1.1 INTRODUCTION

Economic development is the development of economic wealth of countries or regions for the well being of their inhabitants. The term economic development implies progressive changes in the socio-economic structure of a country. Economic development is one of the main objectives of every society in the world, India being no exception. India’s economic development strategy, immediately after Independence, was based primarily on the Mahalanobis model, which gave preference to the investment in capital goods industries sector, with secondary importance accorded to the services and household goods sector. Mahalanobis model placed strong emphasis on mining and manufacturing (for the production of capital goods) and infrastructural development. The strategy of economic development in India was (1) direct participation of the government in economic activities such as production and selling and (2) regulation of private sector economic activities through a complex system of controls. In addition, the Indian economy was sheltered from foreign competition through use of both the “infant industry argument” and a binding foreign exchange constraint. Imports were limited to goods considered essential either to the development of the economy (such as raw materials and machines) or to the maintenance of minimal living standards (such as crude oil and food items). It was further decided that exports should play a limited role in economic development, thereby minimizing the need to compete in the global market place. As a result, India became a relatively closed economy, permitting only limited economic transactions with other countries. Domestic producers were sheltered from foreign competition not only from abroad but also from within India itself.

Over time, India created a large number of government institutions to meet the objective of growth with equity. The size of the government grew substantially as it played an increasingly larger role in the economy in such areas as investment, production, retailing, and regulation of the private sector. For example, in the late 1950s and 1960s, the government established public sector enterprises in such areas
as production and distribution of electricity, petroleum products, steel, coal, and engineering goods. In the late 1960s, it nationalized the banking and insurance sectors. To alleviate the shortages of food and other agricultural outputs, it provided modern agricultural inputs (for example farm machinery, irrigation, high yielding varieties of seeds, chemical fertilizers) to farmers at highly subsidized prices. In 1970, to increase foreign exchange earnings, it designated exports as a priority sector for active government help and established, among other things, a duty drawback system, programmes of assistance for market development, and 100 per cent export-oriented entities to help producers export. Finally, from the late 1970s through the mid-1980s, India liberalized imports such that those not subject to licensing as a proportion to total imports grew from five per cent in 1980-1981 to about 30 per cent in 1987-1988. Due to government intervention, particularly the high levels of government subsidies, it was clear by 1990 that India was living beyond its means. The result was a severe payments crisis in which, for the first time, the government physically transported gold overseas to prevent defaulting on foreign commitments. As a result, the government of India undertook a package of economic reforms between 1991 and 1993, with the intent of placing the market in place of government controls as the prime mover in the economic development process. As one might expect, macroeconomic policy reforms played a major role in economic progress in the 1990s.

India’s GDP at market prices has increased from US$ 20 billion in 1950-51 to US$ 912 billion in 2006-07. In terms of purchasing power parity (PPP), India’s GDP at US$ 4 trillion in 2006-07 accounted for 6.3 per cent of global GDP. Although the country has made significant stride in improving the economic condition of its residents yet the position of the India in the world is well below satisfaction.

GDP cannot be expected to be the true indicator of Economic Development of a country. The UN has developed a widely accepted set of indices to measure development against a mix of composite indicators: UN's Human Development Index

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(HDI) measures a country's average achievements in three basic dimensions of human development: life expectancy, educational attainment and adjusted real income ($PPP per person). UN's Human Poverty Index (HPI) measure deprivation using % of people expected to die before age 40, % of illiterate adults, % of people without access to health services and safe water and the % of underweight children under five. The World Development Report (2007-08) shows that the rank of India in human development is 128. India’s position is not only low as compared to developed countries; it is less then many developing countries.

Table: 1.1 Human Development Indices for Selected Countries

<table>
<thead>
<tr>
<th>HDI rank</th>
<th>Country</th>
<th>Human development index (HDI) value</th>
<th>Life expectancy at birth (years)</th>
<th>Adult literacy rate(% aged 15 and above) 1995-2005</th>
<th>Combined gross enrolment ratio for primary, secondary and tertiary Education (%)</th>
<th>GDP per capita (PPP US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Ireland</td>
<td>0.968</td>
<td>81.5</td>
<td>99.0</td>
<td>95.4</td>
<td>36,510</td>
</tr>
<tr>
<td>02</td>
<td>Norway</td>
<td>0.968</td>
<td>79.8</td>
<td>99.0</td>
<td>99.2</td>
<td>41,420</td>
</tr>
<tr>
<td>03</td>
<td>Australia</td>
<td>0.962</td>
<td>80.9</td>
<td>99.0</td>
<td>113.0</td>
<td>31,794</td>
</tr>
<tr>
<td>12</td>
<td>U.S.A.</td>
<td>0.951</td>
<td>77.9</td>
<td>99.0</td>
<td>93.3</td>
<td>41,890</td>
</tr>
<tr>
<td>81</td>
<td>China</td>
<td>0.777</td>
<td>72.5</td>
<td>90.9</td>
<td>69.1</td>
<td>6,757</td>
</tr>
<tr>
<td>84</td>
<td>Turkey</td>
<td>0.775</td>
<td>71.4</td>
<td>87.4</td>
<td>68.7</td>
<td>8,407</td>
</tr>
<tr>
<td>99</td>
<td>Sri Lanka</td>
<td>0.743</td>
<td>71.6</td>
<td>90.7</td>
<td>62.7</td>
<td>4,595</td>
</tr>
<tr>
<td>107</td>
<td>Indonesia</td>
<td>0.728</td>
<td>69.7</td>
<td>90.4</td>
<td>68.2</td>
<td>3,843</td>
</tr>
<tr>
<td>128</td>
<td>India</td>
<td>0.619</td>
<td>63.7</td>
<td>61.0</td>
<td>63.8</td>
<td>3,452</td>
</tr>
</tbody>
</table>


It is widely accepted among economists that economic growth is an extremely complex process, which depends on many variables such as capital accumulation (both physical and human), trade, price fluctuations, political conditions and income distribution, and even more on geographical characteristics.

There are many suggested strategies to achieve the objectives of economic development. Economic development in the present era is synonymous with industrialization, which involves application of a multitude of capital goods and other resources that the developing countries generally don’t possess. These resources have
to be acquired from the advanced countries of world, and as such, the inevitable need for foreign exchange.

1.2 ROLE OF TRADE IN THE ECONOMIC DEVELOPMENT

The role of trade in the economic development of a country is widely recognized. The classical and neo-classical economists attached so much importance to international trade in a country’s economic development that they regard it as an engine of growth. The economic progress of most of the present industrially advanced countries of the world is attributable to their ever-expanding external trade. For instance, it was trade that brought growth to the USA. America received a large inflow of labour and foreign capital from Europe to which it exported foodstuff and raw material, which it was well suited to produce. The benefits of foreign trade are both direct and indirect.

1.2.1 Direct Benefits

When a country specialise in the production of a few goods due to international trade and division of labour, it exports those commodities which it produces cheaper in exchange for what others can produce at lower cost. It gains from trade and there is increase in national income which, in turn, raises the level of output and growth rate of economy. Thus the higher level of output through trade tends to break the vicious circle of poverty and promote economic development.

In less developed countries, due to low per capita income and small domestic market, sufficient volume of output cannot be absorbed. International trade widens the market and increases the inducement to invest income and saving through more efficient resource allocation. Trade according to comparative advantage results in a "more efficient employment of the productive forces of the world," and this is to be considered the "direct economical advantage of foreign trade. But there are, besides, indirect effects, which must be counted as benefits of a high order." One of the most significant "indirect" benefits, according to Mill, is "the tendency of every extension of the market to improve the processes of production. A country which produces for a larger market than its own, can introduce a more extended division of labour, can
make greater use of machinery, and is more likely to make inventions and improvements in the processes of production.” Another important result “principally applicable to an early state of industrial advancement,” is that “the opening of a foreign trade, by making [people] acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes sort of industrial revolution in a country whose resources were previously undeveloped for want of energy and ambition in the people: inducing those who were satisfied with scanty comforts and little work, to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time.”

Myint’s application of smith’s ‘vent for surplus’ theory to the less developed countries for measuring gains from international trade states that the introduction of foreign trade opens up the possibility of a potential surplus, in the primary producing less developed countries. Since land and labour are underutilized in the traditional subsistence sector in such a country, its opening up to foreign trade provide larger opportunities to produce a surplus of primary products and can exchange it for imports of manufactured products which it cannot produce itself. Myint concludes “instead of a process of economic growth based on continuous improvements in skills, more productive re-combinations of factors and increasing returns, the 19th century expansion of international trade in the underdeveloped countries seems to approximate to a simpler process based on constant returns and fairly rigid combinations of factors. Such a process of expansion could continue smoothly only if it could feed on additional supplies of factors in the required proportions.”

