minerals and Metals Trading Corporation functions mainly with the specific policies of the government and keeping in view the requirements of the different importing countries and protect the interest and prestige of homeland.

3.9. iv. THE SPICES TRADING CORPORATION

The Spices Board was constituted as a statutory Body on 26th February, 1987 under the Spices Board Act, 1986. The Board was set up with the objective of development of cardamom industry and export promotion of all the 52 spices listed in the Spices Board Act, 1986. The Board has its head office at Kochi and is headed by a Chairman. The primary functions of the Board are; increasing the production and productivity of small and large cardamom; development, promotion and regulation of export of spices; assisting and encouraging studies and research for improvement of processing; grading and packaging of spices; striving towards stabilization of prices of spices for export; upgrading quality for export. In regard to cardamom, main activities of the Board are; providing financial and other assistance for cultivation and processing of cardamom; monitoring prices; increasing domestic consumption; improving marketing; undertaking, assisting or encouraging scientific, technological and economic research; improving quality.

3.10. EXIM BANK

The Export-Import Bank of India, set up in 1982 for the purpose of financing, facilitating and promoting foreign trade in India, is the principal financial institution in the country for coordinating working of institutions engaged in financing exports and imports.

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The EXIM Bank is fully owned by the Government of India and is managed by Board of Directors with representation from Government, financial institutions, bank and business community. The operations are grouped into Project Finance, Trade Finance and Overseas Investment Finance, supported by Planning and Co-ordination Groups.

**Objectives and Functions**

The objectives and functions of the EXIM Bank include the following:

a) Grant of loans and advances in India solely or jointly with commercial banks to persons exporting or intending to export from India goods which may include the export or turnkey projects and civil consultancy services.

b) Grant of lines of credit to Governments, financial institutions and other suitable organizations in foreign countries to enable person outside India to import from India goods including turnkey projects, civil construction contracts and other services, including consultancy services.

c) Handling transactions where a mix of government credit and commercial credit for exports is involved.

d) Purchasing, discounting and negotiating export bills.

e) Selling or discounting export bills in international markets.

f) Discounting of export bills negotiated or purchased by a scheduled bank or financial institution notified by government, or granting loans and advances against such bills.

g) Providing refinance facilities to specified financial institutions against credits extended by them for specified export or imports.

h) Granting loans and advances or issuing guarantees solely or jointly with a commercial bank for the import of goods and services from abroad.
i) Issuing confirmation/endorsing letters of credit on behalf of exporters in India, negotiating, collecting bills under letters of credit, opening letters of credit on behalf of importers of goods or services, and negotiating documents received there under.

j) Buying and selling of foreign exchange and performing such other functions of an authorized dealer as may be necessary for the discharge of the functions of an export-import bank.

k) Undertaking and financing research, surveys and techno-economic studies bearing on the promotion and development of international trade.

l) Providing technical, administrative and financial assistance to any exporter in India or any other person who intends to export goods from India for the promotion, management or expansion of any industry with a view to developing international trade.

The EXIM Bank commenced its operations on March 1, 1982. The bank extends both funded and non-funded assistance for promotion of foreign trade. The funded assistance programme of the bank includes direct financial assistance to exporters, rediscounting of export bills, technology and consultancy services financing, refinancing of export credit and re-lending facility to banks abroad. The non-funded assistance is in the form of guarantees which are in the form of bids bonds, advance payment and performance guarantees, retention money guarantees and guarantees for raising finance abroad. The EXIM Bank participates with commercial banks in India in the issuance of guarantees in foreign currencies on behalf of Indian exporters/contractors in favour of overseas importers/employers and banks.

In 1983, a scheme known as the EXIM Syndication Facility was introduced to attract greater participation in export credit by commercial banks in India who are
authorized dealers in foreign exchange. Under this scheme, the EXIM Bank provides funds for an export proposal and syndicates the credit risks to commercial banks, and banks for assuming the risks earn a commission of 0.5 per cent per annum from the EXIM Bank. The EXIM Bank also provides information and advisory services to enable exporters to evaluate the international risks, export opportunities and competitiveness. These include country studies, merchant banking services, advice on international marketing and data to enable effective participation in opportunities offered by projects by multilateral institutions.

Further, the bank carries Research and Analysis on specific industry sub-sectors with export potential and international trade related subjects. These are widely disseminated amongst exporters, academicians, industry and trade organization and government. Thus the EXIM Bank follows a three pronged strategy to promote Indian exports. More than export finance, the bank is engaged in export capability creation.

3.11. EXPORT HOUSES

Export houses play a very significant role in foreign trade. They act as importing agents in the country of the exporters. They act as intermediaries between the importer and exporter. They purchase the goods according to the instruction of the importers and export them. Therefore they do not own or store any stock. They get the fixed commission which may vary according to the cost of the export. These are also known as indent houses.

Export houses maintain good business relations with the importers and exporters and provide every possible business co-operation to the importers. It provides all the alternatives about the different products and services available at the most suitable and competitive rates. Honesty and sincerity is the primary factor
which could help in maintaining its existence. Some common benefits of export houses are:

- They hold good credit and therefore, the dealers can also enjoy the benefits of good credit dealing.
- Good relations with the producers and manufacturers.
- Suitable for small importers due to sincere services and minimum cost.
- Are agents of the importers, and take care for the interests of their clients.

The foreign exchange problem began to assume serious proportions, and the government began to realize the need for vigorous export promotion from the beginning of the second five year plan. It was very clear the concentrated efforts should be made for the promotion of the export of non-traditional items. An export house is defined as a registered exporter holding a valid Export House Certificate issued by the Director General of Foreign Trade.

The objective of the scheme is to recognize established exporters as export houses of different grades with a view to build marketing infrastructure and expertise required for promotion. Such houses should operate as highly professional and dynamic institutions and act as important instruments of export growth.

The scheme of export houses has been modified a number of times. The current foreign trade policy categorizes export houses as different grades star export houses, as against the classification into Export Houses, Trading Houses, Star Trading Houses and Superstar Trading Houses earlier.

Merchant as well as Manufacturer Exporters, Service Providers, Export Oriented Units (EOUs) and Units located in Special Economic Zones (SEZs), Agri Export Zone (AEZs), Electronic Hardware Technology Parks (EHTPs), Soft Technology Parks (STPs) and Bio Technology Parks (BTPs) shall be eligible for
applying for status as Star Export Houses, Recognition will be granted depending on the exporter’s total FOB/FOR export performance during the current plus the previous three years as below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Performance (in rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Star Export House</td>
<td>15 crore</td>
</tr>
<tr>
<td>Two Star Export House</td>
<td>100 crore</td>
</tr>
<tr>
<td>Three Star Export House</td>
<td>500 crore</td>
</tr>
<tr>
<td>Four Star Export House</td>
<td>1500 crore</td>
</tr>
<tr>
<td>Five Star Export House</td>
<td>5000 crore</td>
</tr>
</tbody>
</table>

A Star Export House shall be eligible for several facilities like fast track clearance procedures, exemption from furnishing of bank guarantee, entitlement for consideration under the Target plus Scheme

3.12. A BRIEF REVIEW OF EXPORT PROMOTION POLICY THROUGH PLANS

Export promotion received considerable attention in India only since the Third Five Year Plan. The comfortable level of sterling balances, accumulated during the pre-independence period, the First Plan did not pose any foreign exchange problem. Although the Second Plan document stated that all possible efforts should be made to increase exports, the planners did not envisage any significant increase in exports and the plan document did not suggest any export promotion measure.