Moreover, many developing countries specialise in the production of one or more staple commodities. The staple theory postulates that with the discovery of a primary product in which the country has a comparative advantage, or with an

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4 The term ‘staple’ designates a raw material or resource-intensive commodity occupying a dominant position in the country’s exports.
increase in the demand for its comparative advantage commodity, there is an expansion of a resource-based export commodity; this in turn induces higher rates of growth of aggregate and per capita income. Previously idle or undiscovered resources are brought into use, creating a return to these resources and being consistent with venting a surplus through trade. The export of a primary product also has effects on the rest of the economy through diminishing underemployment or unemployment, inducing a higher rate of domestic saving and investment, attracting an inflow of factor inputs into the expanding export sector and establishing linkages with other sectors of the economy. Although the rise in exports is induced by greater demand, there are supply responses within the economy that increase the productivity of the exporting economy and greater backward and forward linkages with other sectors of the economy. It is significant in relating a country’s development not only to its export revenue, but also to the spread effects of its export sector—i.e., the impact of export activity on the domestic economy and society.

Foreign trade also helps to transform the subsistence sector into the monetized sector by providing market for the farm produce and raises the standard of living of the peasantry. The expansion of the market leads to a number of internal and external economies, and hence to reduction in the cost of production.

1.2.2 Indirect Benefits

Foreign trade helps the developing countries to exchange domestic goods having low growth potential for foreign goods with high growth potential like machinery, capital goods, essential raw material etc. Thus foreign trade enables less developed countries to import capital, equipment etc. from developed countries, and make the process of development faster.

Foreign trade possess an education effect. Developing countries lack in critical skills, which are a greater hindrance to development than is the scarcity of capital goods. Foreign trade tends to overcome this weakness. The importation of ideas, skills and know how is a great stimulus to technological progress in less developed countries. It provides them an opportunity to learn from the successes and failures of the advanced countries. J.S. Mill remarked, “the introduction of foreign arts, which
raises the returns derivable from additional capital to a rate corresponding to the low strength of accumulation; and the importation of foreign capital which renders the increase of production no longer exclusively dependent on the thrift or providence of the inhabitants themselves, while it places before them a stimulating example, and by instilling new ideas and breaking the chain of habit, if not by improving the actual condition of the population, tends to create in them new wants, increased ambition, and greater thought for the future."\(^5\)

Foreign trade also provides basis for the importation of foreign capital in less developed countries. The volume of foreign capital depends, among other factors, on the volume of trade. The larger the volume of trade, the greater will be the ease with which a country can import foreign capital. The use of foreign capital for import substitution, export promotion, public utilities and manufacturing industries is beneficial. Thus foreign capital helps in increasing employment, output, and income and also smoothen the balance of payments and inflationary pressures.

Last but not the least, foreign trade benefits less developed countries indirectly by fostering healthy competition and checking inefficient monopolies and restrictive trade practices.

Cordon offered an analysis of the effects of trade on the rate of growth\(^6\) arguing that after a country is opened to world trade, five different effects may be distinguished. First is the "impact effect" corresponding to the static gain from trade: current real income is raised. Then there may be the "capital accumulation effect": an increase in capital accumulation results when parts of the static gain are invested. This amounts to a transfer of real income from the present to the future instead of an increase in present consumption. Third may be the "substitution effect." This may result from a possible fall in the relative price of investment goods to consumption goods if investment goods are import-intensive. This would lead to an increase in the ratio of investment to consumption and an increase in the rate of growth. The fourth


possibility is an “income-distribution effect”: there will be a shift in income towards the factors that are used intensively in the production of exports. If the savings propensities differ between sectors or factors, this will have an effect on the overall savings propensity and hence on capital accumulation. Finally, there is the “factor-weight effect”. This considers the relative productivity of capital and labor and recognizes that if the rate of growth of output is a weighted average of capital and labour growth rates (with a constant returns-to-scale aggregate production function), then if exports rise, and exports use the faster-growing factor of production, the rate of growth of exports will rise more rapidly. These effects are all cumulative, and intensify the increase in real income over time as a result of opening a country to foreign trade.

This positive view of trade and development thus emphasizes the direct gain that comes from international specialization plus the additional support to a country’s development through a number of spread effects within the domestic economy.

International trade promotes capital formation and brings sectoral and external economics in the industrial activities of a country. It creates structural changes in a country’s economic characteristics, proportions and relationships. It bestows a number of economics of scale, and enables a country to produce those goods, which are economical, competitive and are based on rational cost proportions. Trade strengthens the relations, both political and economic, with the other trading countries and provides an opportunity to enter into customs union, which bring forth trade creating and trade diverting benefits. Trade intensifies the hidden talents of entrepreneurs and thus augments the ‘competitive advantages’ in a country.

The idea of ‘growth through trade’ is not a new concept, as trade has since long been termed as an ‘engine of growth’, ‘an activator of change’ and a ‘barometer of economic progress’. For the developing countries in the world, development of foreign trade is of crucial importance. For the developing countries in the world, development of foreign trade is of crucial importance. These countries believe that without speedy industrialization they cannot solve their twin problems of poverty and unemployment. For them industrialization has become a panacea for the economic and social ills which confront them. But the road of industrialization is to be set with a host of obstacles, which have to be overcome. A major obstacle is the lack of availability, on
massive scale capital goods, know-how and equipments. The international trade can be of immense help to overcome these problems.

1.3 ROLE OF EXPORTS IN ECONOMIC DEVELOPMENT

Neoclassical school of economists suggests that exports make major contributions to economic growth. There are usually four reasons mentioned for the support of this hypothesis: a) fostering specialization helps to benefit from the comparative advantages; b) utilizing the full capacity of the plant size, where domestic demand is less than the full capacity production; c) getting benefits of the greater economies of scale due to large market, and d) increasing the rate of investment and technological change. In addition competition in the world market may also help producer to reduce inefficiencies.

Since the late 1960s studies have been conducted to examine the role of export performance in the economic growth process. Although the empirical literature can be considered to be vast, most authors as well as multilateral institutions would agree that promoting exports and achieving export expansion are beneficial for both developed and DCs for many reasons, including the following

(i) They generate a greater capacity utilization;
(ii) They take advantage of economies of scale;
(iii) They bring about technological progress;
(iv) They create employment and increase labour productivity;
(v) They improve allocation of scarce resources throughout the economy;
(vi) They relax the current account pressures for foreign capital goods by increasing the country’s external earnings and attracting foreign investment; and
(vii) They increase the TFP and consequently the well-being of the country (World Bank, 1993).
Since the pioneering studies of Harold Innis\textsuperscript{7}, the staple theory of economic growth has often been used to relate the pace of development in Canada to Canada's resource intensive exports. It has also been applied to several other countries. Although it should not be interpreted as a general theory about the growth of export oriented economies, it does have illuminating applications to the case of a new country. It is significant in relating a country's development not only to its export revenue, but also to the spread effects of its export sector--i.e., the impact of export activity on the domestic economy and society.

Different export commodities will provide different stimuli, according to the technological characteristics of their production\textsuperscript{8}. The nature of the export-goods production function (namely, the technical relationship between physical inputs of the factors of production and the resultant physical output) has a close bearing on the extent of other secondary changes elsewhere in the economy beyond the primary increase in export output. With the use of different combinations of inputs to produce different types of export commodities, there will be different rates of learning and different linkage effects. For instance, the degree to which the various exports are processed is highly significant in determining external economies associated with the learning process: the processing of primary-product exports by modern methods is likely to benefit other activities through the spread of technical knowledge, training of labour, demonstration of new production techniques that might be adapted elsewhere in the economy, and the acquisition of organizational and supervisory skills.

Export-led growth (ELG) is an economic development strategy in which export, and foreign trade in general play a central role in a country's economic growth and development. There has been a general global shift towards the ELG strategy in recent


years. This change has been found to be due to the actual and potential economic benefits that this strategy accords to both developing and developed countries alike.

First, export growth is said to result in increased output, employment and consumption, all of which lead to an increase in the demand for a country’s output. Furthermore, a buoyant export sector enlarges the domestic market so that firms achieve economies of scale and thus lower unit costs. This may be expected because an export sector allows a country to trade along its lines of comparative advantage, specializing not only in commodities that use its abundant factors intensively, but also where its per unit costs are lower. This generally leads to efficient resource allocation. This efficiency is further enhanced by exposure to international competition which forces firms to adopt modern technology and produce quality products that meet the demands of sophisticated consumers in international markets.

In terms of favorable effects on resource allocation an export-oriented industrialization strategy may result in not simply a once-for-all improvement in allocation according to the country’s comparative advantage in international trade, but more importantly in the realization of dynamic benefits. While a reallocation of resources in conformity with comparative advantage can raise the level of income, the dynamic gains are significant in increasing the rate of growth in income. There may be increased capacity utilization of plant, realization of economies of scale, the creation of employment through export of labor-intensive products, a multiplier effect that gives rise to increased demand for intermediate inputs and increased demand by consumers, and an increase in total factor productivity. Marginal factor productivities in export-oriented industries also tend to be significantly higher than in the non-export-oriented industries. The difference seems to derive, in part, from inter-sectoral beneficial externalities generated by the export sector.