The predominant view of the planners was that significant increase in exports was not possible during the early period of development. This bearishness with regard to exports is apparently attributable to two basic perceptions. Exports of primary products or of traditional manufactures were seen facing poor demand prospects in world markets. At the same time the newer manufactures had difficulties
in securing an export market. It was felt that industrialization in the long run could lead to a viable balance of payments, only when a programme which minimized imports and a policy for export promotion is thought of. Thus, import substitution, particularly in the basic, intermediate and machine building, became a major element of trade policy in the late fifties while exports suffered relative neglect. The Second Plan document stated that it was only after industrialization had proceeded some way that increased production at home would be reflected in larger imports.

The increasing trade deficit during the Second Plan pointed to the need to promote exports. The middle of Second Plan period, a series of measures had been initiated with the object of stepping up exports. These included organizational changes, increased facilities and incentives and diversification of trade. The Third Plan document observed that these measures were not adequate in relation to the underlying factors inhibiting exports. One of the main drawbacks was that the export promotion programme was not regarded as an integral part of the country’s development effort under the Five Year Plans.

During the Third Plan, the institutional framework for promoting exports was broadened and strengthened and certain fiscal incentives like drawback of import duty and refund of excise duty and income tax concessions were introduced. A major factor was the operation of special export promotion schemes providing import entitlement against exports in respect of a number of manufactured and processed products. A limited scheme of direct subsidies for about 22 products was also operated to promote exports of non-traditional products. Another important aspect of the trade policy during the Third Plan was the importance given to diversification, both country-wise and product-wise of the foreign trade.
The incentive schemes implemented during the Third Plan period failed to generate self-sustaining exports. It generated widespread manipulations in the form of over-invoicing of exports, export of shoddy goods. Moreover, the pattern of resource allocation in the country was distorted.

A Major development soon after the Third Plan was the devaluation of the Indian rupee (on June 6, 1966) by 36.5%.

Export promotion schemes like import entitlement and cash subsidy were withdrawn. The import and industrial policies were liberalized with a view to remove bottlenecks in production. Adjustments in export duties and in cash assistance and extensions in export promotion policies were made. Modifications of import facilities for exporting units and industries and strengthening of credit arrangements for exports were considered.

Export Policy Resolution was announced by the Government of India in 1970 to achieve a rising level of exports. To adopt appropriate policies and measures designed to promote investment in promising sectors, to generate exportable surplus, to provide adequate facilities and incentives to promote the growth of the export trade.

The Resolution pointed out that “a steady increase in export earnings is dependent on the continuous development and expansion of export-oriented production. The aim of such development should be the promotion of economic efficiency, diversification of production and better utilization of skilled and unskilled manpower. The development of the economy’s export sector has a vital role to play in the achievement of the Plan’s social and economic goals. The needs of this sector should, therefore, receive a very high priority.”

The Resolution had underscored the need for exploiting the export potentials of industrial, agricultural horticultural sectors through an appropriate development of
export-oriented segments of these sectors. The need for harnessing our marine, forest and mineral wealth to augment export earnings has also been stressed.

It was felt that the government should provide necessary assistance to build up efficient production and; endeavor to compensate the exporters for the temporary handicaps; and to alleviate the disadvantages arising from our domestic fiscal policies or tariff barriers in importing countries. The need for the diversification of industrial production and improvement in economic efficiency was also realized. It was also pointed out that it will be the government’s policy to promote measures to improve the non-traditional items of export and their competitiveness in the international market, to improve their export performance. Modernization, marketing and promotional techniques to improve the efficiency of the exporting firms was also addressed. The importance of ensuring high quality and export marketing research was highlighted.

The Export Policy Resolution, 1970 was presented with the objective, that the export effort will be viewed as one of the highest national commitments. The following measures were suggested. The role of government is to strengthen the domestic production base for expansion and diversification. Generate more exportable surplus in a variety of sectors. Strengthen and develop the export marketing infrastructure. Develop overseas markets and to provide incentives to give a boost to the export sector.

The policy decisions taken subsequently by the Government, their rapid implementation and the results achieved have amply proved that the policy has been adopted after a very careful study. This is evident from the rate of growth in exports in the subsequent years.” Between 1950-51 and 1970-71, the average annual increase in exports was only 3% whereas it was as high as 25.4% between 1971-72 and 1976-
77. Even though a part of this may be attributed to inflation, it is no mean achievement.

Trade deficit since the emergence of the oil price hike in the early 1970s, export promotion assumed added importance and export promotion measures have been sought to be enlarged. These measures aim, in general, to expand and strengthen the export production base, diversify export markets and products, develop export markets, improve export marketing and export competitiveness and to give incentives for exports.

A number of committees including the Committee on Import-Export Policies and Procedures (Alexander Committee, 1978), Committee on Export Strategy for Eighties (Tandon Committee, 1980), Committee on Trade Policies (Abid Hussain Committee, 1984) and several committees in particular export promotion schemes or problems have critically examined trade policies, procedures, promotion schemes, etc. Efforts have been made to improve the system in the light of their recommendations.

A number of measures have been taken in the eighties to promote exports. These include liberalizations of industrial and import policies to encourage production of export goods, development of export processing zones, promotion of hundred per cent export-oriented units, rationalization and simplification schemes of export assistance and incentives, etc.

During the Seventh Plan, efforts have been made to identify sectors, industries and products which have a good export potential and provide a suitable policy framework. Fourteen broad sectors have been identified by the Government in consultation with the export promotion councils and commodity boards, for making special thrusts in the overseas markets without minimizing the importance of increased exports from other sectors as well. The fourteen thrust sectors include Tea
(especially in packaged and value added form); Cereals (in particular wheat); Processed foods (including fruits and juices, meat and meat products and fresh fruits and vegetables); Marine products (especially in value added form); Iron ore; Leather and leather manufacturers; Handicrafts and Jewellery; Capital goods and consumer durables; Electronic goods and Consumer Software; Basic chemicals; Fabrics, piece goods and made-ups; Ready made garments; Woolen fabrics and knitwear and Projects and Services.

Further, the government had identified 34 products for extreme focus with a view to achieving rapid strides in realizing the export potential. In July, 1991, government devalued the rupee in order to boost exports and discourage imports. The Cash Compensatory Support was abolished. The Rep scheme was modified and renamed as EXIM Scrip. The EXIM Scrip was abolished when the partial convertibility of the rupee was introduced in April, 1992. The convertibility of foreign exchange at the free market rate increases the profitability of the export business when the free market rate is higher than the official rate.

The Eighth Plan\(^5\) period was not all that conducive for the developmental aspects due to changes in the Governments at the Centre and there prevailed a state of uncertainty of the continuance of the Government. This led to a slow down in export performance. The main reason for the slow down in exports was due to the sharp decline in the growth of value of the world trade and appreciation of rupee vis-à-vis the currencies of India’s major trading partners and competitors. The decline in export prices of some major items of manufactured goods, testing and labeling in the major trading partner countries for some major items of India’s exports. Other domestic factors are the slow down in growth of power, tighter supply conditions in the

domestic market for agricultural items especially rice and wheat, tightening of domestic environmental regulations and infrastructure bottleneck. Therefore, it was felt that the plan period which coincided with the trade policy (EXIM policy) was suitably adopted to suit the plan proposals. Substantial concessions were announced to boost agricultural export. The Government also announced centrally sponsored schemes to set up industrial parks in different states. The Chief Controller of Imports and Exports was re-designated as Director General of Foreign Trade. The EXIM policy made a conscious effort to dismantle various protectionist and regulatory policies and accelerate India’s transition towards globally oriented economy.

The Ninth plan sought to consolidate the gains of previous policy and carry forward the process of liberalization by deregulating and simplifying procedures in line with the trade policy which coincided with the plan period. Sound foreign trade and investment policies in order to promote rapid and sustained export growth. It sought to enhance the technological strength and economic efficiency of domestic production and to ensure smooth and effective transition to more open economy. The objective of the Ninth plan was to achieve ‘growth with equity’. The Ninth plan addressed the issues of external vulnerability and developed suitable strategies for making India a strong and confident player in the International sector. During this period the export were assumed to grow at an average annual rate of 12% in dollar terms. The rate of growth of exports is based on the assumption that the share of exports in incremental output of the manufacturing sector would rise from 22% to above 35%. To achieve this necessary change were incorporated in the Exim policy of the same period.

The Tenth Plan projects a growth rate of 12.4 per cent in India’s exports. The road map for the achievement of this export growth in the medium term is delineated
in the Medium Term Export Strategy (MTES). It aims at augmenting the country’s share in world trade to one per cent by 2006-07 from the current share of 0.7 per cent. The MTES incorporates product and market identification for exports. Focus on strategies based on the assessment of the changing global trade scenario. The Export – Import (EXIM) Policy for 2002-07 has emphasized export market diversification with special focus on unexploited regions like sub-Saharan Africa and the CIS. It also stressed on a farm-to-port approach for exports of agricultural products, special thrust on cottage sectors and handicrafts and beefed up Assistance to States for Infrastructural Development for Exports (ASIDE).

**TABLE - I**

**FOREIGN TRADE OF INDIA PRE AND POST INDEPENDENCE PERIOD**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938-39</td>
<td>169</td>
<td>152</td>
</tr>
<tr>
<td>1945-46</td>
<td>266</td>
<td>245</td>
</tr>
<tr>
<td>1946-47</td>
<td>319</td>
<td>288</td>
</tr>
<tr>
<td>1947-48</td>
<td>403</td>
<td>389</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Exports (f.o.b)</th>
<th>Imports (c.i.f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual average (1951-52 to 1955-56)</td>
<td>622</td>
<td>730</td>
</tr>
<tr>
<td>Annual average (1955-56 to 1960-61)</td>
<td>613</td>
<td>1080</td>
</tr>
<tr>
<td>Annual average (1961-62 to 1965-66)</td>
<td>747</td>
<td>1224</td>
</tr>
<tr>
<td>Annual average (1967-68 to 1968-69)</td>
<td>1236</td>
<td>1925</td>
</tr>
<tr>
<td>Annual Average (1969-70 to 1973-74)</td>
<td>1810</td>
<td>1972</td>
</tr>
<tr>
<td>Annual average (1974-75 to 1978-79)</td>
<td>4730</td>
<td>5540</td>
</tr>
<tr>
<td>Annual Plan 1979-80</td>
<td>6459</td>
<td>8908</td>
</tr>
<tr>
<td>Annual Average (1980-81 to 1984-85)</td>
<td>9051</td>
<td>14986</td>
</tr>
<tr>
<td>Annual average</td>
<td>18033</td>
<td>28874</td>
</tr>
<tr>
<td>Period</td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>(1985-86 to 1989-90)</td>
<td>34753</td>
<td>42124</td>
</tr>
<tr>
<td>Annual Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1989-90 to 1991-92)</td>
<td>86257</td>
<td>97609</td>
</tr>
<tr>
<td>Annual Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1992-93 to 1996-97)</td>
<td>168401</td>
<td>204764</td>
</tr>
<tr>
<td>Annual Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1997-98 to 2001-02)</td>
<td>390408</td>
<td>531659</td>
</tr>
<tr>
<td>Annual Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2002-03 to 2006-07)</td>
<td>640172</td>
<td>964850</td>
</tr>
<tr>
<td>Annual (2007-08) Provisional</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled and computed from the data provided in Reserve Bank of India Bulletin

The above table depicts India’s Export and Import from 1951-52 to 2007-08, which clearly shows that there is a phenomenal increase in exports and imports. The exports and imports from an yearly average of Rs.3, 90,408 crores and Rs.5,31,659 crores respectively, during 2002-03 to 2006-07 has almost doubled in 2007-08. This clearly vouches for the export promotional activities and schemes implemented by Government of India through plans which are supported by the trade policy reforms in the form of export incentives and privileges.

3.13. EXPORT INCENTIVES

Export incentives are widely employed strategy of export promotion. The main aim of these incentives is to increase the profitability of export business. Important export incentives in India include rebate of duties, cash compensatory support, income tax concession, interest subsidies, freight subsidy, etc. It has been common to describe these as incentives. However, as the Abid Hussain Committee has observed, they are more a compensation for the comparative disadvantages faced by the Indian exporter than incentives.

A multi-pronged strategy has been evolved for promotion of exports to achieve the goals envisaged:
• Extension of the scheme of supply of raw materials at international prices as are operating presently for steel, rubber and certain chemicals to other areas including aluminum, where they form a significant part of the cost.
• A liberal approach, on a case by case basis, in making available contemporary technology for the thrust sectors where necessary, linked to export obligations.
• Permission, on a case by case basis, in selected areas to large firms to manufacture products which are in the small scale reserved sector, provided 60 per cent of the production is exported and such units are set up in backward districts.
• Full remission of excise and other duties borne by the products that are exported subject to certain exceptions.
• Exemption from the requirement of licensing of any expansion in capacity exclusively for export production.
• Permission, in principle to allow use of 5 to 10 per cent of the net foreign exchange earnings by exporters for export promotion under a new blanket permit scheme, to be announced by the Reserve Bank of India.

Bearing these guidelines in mind and with a view to imparting sustained impetus to the over-riding goals of export promotion, the Government has undertaken a series of initiatives which are summarized below.

3.14. FISCAL AND FINANCIAL INCENTIVES FOR EXPORTS\textsuperscript{51}

\textit{Duty Exemption/Drawback}

The scheme of duty exemption is designed to avoid the incidence of commodity taxes like excise duty and customs duties on the exports so as to make the exports more price competitive. “This is a worldwide practice and the rationale is

\textsuperscript{51} Export Management, G.R.Basotia and Raj Kumar Bsotia, Mangal Deep Publications, Jaipur, 2005
straightforward. Customs duties and excise duties on inputs raise the cost of production in export industries and thereby affect the competitiveness of exports. Therefore, exporters need to be compensated for the escalation in their costs attributable to such customs and excise duties.