Most important may be a realization of dynamic efficiency in the sense of a fall in the incremental capital-output ratio, the realization of “X efficiency,” the extension of informational efficiency, enjoyment of external economies, and realization of Verdoon effects. Considering the latter, there is evidence that the faster export output

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9Verdoorn’s law postulates the existence of a significant positive relationship between the growth rate of labour productivity and that of output, at least in manufacturing. The relationship is generally interpreted to be of a technological nature, thus
grows, the faster is the growth in productivity. This is because of economies of scale, higher investment embodying capital of a more productive vintage, and a faster pace of innovation in products and processes. The improved effectiveness of the domestic economic organization allows the developing country to take advantage of available external economic opportunities in the form of international trade, foreign investment, technological adaptation, and ideas from abroad. There is institutional adaptation to realize the potential comparative advantage in trade. The mutual interaction between economic policies and economic institutions results in improvement of the organization of production, more effective incentives, and a strengthening of markets. Dynamic efficiency is realized as diseconomies of a small economy are overcome, the transformation capacity of the economy widens, and the learning rate of the economy accelerates.

To enable them to build a sound infrastructure base for industrialization, these have to be procured from foreign sources and paid for in forms of foreign exchange. Advanced counties are in a position to meet these requirements and they are, in fact, being met, mostly through credit made available to them by friendly nations, and also from international agencies. In the process, however, the developing countries have incurred large foreign debts, which they find difficult to repay. Nearly all the developing countries are at present faced with balance of payment difficulties. An effective method of narrowing this gap could be to enable the developing countries to increase their export not only to traditional primary products but also of their manufactured and semi-manufactured articles. For this purpose the willing cooperation of the advanced countries would be needed. But foreign aid can only supplement trade and not supply it. In such countries concession should be given to export industries and export climate should be created within the country so that sizable export surplus could be generated within the economy.

From the data presented in table 1.2, we can see that while the share of developing countries in world exports have increased from 36.8% to 45% from 2001 to 2007 share of India increasing from 0.7% to 1.0%. Comparing with this China reflecting the alleged existence of both static and mainly dynamic economies of scale, and then of increasing returns.
shows whose share has increased from 4.3% to 8.4% almost doubling in six years. This indicates the concentrated efforts are required to be taken by India to increase its share in world exports. This is more important in view of the continuous adverse balance of trade for India. Data presented in table 1.3 reveals that the balance of trade for India had been unfavorable for all the years after 1991. The BOT has increased from 1545.1 $ Million in 1991 to 7586.6 million in 2001-02 and to 39691.2% in year 2005-06.

Table 1.2 Export Growth and Share in World Exports of Select Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (US $ Billions)</th>
<th>Growth %</th>
<th>Rate %</th>
<th>Share In World Exports %</th>
<th>Change in share</th>
<th>2001</th>
<th>2007</th>
<th>2007/2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>969</td>
<td>24.2</td>
<td>27.6</td>
<td>4.3</td>
<td>8.4</td>
<td>4.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>317</td>
<td>6.4</td>
<td>10.0</td>
<td>3.1</td>
<td>2.4</td>
<td>-0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>161</td>
<td>6.4</td>
<td>7.7</td>
<td>1.4</td>
<td>1.3</td>
<td>-0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>104</td>
<td>2.0</td>
<td>13.6</td>
<td>0.9</td>
<td>0.8</td>
<td>-0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>131</td>
<td>8.6</td>
<td>13.7</td>
<td>1.1</td>
<td>1.1</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>325</td>
<td>10.2</td>
<td>36.2</td>
<td>2.4</td>
<td>2.7</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>120</td>
<td>15.9</td>
<td>14.5</td>
<td>0.7</td>
<td>1.0</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>138</td>
<td>15.2</td>
<td>19.6</td>
<td>0.9</td>
<td>1.1</td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>250</td>
<td>3.2</td>
<td>4.3</td>
<td>2.6</td>
<td>2.0</td>
<td>-0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>305</td>
<td>14.7</td>
<td>8.4</td>
<td>1.7</td>
<td>2.4</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>272</td>
<td>9.6</td>
<td>-8.7</td>
<td>2.0</td>
<td>2.2</td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing countries</td>
<td>5458</td>
<td>12.1</td>
<td>15.5</td>
<td>36.8</td>
<td>45.0</td>
<td>8.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>12040</td>
<td>9.4</td>
<td>13.8</td>
<td>100</td>
<td>100</td>
<td>8.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above discussion brings to fore the importance of exports for the economic development of a country and need for India to increase its export. The export promotion is an important consideration for the economy for a fast paced economic development. What are the steps that can be taken to achieve the increase in exports? The next section discusses the methods for export promotion.

**Table 1.3: Trends in India’s Trade Balance (US $ million)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>17865.4</td>
<td>19410.5</td>
<td>-1545.1</td>
</tr>
<tr>
<td>1992-93</td>
<td>18537.2</td>
<td>21881.6</td>
<td>-3344.4</td>
</tr>
<tr>
<td>1993-94</td>
<td>22238.3</td>
<td>23306.2</td>
<td>-1067.9</td>
</tr>
<tr>
<td>1994-95</td>
<td>26330.5</td>
<td>28654.4</td>
<td>-2323.8</td>
</tr>
<tr>
<td>1995-96</td>
<td>31794.9</td>
<td>36675.3</td>
<td>-4880.4</td>
</tr>
<tr>
<td>1996-97</td>
<td>33469.7</td>
<td>39132.4</td>
<td>-5662.7</td>
</tr>
<tr>
<td>1997-98</td>
<td>35006.4</td>
<td>41484.5</td>
<td>-6478.1</td>
</tr>
<tr>
<td>1998-99</td>
<td>33218.7</td>
<td>42388.7</td>
<td>-9170.0</td>
</tr>
<tr>
<td>1999-00</td>
<td>36822.4</td>
<td>49670.7</td>
<td>-12848.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>44560.3</td>
<td>50536.5</td>
<td>-5976.2</td>
</tr>
<tr>
<td>2001-02</td>
<td>43826.7</td>
<td>51413.3</td>
<td>-7586.6</td>
</tr>
<tr>
<td>2002-03</td>
<td>52719.4</td>
<td>61412.1</td>
<td>-8692.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>63842.6</td>
<td>78149.1</td>
<td>-14306.5</td>
</tr>
<tr>
<td>2004-05</td>
<td>83535.9</td>
<td>111517.4</td>
<td>-27981.5</td>
</tr>
<tr>
<td>2005-06</td>
<td>102725.1</td>
<td>142416.3</td>
<td>-39691.2</td>
</tr>
<tr>
<td>2006-07</td>
<td>126362.0</td>
<td>185749.2</td>
<td>-59387.2</td>
</tr>
<tr>
<td>2007-08</td>
<td>159007.0</td>
<td>239561.8</td>
<td>-80554.8</td>
</tr>
</tbody>
</table>

Source: *Directorate General of Commercial Intelligence and Statistics.*

**1.4 EXPORT PROMOTION MEASURES**

Export promotion, defined as "all public policy measures that actually or potentially enhance exporting activity either from a firm, industry or national perspective" is, an instrument of economic development and for industrialised
countries a way of strengthening the competitiveness of individual companies. The Export Promotion Programmes (EPPs) designed by Export Promotion Organisations aim at overcoming the motivational, informational and resource barriers often encountered, especially by small and inexperienced exporters.

Developing countries have been unable to significantly increase their export volume on their own. There are many reasons related to the level of national economic development to explain this. One main reason is the lack of knowledge about the many complex challenges involved in marketing abroad. International marketing is a much more complicated process than marketing and selling in the domestic economy.

To encourage growth of exports, governments can step in and provide business communities with needed support in various ways. Governments have many different policies, programmes and activities to help develop competitive products and increase export sales.

Governments can assist businesses with a wide range of services, from simply providing information about current opportunities in the world market to giving specialized assistance to design and implement marketing programmes and sales campaigns abroad. These activities may be described by the words "export promotion" or "export development."

The keys to successful national export promotion and development programmes are government policy decisions that affect export trade. A country's export development policy established in terms of appropriate economic instruments and export promotion measures is critical to national foreign trade performance. Two sets of policies affect foreign trade management in general, and export promotion and development in particular:

(a) Foreign trade policies and other policies with direct influence on foreign trade,

(b) Policies that regulate other economic activities, but at the same time influence the general performance of foreign trade.
The “trade promotion policy” of a country is comprised of programmes and measures that promote and develop trade with other countries. It includes all regulations and practices that will increase exports. Trade promotion policies are part of the overall foreign trade policy, and cannot be considered alone. The country's foreign trade policy must make it possible to achieve trade promotion policy objectives. Other policies will have a significant affect on foreign trade performance, even though they were not intended to directly regulate the country's foreign trade. These policies are part of the framework in which foreign trade policy must be designed and executed. These other policies generally cover the national development plan, monetary policy, fiscal policy and practices, production and price controls and investment policies. The foreign trade policy in combination with the policies listed above, form the nation's overall economic strategy. Foreign trade policy will focus on trade promotion, trade development infrastructure and international trade relations.