Duty exemption as an export promotion measure has its origin in India during the Second plan. The scheme has been enlarged and modified from time to time. The exporters are either exempted from the payment of duty while procuring inputs like raw materials and intermediaries or, in case where the duty is paid on the inputs, the duty is refunded. Thus, under the duty drawback system, the exporters are reimbursed for tariff paid on the imported raw materials and intermediates and central excise duties on domestically produced inputs which enter into export production.

The introduction of the advance licencing system, exporters can make most of the import of inputs without payment of custom duty. Eligible exporters are entitled to interest-free bank credit against the duty drawback applicable to them up to a period of 90 days or up to the time they realize the drawback, whichever is earlier. Similarly, with the application of MODVAT, a large number of products, covered by the MODVAT, can be exported in bond and in that event, the duty relief in the form of drawback would be restricted only to basic customs and auxiliary duties suffered, if any, by the inputs.

There are two types of drawback rates, viz. all industry rate applicable to a group of products and brand rate applicable to individual products not covered by the industry rate. The average industry drawback rates are fixed by the Drawback Directorate in the Ministry of Finance by taking into the estimates of average quantity of value of materials used in the manufacture of exports. The average amount of duties paid on imported materials or excisable materials used in the manufacture of
these goods. The average amount of duties paid on the materials wasted in the manufacturing process.

**Cash Compensatory Support (CCS)**

Cash Compensatory Support was a cash subsidy scheme designed to compensate the exporters for un-rebated indirect taxes and to provide resources for product/market development. The CCS enabled the exporters to increase the profit or to reduce the price to the extent of the subsidy without incurring a loss. With the devaluation of the rupee in July 1991, the Cash Compensatory Support was abolished.

**Income tax Concession**

Besides the exemption/rebate of indirect taxes, a special fiscal treatment granted to export is the income tax concession according to which earnings from exports are either partially exempted from income tax, or taxed at a lower rate. Such income tax rebates have been provided to exporters in India since the early 1960s.

**Awards**

A number of awards have been instituted to encourage exports to recognize excellence in exports. There are separate awards for different categories of exporters. Awards are given on the basis of certain specified criteria such as development of market for products which has not been exported previously, substantial increase in exports, successful introduction of new products, product development, successful break-through in foreign markets where conditions have been especially difficult, etc. References to some other incentives are made in the sub-section on Marketing Assistance.

**Production Assistance / Facilities**

Exports depend, inter-alia, on exportable surplus and the quality and price of the goods. Government has, therefore, taken a number of measures to enlarge and
strengthen the production base, to improve the productive efficiency and quality of products and to make the products more cost effective. Measures in these directions include making available raw materials and other inputs of required quality of reasonable prices; facilities to establish and expand productive capacity, including import of capital goods and technology; facilities to modernize production facilities provision of infrastructure for the growth of export-oriented industries, etc.

**Marketing Assistance**

A number of steps have been taken to assist the exporters in their marketing effort. These include conducting, sponsoring or otherwise assisting market surveys and research; collection, storage and dissemination of marketing information, organizing and facilitating participation in international trade fairs and exhibitions; credit and insurance facilities; release of foreign exchange for export marketing activities; assistance in export procedures; quality control and pre-shipment inspection; identifying markets and products with export potential; helping buyer-seller interaction, etc. Some of the schemes and facilities which assist export marketing are mentioned below.

**Market Development Assistance-(MDA)**

An important export promotion measure taken by the Government is institution of the Market Development Assistance (MDA). Assistance under the MDA is available for market and commodity researchers; trade delegations and study teams; participation in trade fairs and exhibitions; establishment of offices and branches in foreign countries; and grants-in-aid to EPCs and other approved organizations for export promotion on Export Credit by commercial banks and approved cooperative banks enjoyed a subsidy out of the MDA. Most of the MDA expenditure in the past was absorbed by the Cash Compensatory Support. The Cash
Compensatory Support helped the exporters to increase the price competitiveness of the Indian products in foreign markets.

**Foreign Exchange**

Foreign exchange is released for undertaking approved market development activities such as participation in trade fairs and exhibition, foreign travel for export promotion, advertisement abroad, market research, procurement of samples and technical information from abroad.

**Trade Fairs and Exhibitions**

As trade fairs and exhibitions are effective media of promoting products, facilities are provided for enabling and encouraging participating of Indian exporters/manufactures in such events. As mentioned earlier, foreign exchange is released for such purpose, the cost of participation is subsidized and the ITPO plays an important role in organizing and facilitating participation in trade fairs/exhibitions. Besides the ITPO, some other promotional agencies also organize trade fairs. For example the MPEDA organizes sea foods trade fair, in India, every 2nd year, which attracts a number of foreign buyers and other connected with sea foods industry.

**Export Risk Insurance**

As international business in fraught with different types of risks, measures have been taken to provide insurance covers against such risks. The Export Credit Guarantee Corporation (ECGC) has policies covering different political and commercial risks associated with export marketing, certain types of risks associated with overseas investments and risks arising out of exchange rate fluctuation. Further, ECGC extends the export credit risk cover for the commercial banks. Marine insurance is provided by the General Insurance Corporation and its subsidiaries.
Quality Control and Pre-shipment Inspection

A number of steps have been taken by the Government to improve the quality of exports and to ensure that only goods of appropriate quality are exported from the country. The Export (Quality Control and Inspection) Act empowers the Government to make necessary regulation in this respect.

Finance

The Export-Import bank and commercial banks and certain other financial institutions like specified cooperative banks provide pre-shipment and post-shipment finance to exports. Some of these institutions also provide suppliers credit, including line of credit, to promote Indian exports. Export credits generally carry concessional interest rates.

Institutional Assistance

Export marketing is assisted in a different way by a number of organizations like the ITPO, EPCs, Commodity Boards, Export Development Authorities like MPEDA and APEDA, IIFT, Indian Missions abroad, etc.

India Brand Equity Fund

Government of India initiated steps to establish in India Brand Equity Fund with the objective of promoting the made in India image abroad. It was also proposed to set up a Brand Acquisition Fund to help Indian Corporate to acquire big international brands put up for sale and build them up as Indian brands in the International markets.

3.15. IMPORT FACILITIES FOR EXPORTERS

Export Promotion Capital Goods

Under the Export Promotion Capital Goods (EPCG) Scheme, manufacturer exporters, merchant exporters tied to supporting manufacturers and service providers
are eligible to import capital goods both new and second hand, including spares up to 20% of the CIF value of capital goods, and computer systems at a concessional/zero rate customs duty subject to export obligation. Two windows are available under this Scheme:

This scheme was modified several times. The export promotion capital goods scheme helped the establishment and expansion of efficient export production capacities.

**Duty Exemption Scheme**

Duty exemption consists of Duty Free License and Duty Entitlement Pass Book (DEPB).

**Duty Free License**

Duty Free License includes Advances License, Advance Intermediate License and Special Imprest License. Import of inputs like raw materials, intermediates, components, consumables, parts, accessories, mandatory spares (not exceeding 5% of the CIF value of a duty free license) and packing materials may be permitted against a duty free license.

An Advance License is granted to a merchant / manufacturer exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. However, such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import. An Advance Intermediate License (AIL) is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exports holding an Advance License/Special Imprest license. A Special Imprest License is granted to a manufacturer exporter for the import of inputs required in the manufacture of goods to be supplied to the specified categories like certain deemed exports.
**Duty Entitlement Pass Book**

Under the DEPB scheme, an exporter is eligible to claim credit as specified percentage of FOB value of exports made in freely convertible currency. Any item, expect those in the negative list, is allowed to import without payment of customs duties against the credit under a DEPB. Third party exports are also admissible for grant of DEPB.

**Import and Export Duties**

The tax or duties imposed by the Government of a country on the incoming goods in the country is called import duty, similarly, the tax charged by the Government on the sale of goods to another (foreign) country is called export duty. The traders should also properly understand the rates and regulations of these different types of duties which are summarized as under:

**Ad Valorem Duty:**

When duties are levied according to the value of the goods, they are called ad-valorem duties.

**Specific Duties:**

When duty is levied according to the weight or quantity of the goods, it is called specific duty, e.g., per ton, per litre, etc.

**Preferential Duties:**

Sometimes, the Government wants to encourage the import from a particular country; therefore, it levies less duty on imports from the country. It is called preferential duty.

**Tariff:**

The list in which the details of the different duties are given is called tariff.
**Protective Duties:**

If the country’s Government wants to promote the export of the goods to other countries, it can give some subsidies in the form of duties so that the cost of the goods can further be reduced. This preference may be given for few specific countries only. Above duties are imposed by the Government on the basis of comparative trade advantages with a particular country and also depending on the political relationship.

**3.16. KNOWLEDGE ABOUT THE CUSTOMS FORMALITIES**

The traders dealing in the import-export trade are expected to have detailed information about the customs houses, which is headed by an officer called Collector of Customs. The office of the customs is divided in the following departments:

**Import Department:**

This department realizes the import duty and looks after the licensed imports of the goods.

**Export Department:**

This department has to properly check the despatches of the goods being exported and realizes the export duty. On clearance from this department, the goods can be accepted by the shipping company for loading in the ship.

**Security Department:**

Their main concern is to check the unauthorized entry of the goods or unauthorized export of certain goods. They maintain tight security against the smugglers.

**Laboratory:**

The different types of goods imported or exported are properly tested in the different laboratories, so that the external description should tally with the contents of the goods.
**Import-Export Control Section:**

*It regulates the activities of the unlicensed goods,* and sees if such goods are received and how far the penal duties should be imposed on such consignments.

**Price Determination:**

Determination of the amount of customs duty or the import duty or export duty is the main concern of this department. The different sections of the customs work under the collector of customs at every port town.

### 3.17. AN EVALUATION OF THE EXIM POLICIES

Trade policy of a country primarily aims at industrial and agricultural development, stability in domestic prices and augmentation and optimum utilization of its foreign exchange resources. Trade policy is influenced by international obligations of the country on account of its membership of international, regional and bilateral trade agreements and other multinational conventions.

The main instruments of trade policy are:

a. **Tariffs**

b. **Quantitative restrictions**

c. **Para-tariff measures**

d. **Subsidies**

e. **Miscellaneous administrative measures**

The Government appointed the Import and Export Policy Committee headed by Mr. Mudaliar[^52] in 1962 to review Government’s trade policy. The Committee felt that developmental and maintenance imports were both essential for growing economy. The Committee recommended for export oriented industries along with other measures. The Government of India has been following a liberalized import

[^52]: Indian Economy, Ruddar Datt & K.P.M.Sundaram, S.Chand & Co, New Delhi., 2001
policy with the objective of increasing production, especially export promotion since 1975-76.

The Government announced for the first time in 1985 the Import Export Policy for a period of three years. The main features of the EXIM Policy were:

1. Import of as many as 53 items was de-canalised.
2. A new scheme – “The Import-Export Pass Book Scheme” was introduced.
3. The EXIM Policy concentrated more on Import than export by Open General Licence (OGL) permitting import and furnished a list of those items.

**3.18. IMPORT-EXPORT POLICY, 1990**

The Government announced in 1990 a new Import-Export Policy for a period of 3 years. The salient features were:

1. List of items imported under Open General Licence (OGL).
2. An automatic Licensing scheme was introduced.
3. Replenishment licensing scheme was expanded and simplified
4. Export services like computer software, overseas management and consultancy service contracts made qualified for import replenishment.
5. For Export Houses and Trading Houses the annual average net foreign exchange earnings was formed as the base.
6. A Scheme of Star Trading Houses was introduced for exporters.
7. The Import-export Pass Book Scheme was withdrawn.

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53 Ibid. P-744.
3.19. EXIM POLICY, 1992-97

In tune with the ongoing reforms process, the amendment in EXIM Policy (1992-97) announced on March 31, 1995 further liberalized the import regime with special emphasis on boosting the domestic manufacturing sector.

Several changes have been made to give a boost to the domestic manufacturing sector.

The Export Promotion Capital Goods (EPGC) Scheme has been enlarged in order to include some restricted items in the eligible manufacturing activities.

DES Scheme

Under Duty Exemption Scheme, merchant exporters holding non-transferable actual user invoices, has also exempted from paying additional custom duty.

The scheme covering export oriented units and export processing zones has been rationalized.

The duty-free licence scheme, popularly known as, advance licence scheme (ALS) both quality-based and value-based has been simplified and strengthened.

The New EXIM Policy focused on liberalization, openness, transparency and globalization. The policy aimed to provide a ‘hassle free’ export environment and continued the progress towards a free and transparent trade regime.

a. To accelerate the country’s transition to a globally.

b. To stimulate sustained economic growth.

c. To enhance the technological strength and efficiency of India’s agriculture industry and services.

Exports and imports of all commodities have generally been made free except a few items contained in the negative list of import and exports. Import and export of goods classified as prohibited items is not permitted, the export and imports of items
which is restricted, are permitted to be imported/exported only in accordance with the licence. The licence so issued will be valid only for the period specifically mentioned.

- Freely Importable Items
- Countries of Import/Exports
- Importer-Exporter Code Number (IEC No.)
- Exempted Categories
- Export Promotion Capital Goods Scheme
- Under this scheme, capital goods, both new and second hand may be imported. The import of second hand capital goods under the scheme shall be subject to such conditions prescribed. Computer systems may also be imported under the EPCG Scheme.
- Import on Concessional Duty
- Capital goods (CG) may be imported at a concessional rate of customs duty subject to an export obligation to be fulfilled over a period of time.
- Duty Free Licence
- Duty free licence includes advance licence, advance intermediate licence and special imprest licence.
- Back-To-Back Inland Letter of Credit
- Export Obligation
- Diamond, Gems and Jewellery Export Promotion Schemes
- Replenishment Licences
- The exporter of gems and jewellery products listed in Appendix 3-A of the handbook (Vol.I) shall be eligible for grant of replenishment licences at the
specified rate and for the items mentioned in the said appendix to import and replenish their inputs.