![Figure 1.1: Component of Foreign Trade Policy](image)

The activities of trade promotions must start by creating the conditions required for a successful, dynamic export promotion programme. Generally, these activities aim to:
- Identify and develop products and markets;
- Locate new investment possibilities;
- Provide trade information and specialized support services such as assistance with export procedures, product quality issues, export financing and transportation;
- And carry out promotional activities abroad through trade fairs and missions.

The major export promotion activities and measure as used for export promotion all over the world can be summarised as follows:

**Table 1.4: Some Typical Export Promotion Programmes**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Description</th>
<th>Benefits</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial support for export marketing activities by companies</td>
<td>Cost Sharing Grant Scheme for eligible activities through an authorised agency or institution. Approved against applications supported for export marketing plans. Can be used for in marketing activities such as certification, promotional materials.</td>
<td>Helps companies plan and execute export marketing activities. Improves quality of export planning; market research etc. Improves companies’ chances of achieving business.</td>
<td>Requires funds, an empowered institution and a transparent and robust evaluation process. Benefits greatly from advisory services to companies to prepare marketing plan and realistic applications.</td>
</tr>
<tr>
<td>Export Marketing consultancy</td>
<td>Expert advise to companies on how to approach exporting</td>
<td>Helps companies to make soundly based decisions on target markets and in planning activities.</td>
<td>Requires an “Export Advisory Service”, usually delivered by Export promotion Agency. Requires skilled and experienced staff.</td>
</tr>
<tr>
<td>Participation in International Trade Fairs</td>
<td>Organisation of National or Group Stands at suitable events</td>
<td>Provides an affordable platform for companies to meet buyers and study competition. Raises the National</td>
<td>Requires funds, a policy context to decide which Trade Fairs to Enter and a process to canvass and select</td>
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<td></td>
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<tr>
<td>--------------------------</td>
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</tr>
<tr>
<td><strong>Outward Sales Missions</strong></td>
<td>Visits by a group of companies to an export market to identify business opportunity.</td>
<td>Provides companies with sales and research opportunity in a supportive environment.</td>
<td>Needs to be professionally organised, ideally with pre-researched and pre-arranged meetings for each company</td>
</tr>
<tr>
<td><strong>Inward Buyer Missions</strong></td>
<td>Bringing existing or potential buyers from export markets to visit companies</td>
<td>Provides valuable opportunity to demonstrate company capability, build personal relation with customers and learn about new opportunities and threats. Also a chance to showcase the country</td>
<td>Very difficult to organise; requires close contact with buyers and presents logistical problems to find common availability etc. Buyers usually unable to accept direct invitation from suppliers but may do so from a gov't. agency.</td>
</tr>
<tr>
<td><strong>General Market Research</strong></td>
<td>Market overviews, trends etc. in target export markets</td>
<td>Provides data on which companies can base their export strategies.</td>
<td>Can be purchased from international database; some information is available without cost (internet etc.)</td>
</tr>
<tr>
<td><strong>Market/industry Sector Research</strong></td>
<td>Information on specific market sectors - size, trends, distribution channels, margins, competitors etc.</td>
<td>Provide companies with basis for a detailed marketing plan to penetrate a market</td>
<td>Needs to be mostly sourced in the market.</td>
</tr>
<tr>
<td><strong>Company Specific Research</strong></td>
<td>Assessing the market potential of a specific company; comparing quality, price etc. with competition; gaining feedback from potential buyers or distributors in</td>
<td>Provides company with a clear picture of their potential, opportunities and required actions.</td>
<td>Needs fieldwork, ideally by trained marketing professionals, but well-prepared company representatives can</td>
</tr>
</tbody>
</table>
the market; recommending next steps.
do it also.
Trade Information
Customs regulations, documentary requirements etc. for entering specific export markets.
Helps companies’ avoid/reduce border delays and costs.
Is available from the customs and other relevant authorities in each customs area and from central sources
Export Credit Insurance
Financial facilities to cover/facilitate transactions
Enables companies to access finance on attractive/competitive terms
Delivered by a specialist agency or financial institution.
Exporter Training/Awareness
Programmes to improve understanding of export practices and procedures. Typically delivered in group format
Good way to improve foundation level skills of companies.
Opportunities to raise ministry/agency profile in regions
Opportunity to build alliances with regional bodies
Best delivered by professional trainers with good understanding of the practical aspects of exporting.

The above table gives us an idea about the various export promotion measures adopted by different countries. In India, we, have different institutions and policies to promote exports. We will attempt a detailed analysis of those in the section while discussing institutional arrangement for export promotion in India.

Export of any country is influenced largely by export import policy of that particular country, political relations, internal supply factors and external demand factors, export assistance and incentives given to exporters. The following are the some conditions, which have their influence over our exports.

- Quality of goods to be exported must be comparable with that of our rival nation. This requires compulsory quality control.
- Prices of goods to be exported must be competitive. So, we should increase our productivity and efficiency and reduce our cost production.
Extensive market research is essential to find out the size, nature and trend of consumer demand and the degree of foreign competition.

Tax concession relief for export duty, excise duty, sales tax, efficient and cheaper transport and warehousing facilities, adequate compensation against export risks, liberal and cheaper export finances.

Stability in exchange rates; export assistance; foreign exchange regulation; availability of information about foreign market.

1.5 EXPORT PROMOTION IN INDIA

The impetus to foreign trade and development comes largely through a well-conceived and properly articulated export promotion policies of any country. In this section, we will discuss various export promotion measures for effective export promotion strategies in India.

1.5.1 Evolution of Export Promotion Policies In India

In the initial years after attaining independence, India's trade policy and programmes were primarily oriented towards regulating imports, having regard to the nascent state of the domestic industry. Indian supply capabilities were far too limited to cater effectively to the needs of various export markets. Indian export capacity if any, was limited to supplying certain primarily commodities which are normally subject to numerous constraints, including low unit-value realisations. The industrial sector in particular had suffered years of benign neglect at the hands of our erstwhile British rulers, perhaps as a matter of deliberate policy. The accent of our policy planners immediately after independence was therefore on rapid industrialisations of the country and attaining self-sufficiency in the output of various industrial goods and services.

There was, in this context, a definite need to discourage imports in general while encouraging the domestic manufacturer's goods and services through appropriate import substitution measures for a specific period of time. This policy was designed to enable them to build up the required strength and resilience and build domestic capacities. The concept of export promotion under these circumstances did
not receive the importance and emphasis that it should normally receive as a component of trade policy, in the earlier years. Import substitution and provision of adequate protection to the domestic industry were the primary concerns of our policy makers at that point of time rather than exports and export promotion.

In due course, there was some shift in the policy emphasis when foreign trade, particularly export was recognised as an important factor for economic progress and was increasingly regarded as the engine of the economic development of the country. The process of industrialisation of the country and capacity building had also necessitated large-scale imports of capital goods and services which needed to be financed through increased exports. The need to exploring export avenues and building up domestic supply capabilities for the purpose therefore received greater stress particularly during the formulation of the successive 5-Year Economic Development Plans. A number of export promotion institutions and a fairly elaborate system of export incentives were set in place to further the cause of exports and export promotion in India. However, the results were found to be partially satisfactory, since such export promotion policies and programmes were often negated by a restrictive import licensing regime and high import tariffs. A restrictive import regime tended to stifle export promotion efforts by virtue of the fact that it restricted the scope for bringing in new technologies and processes prevented the rapid expansion and modernisation of an outmoded industrial infrastructure and the creation of appropriate quality norms within the country. It was only after the wide-ranging economic reforms undertaken by the Government of India in early 1991 that there was a perceptible shift in the trade policy emphasis. The restrictive system of administrative, discretionary control over imports (and many export items) were progressively dismantled. The high custom tariffs rates on several commodities which supplemented the restrictive import regime were substantially reduced. The elimination of all procedural hurdles in the way of exports was also regarded as an important adjunct of an effective export promotion effort. In sum, there was a realisation that export promotion policies cannot coexist with a protectionist regime which only stifled healthy competition, created inefficient and high cost industries and caused distortions in the exchange rate system. Export promotion has now virtually
become an article of faith with the Government of India and an essential component of an integrated trade promotion strategy.

It needs to be mentioned that creation of appropriate institutions and a liberalised export promotion environment alone cannot automatically guarantee greater exports. It is also important to draw up optimal programme by way of product and market promotion strategies.

1.5.2 Export Promotion Measures In India

A number of measures have been taken by the Government of India to improve export performance of the country. In the overall ambit of export promotion measures, one can broadly include some of the salient export assistance measures as contained in the Export - Import Policy; promotional and publicity campaigns undertaken in this country relating to the export effort and the support facilities being created by the government by way of infrastructural development and improving market capabilities to boost exports. Some of the important export promotion measures initiated by government over the years are as follows:

Export Processing Zones and 100% Export-Oriented Units (EOUs): The Export Processing Zones (EPZs) set up as special enclaves, separated from the Domestic Tariff Area by fiscal barriers, are attended to provide an internationally competitive duty free environment for export production at low cost. This enables the product of EPZs to be competitive in terms of both quality and price in the international markets. India has set up seven EPZs at various centres like Kandla (Gujarat), Santacruz (Bombay), Falta (West Bengal), Noida (UP), Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pardesh). The Santa Cruz Electronics Export Processing Zone is meant exclusively for export of electronics goods and gem and jewellery items whereas all other zones are multi-product zones.

Hundred per cent export-oriented unit scheme is complementary to the EPZ scheme. It means an industrial unit offering its entire production for export excluding the rejects and items otherwise specifically permitted to be supplied to the Domestic
tariff Area (DTA). But unlike the EPZs, the 100% EOU can be set up in any part of India subject to locational criteria. The locational is normally with reference to factors such as source of raw materials, port of export, hinterland facilities, availability of technological skills, existence of an industrial park, and the need for a larger area of land for the project.

**Major facilities to 100% EOU/EPZs**

- Proposals fulfilling certain conditions are granted automatic approvals within 15 days. In other cases, approvals are granted by the Board of Approvals within 45 days.

- No import licence is required for import of Capital Goods, Raw materials, and Consumables etc.

- They are exempted from the payment of customs duty on capital goods, raw materials, consumables etc.

- Exemption is also given from payment of excise duty on capital goods, raw materials, etc., brought from the Domestic Tariff Area.

- 50% of production is permitted clearance for domestic sale at concessional rate of duty.

**Export promotion industrial Park Scheme (EPIP):** A centrally sponsored "Export Promotion Industrial Park" (EPIP) Scheme has been introduced with a view to involving the State Governments in the creation of infrastructural facilities for export-oriented production.

**Software Technology Parks (STPs) & Electronics Hardware Technology Parks (EHTPs) Scheme:** Software Technology Parks (STPs) are 100% Export Oriented Projects catering to the needs of software development 100 percent exports. No export licence is required for import of equipment into Technology Park. All the imports into the Technology Park are duty free. Under the Hardware Technology Park Scheme, an Electronic Hardware Technology Park may be set up by the Central Government, State Government, and public or private sector undertakings. An EHTP
unit may import free of duty all types of goods including all capital goods required by it for its production operations.

**Special Economic Zones:** Special Economic Zones have been permitted to set up with a view to encourage free trade. It is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. Goods Export going into the SEZ area shall be treated as deemed exports. Goods coming from the SEZ area into DTA shall be treated as imported goods.

**Export Houses, Trading Hopes and Star Trading Houses:** The registered Exporters having a record of export performance over a number of years are granted the status of Export Trading Houses/Star Trading Houses/Super Star Trading Houses subject to the fulfilment of minimum annual average export performance in terms of FOB value or net foreign exchange earnings on physical exports prescribed in the Export Import (EXIM) policy. The objective of this scheme is to provide a degree of national recognition to established exporters and the larger export houses and spur them to greater efforts in the export sector,

These status holder houses are granted following facilities:

(i) Duty Entitlement Pass Book Scheme.

(ii) Advance licences for physical export, intermediate supplies and deemed exports.

(iii) Automatic licence

(iv) Legal undertaking

**Diamond, Gem and Jewellery Export Promotion Schemes:** Exporters of Gems and Jewellery are eligible to import their inputs by obtaining Replenishment Licence and Diamond Imprest Licence from the licensing authority. Exporters of gold/silver/platinum jewellery and articles thereof may import their essential inputs such as gold, silver, platinum, mountings, Findings, rough gems, precious and semi-
precious stones, synthetic stones and unprocessed pearls etc, in accordance with the procedures specified in this behalf.

**Export of Services:** In order to increase the export of services, several facilities have been provided to the service exporters. Service providers are eligible for recognition as Service Export House, International Service Export House, International Star Service Export House and International Super Star Service Export House on achieving the prescribed export performance. They will be allowed to avail the benefits as per the EXIM Policy.

**Facilities for Deemed Exporters:** Deemed Exports cover those transactions in which the goods supplied do not leave the country and the payment for the goods is received by the supplier in India.

Deemed exports shall be eligible for the following benefits in respect of manufacture and supply of goods qualifying as deemed exports:

i) Advanced licence for intermediate supply/deemed export

ii) Deemed export drawback

iii) Refund of terminal excise duty

**Export Promotion Capital Goods Scheme:** New capital goods including computer software systems may be imported under the Export Promotion Capital Goods (EPCG) Scheme. Under this provision, capital goods including jigs, fixtures, dies, moulds and spares upto 20% of the CIF value of the capital goods may be imported at 5% customs duty. This import is subject to an export obligation equivalent to 5 times CIF value of capital goods on FOB basis or 4 times the CIF value of capital goods on NFE basis to be fulfilled over a period of 8 years. Import of capital goods shall be subject to actual user condition till the export obligation is completed.

**Duty Exemption/Remission Scheme:** Duty exemption scheme enables import of inputs required for export production. An advance licence is issued for duty free
import of inputs subject to actual user condition. Such licences are exempted from payment of basic customs duty, surcharge, additional customs duty, anti dumping duty and safeguard duty if any. Advance licence can be issued for physical exports, intermediate supply and deemed exports.

Duty Remission scheme consists of Duty Free Replenishment Certificate and Duty Entitlement Pass Book Scheme. The scheme allows drawback of import charges on inputs used in the export product.

**Export Finance:** Export finance and credit are made available to the exporters for export production and selling to overseas customers on credit. The pre-shipment finance is given for financing the purchase, processing, manufacturing or packing of goods as defined by RBI. The Post-Shipment finance/credit is provided to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realisation of export proceeds. Both pre-shipment and post-shipment credits are also available in foreign currency. Under the deferred payment, the credit is extended to exporters beyond the prescribed period for realisation of export proceeds.

Export-Import Bank of India is the principal financial institution involved in both financing and promoting India’s foreign trade. The EXIM Bank’s major operations include: providing, deferred payment credit for exports, guarantees and financing of overseas joint ventures and turnkey contracts executed by Indian companies,

**Duty Drawback:** Customs and excise duties paid on raw materials, components and spares including packaging material, imported or indigenous used in export products are refunded/exempted to the exporters.

**Tax Relief:** Export sales are not subject to sales tax. Excise duty is not payable on goods for exports, if paid can be refunded. Profits on merchandise exports including software exports are fully exempt from income tax. Foreign exchange earning from other heads as specified in the policy also get income tax relief.
Brand Promotion and Quality Awareness: With the objective of promoting exports of branded products, a committee shall be constituted for identification of such products. When such brands are recognised by the committee, the exporters of such brands would be allowed to avail the benefits as per the EXIM policy.

The Government of India aims to encourage manufacturers and exporters attain internationally accepted standards of quality for their products. Government will extend support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of total quality management.

Market Development Assistance (MDA): The Scheme of Market Development Assistance (MDA) originally known as the Market Development Fund was established in 1963. The main objective of the scheme is to stimulate exports and diversify the pattern of export trade from the country. The scheme also provides assistance in the marketing of various Indian commodities abroad. The various components under the umbrella of MDA are as follows:

- Market research, commodity research, area survey and research.
- Product Promotion and commodity development.
- Export Publicity and dissemination of information. Participation in Trade Fairs and Exhibitions. Trade Delegations and Study Teams. Establishment of offices and branches in countries abroad.
- Grants-in aid to Export Promotion Councils and other approved organisations for the development of exports and the promotion of foreign trade, and
- Any other scheme which is designed to generally promote the development of markets for Indian commodities in the overseas markets.

Crucial Balancing Investment Scheme: The Crucial Balancing Investment Scheme envisages balancing capital investments for relieving bottlenecks in infrastructure for export production and conveyance. The Scheme has been introduced
with view to boosting exports through export facilitation and removal of impediments to exports with particular emphasis on infrastructure bottlenecks.

*Electronic Data Interchange:* The Government of India has identified use of Electronic Data Interchange (EDI) as high priority in trade facilitation. The specific steps taken to promote use of EDI in the country include:

- Creation of the institutional set up for EDI through establishment of EDI Council, India EDIFACT Committee and EDI Working Group.

- Federation of Indian Export organisations (FIEO) has been nominated as the nodal agency for promotion of EDI in the private sector.