- **Diamond Imprest Licences**
- **Bulk Licences for Rough Diamonds**
  - Bulk licences for rough diamonds are issued for import of rough diamonds for any source, with an obligation to supply such diamonds to the holder of valid REP/diamond imprest licence and EOU/EPZ units or the re-export of the same.
- **Private/Public Bonded Warehouse for Rough Diamonds**
- **Deemed Exports**
  - “Deemed Export” refers to those transactions in which the goods supplied do not leave the country and the payments for such goods are made in India by the recipient of the goods.
- **Benefits for Deemed Exports**
  - Deemed exports shall be eligible for the following benefits in respect of manufacture and supply of goods qualifying as deemed exports:’
    - **Special Imprest Licence/ Advance Intermediate Licence**
    - **Deemed Exports Drawback Scheme**
    - **Refund of Terminal Excise duty and**
    - **Special import licence**
    - **Export Houses Trading Houses, Star Trading House and Super Star Trading House**
    - **Merchants as well as manufacturer exporters, Export Oriented Units (EOUs)/units located in Export Processing Zones (EPZs)/Electronic Hardware**
Technology Parks (EHTPs)/Software Technology parks (STPs) shall be eligible for such recognition.

**Import liberalization**

As a part of the exercise towards future liberalization and globalization the negative list has been pruned by 542 items. Of these, 392 items have been placed on the free list (OGL). Another 150 items can be imported under SIL, 60 items have been removed from SIL to OGL.

The new policy has made a definite move towards simplification of procedures, increased in transparency, reduction in documentation requirements, decentralization of licensing authorities and the like. It has also attempted in the process to keep a check on the misuse of the policy and procedures.

**3.20. EXIM POLICY, 1997-2002**

The Export and Import Policy, 1997-2002 (coinciding with the Ninth Five Year Plan) seeks to consolidate the gains of the previous policy and further carry forward the process of liberalization by deregulating and simplifying procedures and removing quantitative restrictions in a phased manner. Salient features are:

a. Exports and Imports shall be free, except to the extent they are regulated by provisions of this policy.

b. The Central Government may, in public interest, regulate the import or export of goods by means of a Negative List of Imports or a Negative List of Exports, as the case may be.

c. The Negative List may consist of goods, the import or export of which is prohibited, restricted through licensing, or canalized.

d. Prohibited items in the Negative List of Imports shall not be imported and prohibited items in the Negative List of Export shall not be exported.
e. Any goods, the import or export of which is restricted through licensing, may be exported or imported only accordance with a licence issued in this behalf.

f. Any goods, the import or export of which is canalized, may be imported of exported by the canalizing agency specified in the Negative List.

g. No export or import shall be made by any person without an Importer-Exporter Code number unless specifically exempted.

3.21. MODIFIED EXPORT-IMPORT POLICY, APRIL 1988

Modified export and import policy was announced in 1998 by the Central Government. The Government freed from import restrictions a large number of consumer goods and liberalized all major export promotion schemes. It was necessitated because of the commitments made by India at the World Trade Organization (WTO). Moreover, the US had filed a complaint with WTO against India’s import regime. The following are some of the main provisions of the modified policy.

a. 340 more items were shifted from the restricted list to Open General Licence (OGL).

b. The revised policy set an export target for the year 1998-99.

c. Zero duty on Export Promotion Capital Goods (EPCG) scheme was extended to all software exporters by lowering the threshold limit of importable goods.

d. Import any capital goods without paying any import duty and in turn Export 5 times the value of capital goods within a period of 6 years.
e. The Government set up an anti-dumping cell called Directorate General of Anti-Dumping and Allied Duties to prevent cheap imports being dumped at unreasonable prices.

f. Other provisions included (a) delegation of powers to regional licensing officers (b) doing away with the minimum value addition under advance licensing scheme (c) simplified procedures for clubbing of advance licence schemes and (d) private bonded warehouses to be set up to import, stock and sell even negative list items.

3.22. EXPORT-IMPORT POLICY, 1999-2000

Trade policy reforms have aimed at creating an environment for achieving rapid increase in exports, raise India’s share in world exports and make exports and engine for achieving higher economic growth. Over the years, significant changes in the EXIM policy have been effected towards liberalization; country-specific and commodity-specific measures have been taken to promote exports; and efforts have been made to reorient institutional infrastructure towards creating an export friendly environment.

- Removal of Quantitative restrictions.
- Incorporation of a new chapter on policy to boost export of services.
- Free Trade Zones (FTZ) to replace export processing zones.
- Duty Exemption Scheme has been made more flexible.
- Zero Duty export promotion capital goods scheme (EPCG).
- Institutional of Ombudsman for faster resolution of exporter’s problems.
- Green card for exporters exporting 50 per cent of their production.
- No additional customs duty on import of capital goods under zero duty
• Duty free import of consumables up to certain limits for gems and jewellery, handicrafts and leather sectors.

• Extension of the period for fulfillment of past export obligations in respect of advance licence and EPCG schemes.

• Golden status certificate for Export and Trading Houses.

• Pre-export Duty Entitlement Pass Book Scheme (DEPB).

• Fresh Duty drawback rates.

• The facility for prepayment of external commercial borrowings up to 10 per cent of the outstanding.

• To encourage trade with SAARC countries, wide-ranging concessions on preferential basis in customs duties on imports from these countries have been effected by the Ministry of Finance.

3.23. EXIM POLICY 2000-01

In order to encourage exports, Special Economic Zones (SEZs) are being set up.

Quantitative Restrictions (QRs) are being removed on 714 tariffs items. In order to involve the states in export promotion drive of the country, a scheme has been evolved for granting assistance to the states on the basis of their export performance. Promotional schemes such as Export Promotion Capital goods Scheme (EPCG), Duty Entitlement Pass Book (DEPB) scheme etc, have been rationalized. Deemed exports benefits have been extended to core sectors and to power sectors.

Special efforts have been made to encourage exports of software, diamonds, silk and silk products, pharmaceuticals, etc.

Procedural simplifications have been further carried out in order to encourage smooth flow of imports and exports.
**Agricultural Export Zones**

With a view to providing remunerative returns to the farming community in a sustained manner, efforts will be made to provide improved access to the produce/products of the agriculture and allied sectors in the international market.

**Market Access Initiative (MAI)**

The government would assist the industry in research and development, market research, specific market and product studies, warehousing and retail infrastructure in select countries and direct market promotion activities through media advertising and buyer seller meets. A plan scheme has been evolved for this purpose.

**Special Economic Zones**

While announcing the EXIM Policy for 2000-01, the Commerce Minister stated that India would develop Special Economic Zones to boost the country’s exports. It was announced that any State Government or corporate body may set up a SEZ.

**Removal of QRs**

Due to pressure, which carried on a crusade against Quantitative Restrictions by India, it was decided to remove the quantitative restriction except a few items in the EXIM policy.