- Initiatives for alignment of Trade Documents and Trade Process in India in respect of International Trade have been taken.

- The Regional Adviser UNIESCAP, at the request of Ministry of Commerce, Govt, of India, has prepared reports on the framework for introduction of EDI in India.

- Implementation of EDI in key departments/organisations connected with international trade such as Customs, Ports, DGFT, Airport Authorities etc. is being carefully monitored and coordinated for effective use of EDI in International Trade.

The Government of India has periodically been organising major international EDI events to highlight the capabilities of Electronic Commerce.

*State’s Cell:* To step up the level of the various state governments in the country’s export effort, the Government has established a States Cell which acts as a nodal agency for interacting with the States/Union territories on matters concerning exports from their region. At the suggestion of the Ministry of Commerce most of the State Governments have set up Apex level organisations under the chairmanship of the Chief Minister or Chief Secretary to consider and sort out the problems faced by the exporters in the respective States. Cells have also been created in State Secretariats for looking after the export work. The State Governments have also nominated Nodal Officers (*Niryat Bandhus*) for export promotion work.
1.5.3 Organisations Involved In Export Promotion

At the Apex level, it is the Department of Commerce in the Ministry of Commerce, which is responsible for all policy decisions relating to infrastructure and export promotion in India. As an Apex body, the Department of Commerce in the Ministry is responsible for India's external trade and other matters connected with it such as state trading, export promotion measures and the development and regulation of certain export oriented industries and commodities. It is also charged with the responsibility of maintaining and fostering commercial relations with other countries of the world. The Department has also the principle responsibility for the formulation and monitoring of the Export and Import policy of India.

The efforts of the various Governmental organisations in export promotion are being supplemented by the different Chambers of Commerce and Trade Associations in the country who send out trade delegations abroad, organise seminars and conferences on export related issues and organise Buyers Sellers meets. In the recent years, the Indian mission abroad have been required to play a more active role in promoting the country's commercial interests apart from their traditional role of political diplomacy. The Indian foreign missions help the potential exporters in locating overseas buyers, resolving buyer-seller disputes whenever possible by sending out fairly comprehensive market report to the different Export Promotion Councils and Commodity Boards.

It is necessary to mention that the various State Governments have also been entreated to be equal partners and facilitators, along with the Central Government in boosting exports from the country. This is in recognition of fact that many of the national resources in terms of men and material lie with the individual States. Their cooperation and active involvement is therefore absolutely essential if such resources are to be effectively harnessed for exports.

Thus, export promotion in the country has become a total national effort in which the Government trade and industry and the individual State Governments all have an important role to play.
1.6 NEED FOR EXPORT FINANCE

Among the various measures, as discussed above, essential for the promotion of exports, existence of adequate credit facilities is of fundamental importance. Because of prohibitive investments in export contracts and substantial delays involved in payment from importers abroad, exporters are forced to trade on credit. All other measures to encourage exports would be of little importance in the absence of proper finance facilities as only a few exporters would be self sufficient to trade in competitive foreign market. If we can handle the financial side of exports correctly, there is no reasons why our exports should not accelerate and the balance of payment problem virtually non-existence.

The promotion of exports requires strong financial support and assistance. The absence of an efficient financial system will be a serious constraint for exporters. In particular, first-time exporters will need facilities like trade financing, export insurance and financial guarantees. Financing, insurance and guarantees for exports are services covered by almost all Trade Promotion Organisations in developed countries and by about 60 per cent of those in developing countries. There is a close relationship between financing and successfully completing an export deal. Many export deals fail due to inadequate funding. In many cases, it is not because of the lack of appropriate funding sources, but from lack of knowledge about funding sources and how exporters can gain access to them. There are various inherent risks associated with the exports which makes the requirements of export financing and guarantees all the more important. Some of the Exports Risks are as follows.

1.6.1 Export Risks

Developing countries are willing to sell goods on credit without hesitation but developing countries find problem in this regard on account of various risk involved thus they feel hesitant to sell goods on credit, in foreign trade there are many types of risks as under:
• **Political Risks:**

Political risk arises due to the changes in the government policies or instability in the government sector. So it is important for an exporter to be constantly aware of the policies of foreign governments so that they can change their marketing tactics accordingly and take the necessary steps to prevent loss of business and investment. Political risks may rise from restriction on remittance in the buyer's country or any governmental actions which may block or delay payment to the exporters. They may equally rise from war, revolution or import licensing restrictions or cancellation of import license in the buyer's country.

• **Credit Risks:**

Sometimes because of large distance, it becomes difficult for an exporter to verify the creditworthiness and reputation of an importer or buyer. Any false buyer can increase the risk of non-payment, late payment or even straightforward fraud. So, it is necessary for an exporter to determine the creditworthiness of the foreign buyer. An exporter can seek the help of commercial firms that can provide assistance in credit checking of foreign companies.

• **Poor Quality Risks:**

Exported goods can be rejected by an importer on the basis of poor quality. So it is imperative to properly check the goods to be exported. Sometimes buyer or importer raises the quality issue just to put pressure on an exporter in order to try and negotiate a lower price. So, it is better to allow an inspection procedure by an independent inspection company before shipment. Such an inspection protects both the importer and the exporter. Inspection is normally done at the request of importer and the costs for the inspection are borne by the importer or it may be negotiated that they be included in the contract price. Alternatively, it may be a good idea to ship one or two samples of the goods being produced to the importer by an international courier company. The final product produced to the same standards is always difficult to reduce.
• **Transportation Risks:**

With the movement of goods from one continent to another, or even within the same continent, goods face many hazards. There is the risk of theft, damage and possibly the goods not even arriving at all.

• **Logistic Risks:**

The exporter must understand all aspects of international logistics, in particular the contract of carriage. This contract is drawn up between a shipper and a carrier (transport operator). For this an exporter may refer to Incoterms 2000, ICC publication.

• **Legal Risks:**

International laws and regulations change frequently. Therefore, it is important for an exporter to drafts a contract in conjunction with a legal firm, thereby ensuring that the exporter's interests are taken care of.

• **Unforeseen Risks:**

Unforeseen risk such as terrorist attack or a natural disaster like an earthquake may cause damage to exported products. It is therefore important that an exporter ensures a force majeure clause in the export contract.

• **Exchange Rate Risks:**

Exchange rate risk occurs due to the uncertainty in the future value of a currency. Exchange risk can be avoided by adopting Hedging scheme.

Thus, we can say that payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment
problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties.

1.6.2 Export Risks Mitigation

Export risk mitigations are the various strategies that can be adopted by an exporter to avoid the risks associated with the export of goods.

- **Direct Credit:**

  Export Credit Agencies support exports through the provision of direct credits to either the importer or the exporter.

  - Importer: a buyer credit is provided to the importer to purchase goods.
  - Exporter: makes a deferred payment sale; insurance is used to protect the seller or bank.

- **Guarantees:**

  - Bid bond (tender guarantee): protects against exporter’s unrealistic bid or failure to execute the contract after winning the bid.
  - Performance bond: guarantees exporter’s performance after a contract is signed.
  - Advance payment guarantee (letter of indemnity): in the case where an importer advances funds, guarantees a refund if exporter does not perform.
  - Standby letter of credit: issuing bank promises to pay exporter on behalf of importer.

- **Insurance:**

  - Transportation insurance: Covers goods during transport; degree of coverage varies.
  - Credit Insurance: Protects against buyer insolvency or protracted defaults and/or political risks.
- Seller non-compliance (credit insurance): Covers advance payment risk.
- Foreign exchange risk insurance: Provides a hedge against foreign exchange risk.

**Hedging:** Instruments used to Hedge

- Price Risk
- Stabilization programs and funds.
- Timing of purchase/sale.
- Fixed price long-term contracts.
- Forward contracts.
- Swaps

Of these various risk mitigation measures, the role of Export Credit and Guarantee is very important. Export credit agencies in the public sector usually cover these risks in the broadest sense of the terms. They are willing to insure an exporter against the risk of non-payment on the due date specified in the sales contract, (1) in the case of a "supplier credit"; that is, when the exporter gives the importer a period of time to pay for the goods, with or without a credit from the exporter's own bank; or (2) when a bank finances the export operation in the case of a "buyer credit", when the exporter's bank provides credit directly to the importer. The risk of non-payment may occur in two cases:

(i) When a private buyer in the importing country is not able to make the required payment (deposit) in the local currency to his central bank (or a commercial bank).

(ii) When the buyer in the importing country has deposited the payment in local currency, but his country is not able to convert that amount into hard currency (a political or country risk).

Guarantees are normally granted by financing institutions to support the productive capabilities of exporters. For example, guarantees can be used to import
machinery and equipment. In the case of machine imports, a bank can guarantee the payment for the machinery.

So, far our exports have been dominated by traditional goods which are generally sold against cash or letters of credit and don’t require much finance. But now, the emphasis has been fast shifting towards the export of non-traditional goods such as capital and engineering goods. The share of traditional goods, which was 75% during 1950-51, has come down to 50% in 1987-88, while the corresponding share of the exports of non-traditional goods went up from 5% in 1950-51 to 28% in 1987-88. The successful promotion of export of non-traditional goods depends not only on quality, price and delivery periods but also on the capacity of suppliers from the exporting country to offer deferred terms of payment. In order to offer these terms availability of export finances is essential. Adequate and timely availability of finances can, therefore, act as a drive force in capturing export markets and securing foreign bids by offering their products and services at competitive credit terms.

1.6.3 Types of Credit Requirements

It is essential to understand the nature and type of credit as needed in export trade. For the purpose of understanding export credit can be classified from two angles: the stage at which it is provided and the period, for which it is granted. Broadly speaking, exporters require following types of credit assistance.

(a) Documentary credit

This is the most common form of the commercial letter of credit. A common problem is that many local banks in developing countries have inadequate capital and therefore do not have the ability to back documentary credits. Exporters may require confirmation by their own local banks as an additional source of security, but this creates additional costs, and the banks may not want to assume the risks.

(b) Factoring

This is the sale of accounts receivable or other assets at a discount on a daily, weekly or monthly basis in exchange for immediate cash. The exporter sells the assets at a discount to a factoring house, which assumes all commercial and political risks.
(c) Pre-shipping financing

This is financing for the period prior to the shipment of goods, to support pre-export wages and overhead costs. It is needed especially when production inputs must be imported. Pre-shipment financing is important to smaller enterprises, because the international sales cycle is usually longer than domestic sales cycle. Pre-shipment financing can be in the form of short-term loans, overdrafts, and cash credits.

(d) Post-shipping financing

This is financing for the period following shipment. The ability to be competitive often depends on the credit terms that the exporter offers to buyers. Post-shipment financing is usually short-term. It refers to any loan or advance granted or any credit provided by an institution to an exporter of goods from the date of extending the credit after shipment of goods to the date of realization of export proceeds. Post shipment credit is intended to assist the exporter to have access to capital during the period between the shipment of his consignment and receipt of the proceeds. This post-ship credit is conditioned by the commodity exported, competition prevailing and credit customs of a particular market. Normally such credit is given for a period of 3 to 5 years, but in case of need its tenure can be extended up to 12 or more years.

(e) Buyer’s credit

This is a financial arrangement where a lending bank, financial institution, or an export credit agency in the exporting country extends a loan directly to a foreign buyer. The loan may also be indirect through a bank in the buyer’s country acting on his behalf to finance the purchase of goods and services from the exporting country. It enables the buyer to make payments due to the supplier under the contract.

(f) Supplier’s credit

This is a financing arrangement under which an exporter extends credit to the buyer in the importing country to finance the buyer’s purchases. Export credit requirement may be of three types-short term, medium term and long term. The short-
term credit does not normally exceed 180 days, medium term ranges between 6 to 5 years and long-term credit extends between 5 to 10 years.

The above discussion emphasises the importance of export financing in the export promotion effect of the country. Now it will be worthwhile to examine Export Credit Agencies and the status of export credit in India.

1.7 SCOPE OF EXPORT FINANCE

There is ample scope for the fast growth and development of export finance because of its involvement in all developmental programmes and international trade. The increasing scope of export finance is highlighted under following headings.

- **Facilitates More International Trade / Export**

  There is high competition to increase the exports of the countries and naturally the concerned countries take efforts to provide much credits and facilities in collaboration with national and multinational financial institutions. The export finance helps these countries in their endeavour to increase exports.

- **Difference in Technological Development**

  The technological development is not uniformly good in all countries. In less developed countries, technological know-how is less and so they have to pay heavy charge for utilizing the services of the experts. Huge finance is required to make such payments and this process of transfer of technology is continuous. One country or other will be advancing in one field or other and the countries which have not mastered the technology have to pay for it. Thus, this aspect also creates increasing scope for export finance.

- **Easy Terms and Condition of Credit Makes Export / Import Easier**

  When the exporters could get finance in easier terms, they will be selling goods and services on easier terms to the importers. The national / international institutions come to help the exporters / importers and such assistance enables the Export traders to utilize more of EXIM finance.
• **Source of Economic Development**

Developing countries need more export finance to improve their economy, through development projects. Such projects require huge export/import finance in various forms of goods and services. Hence there is a vast scope for further progress of Export/Import finance.

• **To Reduce Adverse Balance of Payment**

In the initial stages of development there is chain action of adverse economy. Borrowings for developmental activities and repayment, pushes the balance of payment to adverse conditions. Even to meet such situation export finance comes to the rescue of the countries. Further the export assistance would help to improve their exports and economy also.

• **Export Finance as a Factor of Production**

Under agreements of international finance, manufacturers can get finance / credit for new materials, heavy duty capital goods on deferred payment and could improve their production. When production improves, it will reflect the country's better economy also.

• **Sales Promotion**

Activates like, organization of trade fair, exhibitions, large scale advertisement publicity and other sales promotion measures need adequate international finance and assistance.

• **Source of Improving Exports**

Apart form production, distribution, documentation etc, the exports can be increased only be improving the export promotional activities including sophisticated production techniques and improved quality products etc. Here again international finance has a role to play.

• **International Payments Made Easier**

Export / Import transactions require funds in different currencies for payment and settlement. The modern instruments like LC, Bills of exchange, documentary credits as international finance through banks and other institutions make the international payments easier.
Almost all nations have official export credit agencies to enable other countries, often developing countries, to buy the exports of the ECA’s home country\textsuperscript{10}. For example, ECA-backed loans are extended to other countries so that they can buy the goods or services of a corporation in the ECA’s home country. Like a department store that provides credit to people without cash so that they will buy the store’s products, government ECAs facilitate loans to foreigners so that they buy the country’s products. The result is that ECAs sell a lot of goods and create a lot of debt. ECAs finance and support exports and exporters through direct loans, as well as through guarantees and insurance protecting commercial banks and exporters from the risk that they will not be paid. As taxpayer-backed agencies, ECAs offer lower interest rates, premiums, and fees for their services than commercial banks and insurers. For developing-country borrowers, however, ECAs’ terms are “non-concessional,” meaning that they cost much more than do many loans from other official sources, such as development banks, the International Monetary Fund (IMF), and aid agencies. Even though an increasing number of developing countries have created ECAs, the overwhelming majority of ECA-supported exports come from industrialized countries, and a disproportionate amount of those exports—essentially all of it when short-term trade finance is excluded—go to developing countries\textsuperscript{11}.

\textsuperscript{10} Export Credit Agencies, commonly known as ECAs, are public agencies and entities that provide government-backed loans, guarantees and insurance to corporations from their home country that seek to do business overseas in developing countries and emerging markets. Most industrialized nations have at least one ECA. India has two ECAs of its own; the Export Credit Guarantee Corporation of India Ltd., and the Ex-Im Bank of India.

\textsuperscript{11} Delio E. Gianturco, \textit{Export Credit Agencies: The Unsung Giants of International Trade and Finance}\ (Westport, Conn.: Quorum Books), 2; Malcolm Stephens, \textit{The Changing Role of Export Credit Agencies}\ (Washington, DC: International Monetary Fund), 63.
Many ECAs also offer support for direct investment in developing countries, largely through loans, guarantees, or insurance for investments in foreign markets by corporations from the ECA’s home country. As institutions for the promotion of exports and foreign investment, most ECAs do not have a mission, mandate, or even objectives related to the development or the needs and welfare of poor recipient countries. Only a few ECAs have environmental or social standards or safeguard policies of any significance or disclose even basic information about their activities and impacts. Few people realize the scale and importance of ECAs in the global economy. ECAs are often called “the unsung giants of international trade and finance,” estimating that they cover $800 billion of exports each year. “One out of every eight dollars of world trade is now financed by ECAs. Much of the remaining seven dollars is influenced by what the ECAs do.”

1.8 EXPORT FINANCING IN INDIA

In pre-independence period, the exports financing was mainly done by exchange banks. But after independence, it was entrusted to the commercial banks along with exchange banks. Many attempts have been made after independence by Reserve Bank of India, the Govt. of India and other agencies to provide sufficient flow of short, medium and long-term capital to exporters through commercial banks.

- **Institutional Arrangement for Export Financing**

Institutional framework for providing finance comprises Reserve Bank of India, Commercial Banks, Export Import Bank of India and Export Credit and Guarantee Corporation. Finance, short or medium term, is provided exclusively by the Indian and foreign commercial banks which are members of the Foreign Exchange Dealer’s Association. Reserve Bank of India, being the central bank of country, lays down the policy framework and provides guidelines for implementation.