**3.24. EXPORT IMPORT POLICY, 2001-2002**

The features of EXIM policy 2001 are:

a. Removal of quantitative restrictions: The process of removal of import restrictions, which began in 1991, was completed in a phased manner by the EXIM policy. The policy removed restriction on the remaining 715 items. This was in tune with the commitments to World Trade Organization.
b. Agricultural Export Zones: With a view to boost agricultural exports and provide remunerative returns to the farmer community, the policy set up agricultural export zones. Directions were given to State Governments to identify products specific for agriculture export zones for development of exports.

3.25. EXPORT IMPORT POLICY, 2002-2007

Union Commerce and Industry announced the EXIM policy for the 5 year period (2002 – 07) on March 31, 2002. The main thrust of the policy is to push India’s exports aggressively by undertaking several measures. The policy aims to reduce transactions cost to trade through a number of measures to bring about procedural simplifications. The EXIM policy removes quantitative restrictions (QRs) on exports, except a few sensitive items.

The salient features of EXIM policy are as under:

**Special Economic Zones**

Indian banks have been allowed to set up Offshore Banking Units (OBUs) in special economic zones. OBUs will be exempt from cash reserve ratio (CRR), statutory liquidity ratio (SLR) and would give access to SEZ units and SEZ developers to international finance at international rates. This measure will make special economic zones internationally competitive. Export restrictions like registration and packaging requirement are being removed

**Agriculture:**

EXIM policy has removed all quantitative restrictions on all agricultural products except a few sensitive items like jute and onions. In order to promote diversification of agriculture, transport subsidy shall be available for export of fruits, vegetables, floriculture, poultry and dairy products.
**Cottage and Handicrafts**

(a) An amount of Rs. 5 crores under market access initiative (MAI) has been earmarked for promoting cottage sector exports coming under KVIC. The units under handicrafts can also access funds under MAI.

(b) Under export promotion capital goods (EPCG) scheme, these units will not be required to maintain an average level of exports, while calculating export obligation.

(c) These units shall be entitled to the benefit of Export House status.

(d) The units in handicraft sector shall be entitled to duty-free imports of an enlarged list of items up to 3 per cent of f.o.b value of their exports.

**Small Scale Industry**

(a) Common service providers in these areas shall be entitled to the facility of Export Promotion Capital Goods (EPCG) Scheme.

(b) The recognized associations of units in these areas shall be able to access funds under MAI for technological services and marketing abroad.

(c) Entitlement for Export House status.

**Leather**

Duty free imports up to 3 per cent of f.o.b value combined to leather garments have been extended to all leather products.

**Textiles**

Duty entitlement passbook (DEPB) rates for all kinds of blended fabrics permitted.

**Gems and jewellery**

Rough diamonds import allowed on zero custom duty basis. Licensing regime for rough diamonds is being abolished
**Technology oriented**

(a) Electronic Hardware Technology Park (EHTP) scheme is being modified to enable this sector to face zero duty regimes under information technology agreement.

(b) Chemicals and pharmaceuticals – All pesticide formulations to have 65 per cent of DEPB rate of such pesticides.

(c) Projects – free import of equipment and other goods used abroad for more than one year.

**Growth Oriented**

(a) Strategic package for status holders.

(b) Neutralizing high fuel cost – fuel costs to be rebated for all export products

(c) Diversification of markets

(d) Focus LAC (Latin American Countries) was launched in November in order to accelerate trade with these countries.

(e) Focus Africa is being launched in April 2002 for trade with sub-Saharan African region.

(f) Links with CIS (Commonwealth of Independent States) was revived.

(g) Reduction in transaction time and cost

(h) A new 8 digit commodity classification for imports has been introduced.

**Trust-based**

(a) Penal interest rate for bonafide defaults to be brought down.

(b) No penalty for non-realization of export proceeds in respect of cases covered by the ECGC.

(c) No seizure of stocks in trade so as to disrupt the manufacturing process affecting delivery schedule of exports.
(d) Foreign inward remittance certificate (FIRC) to be accepted in lieu of bank realization certificates

**Duty neutralization instruments**

(a) Advance license – Duty Exemption Entitlement Certificate (DEEC) book to be abolished.

(b) Withdrawal of advance license for annual requirement (AAL)

(c) Duty entitlement pass book (DEPB)

(d) Export promotion capital goods (EPCG).

EXIM policy (2002-07) has retained most of the sops such as Duty entitlement Pass Book Scheme, Advance Licensing, and Export Promotion Capital Goods Scheme. The policy has allowed import of rough diamonds duty free.

Positive feature of the policy is ‘Focus Africa’ so that Indian exports to African countries can be developed. A big initiative to permit offshore banking units (OBUs) will help to develop foreign branches of Indian banks. EXIM policy intends to boost the export of agriculture. The government intends to further push forward the concept of Agriculture Export Zones introduced during 2001. EXIM policy has laid great emphasis on Special Economic Zones (SEZs) which is a new incarnation of the Export Promotion Zones (EPZ) and Export-oriented units (EOUs) promoted earlier. EXIM policy has made some concessions to help cottage and handicraft sector and small scale units which account for nearly 35 per cent of the country’s exports.

3.26. **EXIM POLICY 2008 – 09 HIGHLIGHTS**

- DEPB scheme has been extended till May 2009.
- Refund of service tax on almost all the services.
- Income tax benefit to 100% EOUs has been extended by Government.
• Coverage of FMS has been increased and additional 10 countries have been included. These are Mongolia, Bosnia-Herzegovina, Albania, Macedonia, Croatia, Honduras, Djibouti, Sudan, Ghana and Colombia.

• Split-up facility under DFIA Scheme introduced.

• Duty free import of samples has been increased from Rs.75,000 to Rs.1,00,000.

• Value of jeweler parcels, through Foreign Post Office is raised to US$ 75,000. Earlier it was from US$ 50,000.

• EOU’s shall be allowed to pay excise duty on monthly basis, instead of the present system of paying duty on consignment basis.

Customs duty payable under EPCG Scheme has been reduced from 5%

3.27. FACTORS RESPONSIBLE FOR SLOW GROWTH IN EXPORTS

Despite all these regulations in place exports in India continued to face lots of difficulties. High Domestic costs – Production, Managerial inefficiency, Lower levels of Productivity, Higher Port charges, less competitive freight charges, supply bottlenecks, technological factors resulting in low productivity – high cost of production. Government policy does not support modernization in Technology and technological innovations. Poor quality/inadequacy of inputs, technology and facilities resulted in Poor quality image, inadequate quality control and Inspection laws affecting the growth of exports. Carelessness or lack of commitment, Adulteration and duping and lack of proper export culture among Indian exporters also contribute to this problem. Delay in delivery schedule. Upward revision of prices due to internal factors, acceptance of commitments far beyond the capacity to implement has made Indian exports as unreliable. Failure of India to keep pace with the market dynamics, infrastructural shortages such as energy, shortages, inadequate
and unreliable transport and communication facilities has also contributed to the perpetuation of this situation. Power shortages and breakdowns disrupt production schedules, increase cost and adversely affect timely shipments. Exports suffer for want of efficient and economic communication facilities.

Advancements in communication and technology have changed the complexion of international trade. Improving the transportation system, including the expansion and modernization of the port facilities, rationalization of charges, improving the procedural system, etc. are very much essential for the development of the export sector.

Some of the factors responsible for slow growth in exports are as under:

- India’s export has suffered due to shortage of supplies and inadequate exportable surpluses.
- Technology intensive exports (TIE’s) have not registered phenomenal growth. It is 3% against Singapore’s growth of 40%.
- Intimately linked with problem of exportable surplus is the problem of quality control.
- India has not been able to create an image as a supplier of quality goods.
- The trade is generally opposed to compulsory quality and/or pre shipment inspection. Sometimes, even after the quality control and pre shipment inspection, there have been complaints. Nothing harms the export market more than a bad reputation for quality.
- Phenomenal technological advances, coupled with the structural diversification of industries, have strengthened the competitive ability of rival producers in the international market. This is because of the fact that the domestic cost of production is high in India.
Indian industries did not feel the need of cost conscious.

The trade route has also not been exploited.

Transportation and shipping facilities are inadequate.

India’s export, like exports from other developing countries are pitted against tariff and non tariff barriers imposed by developed countries.

Exporters are hampered by ceiling under the generalized system of preferences, and administrative surveillance.

Exporters are also saddled against emerging regional trade blocs like the EU, NAFTA, Asia-Pacific Rim etc.,

3.28. EXPORT PROCESSING ZONES / EOUS

As a part of the export promotion drive, Government has, from time to time, introduced several schemes to promote units primarily devoted to exports. These include Export processing Zones (EPZ’s), hundred per cent Export Oriented Industrial Units (EOU’s) and different categories of Technology Parks (TP’s). In 2000, a scheme of Special Economic Zones (SEZs) was also introduced.

Export Processing Zones (EPZs) are industrial estates which form enclaves from the national customs territory of a country and are usually situated near seaports or airports. The entire production of such a zone is normally intended for exports. Such zones are provided with well developed infrastructural facilities. Industrial plots/sheds are normally made available at concessional rates. Units in these zones are allowed foreign equity even up to 100 per cent. EPZ units can import capital goods, raw materials, etc. for export production without payment of duty. Domestically procured items are also eligible for duty exemption.

A Free Trade Zone (FTZ) is different from an EPZ. Goods imported to a free trade zone may be re-exported without any processing, in the same form. But, goods
exported by units in an EPZ are expected to have undergone some value addition by manufacturing or other processing. A Free Port is one into which imports and from which exports are free from trade barriers. A FTZ may be a part of or adjacent to a port; the rest of the port being subject to the national customs regulation.

The main objectives of an EPZ are:

- To earn foreign exchange.
- To generate employment opportunities.
- To facilitate transfer of technology by foreign investment and other means.
- To contribute to the overall development of the economy.

The Kandla Free Trade Zone (KAFTZ), set up in 1965, is India’s first EPZ (it was a misnomer to call it a free trade zone). The second one is the Santa Cruz Electronics Export Processing Zone (SEEPZ) set up in 1974. This exclusive zone (for electronic goods) is situated near the Santa Cruz Airport, Mumbai. Four more free trade zones were set up later in the county at Chennai, Cochin, Noida (U.P.) and Falta (W.Bengal) and they commenced exports during the Seventh Plan (1985-86). Later another EPZ was developed in Vizag (A.P). Government also introduced schemes for Electronic Hardware Technology Park (EHT P) units and Software Technology (STP) units.

Hundred per cent export-oriented unit (EOU) refers to an industrial unit which offers for exports its entire production, excluding permitted levels of rejects. EOUs were allowed in industries in respect of which the export potential and export targets were considered by the relevant Export Promotion Council. EOUs were not normally encouraged in respect of products subject to export control quota ceilings which can be reached by existing units in the industry. Thus, the scheme of 100 per cent export oriented units had been designed to create additional export capacity, units which
results in mere substitution for the existing units’ production were not to be permitted. Being outside the EPZs, the EOUs did not get the benefits of the built in facilities of the Zones. EOUs enjoyed most other facilities and incentives as were available to the EPZ units.

An EPZ / EOU unit had to be a net foreign exchange earner. The level of foreign exchange earning as a percentage of exports (NEEP) was calculated annually and cumulatively for a period of 5 years since the commencement of commercial production. The NEEP requirement for different products varied from 10 per cent for plain gold jewellery to 60 per cent for computer software and tissue culture plants. However, electronic hardware units were allowed to be set up without stipulation of a positive NEEP.

The following supplies were also allowed to be counted towards fulfillment of the export obligation:

(a) Supplies effected in domestic tariff area (DTA – all parts of the country where the national tariff laws are applicable) which are eligible to be regarded as deemed exports.

(b) Supplies affected in DTA against payment in foreign exchange.

(c) Supplies, with the permission of the Development Commissioner, to other EOUs/EPZ/EHTP/STP units, as per the policy.

The entire production of EOU/EPZ/EHTP/STP units was required to be exported except:

(a) Rejects up to 5% or such percentage approved by the Development Commissioner in consultation with the local customs authority. Rejects could be sold in the DTA, subject to payment of appropriate duties.
(b) 25% of the production in value terms was allowed to be sold in the DTA subject to the fulfillment of NEEP and payment of applicable duties. No DTA sale was permissible in respect of certain items like motor cars and alcoholic liquor.

(c) However, units in agriculture and related fields were permitted to sell up to 50% of the production in value terms in the DTA subject to positive NFE earnings.

(d) Electronics hardware products could be sold in the DTA subject to the conditions laid down in the Policy.

An EOU/EPZ/EHTP/STP unit could export manufactured by it through an Export House/Trading House/Star Trading House/Superstar Trading House recognized under the EXIM Policy or any other EOU/EPZ/EHTP/STP unit. This permission is extended only to the marketing of the goods by the above category of exporters. The manufacture of the goods shall be done in the EOU/EPZ units.

3.29. SPECIAL ECONOMIC ZONE

The Commerce Minister stated that India would develop Special Economic Zones to boost the country’s exports while announcing the EXIM Policy for 2000-01. State Government or corporate body may set up a SEZ. The laws which will operate in these Zones will be the labour and banking laws. The first two SEZs are to be set up in Positira in Gujarat where the State Government has made available 880 hectares of land and in Nangunery in Tamil Nadu where over a thousand hectares of land was allocated. The minimum size of Zone should be 400 – 500 hectares according to the Commerce Minister. This is an Rs.10, 000 crore project which would comprise an international airport, star hotel, hospital and a huge housing complex, among others. The project will have equity participation of Gujarat Government, Private firms
(including Sumitoma Corporation of Japan), Singapore Government and multilateral agencies.

Proposals have already come up for establishment of SEZs in some other States also. It was also announced that all the existing EPZs will be converted into SEZs.

The move to develop SEZs was inspired by the success of the SEZs in China which contribute about 40 per cent of her exports. The Indian EPZs have contributed hardly four per cent of the country’s exports. The SEZs are expected to bring about a major breakthrough. It is pointed out that one important reason for the success of the Chinese SEZs is the absence of trade union rights there. A democratic country like India cannot think of denying the labour rights. Yet, the big push of development envisaged by the SEZs should be expected to have a very significant impact.