- **Reserve Bank of India**

The Reserve Bank of India function as refinancing institutions for short and medium term loans respectively, provided by commercial banks. Reserve Bank of

India helps exporter mainly supplementing the funds of commercial banks by refinancing facilities through its various schemes, e.g. *Export Bill Scheme, Pre-shipment Credit Scheme, Export Interest subsidy scheme* etc. On the recommendations of the *Study Group on Export Finances* appointed by the Ministry of Commerce and Industry, in Sept 1962, The R.B.I. Act was amended and it was allowed to buy and rediscount export bills maturing up to 180 days. It was also authorized to make advances against Usance Promissory Notes relating to the export of goods and maturing with in 180 days. The Pre-shipment Credit Scheme or Export Bill Credit Scheme was introduced by R.B.I. in 1963. It enabled R.B.I. to grant credit to the scheduled commercial banks against their promissory notes repayable on demand and upon their declaration of holdings of eligible Usance Export Bill drawn on foreign currencies or Indian Rupees and purchased or negotiated by them.

In view of the importance of export credit in maintaining the pace of export growth, RBI has initiated several measures in the recent years to ensure timely and hassle free flow of credit to the export sector. These measures, inter alia, include rationalization and liberalization of export credit interest rates, flexibility in repayment/prepayment of pre-shipment credit, special financial package for large value exporters, export finance for agricultural exports, Gold Card Scheme for exporters etc. Further, banks have been granted freedom by RBI to source funds from abroad without any limit for exclusively for the purpose of granting export credit in foreign currency, which has enabled banks to increase their lendings under export credit in foreign currency substantially during the last three years.

The Reserve Bank of India (RBI) provides export credit refinance\textsuperscript{13} facility to banks under Section 17(3A) of the Reserve Bank of India Act 1934. This facility is given on the basis of banks' eligible outstanding rupee export credit both at the pre-shipment and post-shipment stages. The quantum of refinance is fixed from time to time based on the stance of monetary and credit policy of the RBI. All scheduled

banks (excluding RRBs), which are authorised dealers in foreign exchange and have extended export credit are eligible to avail of the export credit refinance facility. At present, the scheduled banks are provided export credit refinance to the extent of 15.0 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight. Repayable on demand or on the expiry of fixed periods not exceeding one hundred and eighty days. RBI extends the export credit refinance against the Demand Promissory Note (DPN) of banks supported by a declaration that they have extended export credit and the outstanding amount eligible for refinance is not less than the loan/advance from the RBI. The minimum amount of availment under this facility is Rupees one lakh and multiples thereof. This facility can be availed of at centres wherever the Reserve Bank has a Banking Department. In the event of a scheduled bank having irregular availment of export credit refinance, a penal rate of interest as decided by the Reserve Bank from time to time will be charged on the outstanding loan or loans. The data presented in table 1.5 shows the total export credit refinancing by Reserve Bank of India.

TABLE-1.5: RESERVE BANK’S EXPORT REFINANCE TO SCHEDULED COMMERCIAL BANKS

<table>
<thead>
<tr>
<th>(Amount in Rupees Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tem</td>
</tr>
<tr>
<td>Item</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>Export Credit Refinance</td>
</tr>
<tr>
<td>A) Limit</td>
</tr>
<tr>
<td>B) Outstanding</td>
</tr>
<tr>
<td>Memo Items:</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>Aggregate Export Credit</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>Export Credit Eligible for Refinance</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>Aggregate Export Credit as Percentage of Net Bank Credit</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, August 2008

Note:
1. Data pertain to the last reporting Friday of the month.
2. Effective April 1, 2002, ECR facility is being provided to the banks to the extent of 15 per cent of the outstanding export credit eligible for refinance as at the end of second preceding fortnight.
Interest Rate

Export credit refinance facility is available at the Repo Rate under the Liquidity Adjustment Facility (LAF) of the Reserve Bank, as announced from time to time. Interest is payable with monthly rests and the amounts of such interest calculated on daily balances would be debited to the account of such advances at the end of respective month or earlier when the balance outstanding is wiped out.

- Commercial Banks

Commercial Banks are the most important source of the export financing. They provide loans to exporters for short, medium and long-term through their various schemes like: Export Letter of Credit, Packing Credit Advance, Negotiation, Purchase of Bills, consignment exports, bills for collection, registering export contracts exports interest subsidy and forward Contracts. Commercial banks provide finance at a confessional rate of interest and in turn are refinanced by the Reserve Bank/Export Import Bank of India at concessional rate. In case they do not wish to avail refinance, they are entitled for an interest rate subsidy.

The data presented in table 1.6 shows that the share of export credit in total bank credit has shown increasing trend initially after year 1992. The share has increased 10.83 percent in 1992-93 to 12.97 percent in 1995-96 but thereafter it has continuously declined and it was 5.37 percent in 2007-08. It appears that exporters are caught in an ever-tightening pincer grip. The stronger rupee has made them reluctant to take credit from banks to finance their exports. The sharp dip in total bank credit to exporters from 12% to just over 5%, according to Federation of Indian Export Organisations (FIEO) data, means exporters are taking on fewer shipment commitments. Export credit is part of the bank’s priority sector lending for which the
government’s set target is 18% of total credit. Taking note of the situation, RBI has set a meeting with exporters in January 2008.

Table 1.6: Share of Export Credit in Total Credit (Rs. Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total export credit</th>
<th>Total Credit</th>
<th>% Share of Export Credit in Total Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>15356</td>
<td>141800</td>
<td>10.83</td>
</tr>
<tr>
<td>1993-94</td>
<td>17086</td>
<td>152501</td>
<td>11.20</td>
</tr>
<tr>
<td>1994-95</td>
<td>25051</td>
<td>192424</td>
<td>13.02</td>
</tr>
<tr>
<td>1995-96</td>
<td>29590</td>
<td>228198</td>
<td>12.97</td>
</tr>
<tr>
<td>1996-97</td>
<td>30008</td>
<td>245999</td>
<td>12.20</td>
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<tr>
<td>1997-98</td>
<td>33947</td>
<td>297265</td>
<td>11.42</td>
</tr>
<tr>
<td>1998-99</td>
<td>35891</td>
<td>339477</td>
<td>10.57</td>
</tr>
<tr>
<td>1999-2K</td>
<td>39118</td>
<td>398205</td>
<td>9.82</td>
</tr>
<tr>
<td>2000-01</td>
<td>43321</td>
<td>467206</td>
<td>9.27</td>
</tr>
<tr>
<td>2001-02</td>
<td>42978</td>
<td>535063</td>
<td>8.03</td>
</tr>
<tr>
<td>2002-03</td>
<td>49202</td>
<td>668576</td>
<td>7.36</td>
</tr>
<tr>
<td>2003-04</td>
<td>57687</td>
<td>763855</td>
<td>7.55</td>
</tr>
<tr>
<td>2004-05</td>
<td>69059</td>
<td>971809</td>
<td>7.11</td>
</tr>
<tr>
<td>2005-06</td>
<td>86207</td>
<td>1404840</td>
<td>6.14</td>
</tr>
<tr>
<td>2006-07</td>
<td>104926</td>
<td>1801239</td>
<td>5.83</td>
</tr>
<tr>
<td>2007-08</td>
<td>117,719</td>
<td>2203038</td>
<td>5.34</td>
</tr>
</tbody>
</table>

Source: Handbook of Statistics for Indian Economy, RBI 2008

- **Export Credit and Guarantee Corporation**

Export Credit and Guarantee Corporation (ECGC) formerly Export Risk Insurance Corporation extends specified credit insurance and guarantee facilities to

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14 Arun S, "Export Credit Adds to Exporter's Vows" The Financial Express, Dec 20, 2007. FIEO president GK Gupta said export credit should be made priority sector lending or RBI should fix 12% as the export credit target. He said SMEs should be given pre- and post-shipment export credit at 4-5.5% (the rate applicable competitors in Asean) for the entire credit period. The rate should not be curtailed at 7% for 90 days and increased to 13-15% for the remaining period as is done now, he said.
simplify the task of lending the exporters. Export Credit & Guarantee Corporation (ECGC) also plays an important role through its various policies and guarantees providing cover for commercial and political risks involved in export trade. The *Export Credit and Guarantee Cooperation* (ECGC) was established in 1957, to facilitate the task of leading institutions. In 1958, the Bill Market Scheme was modified to include export bills. Under the modified schemes, the eligible schedule banks were allowed to borrow against the export bills at the bank rate. It also enabled the banks to extend credit facilities on more liberal basis.

ECGC provides a range of credit risk insurance covers to exporters against loss in export of goods and services. It offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them and provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or loan. ECGC helps exporters (i) by providing insurance protection to exporters against payment risks (ii) Provides guidance in export-related activities (iii) Makes available information on different countries with its own credit ratings (iv) Makes it easy to obtain export finance from banks/financial institutions (v) Assists exporters in recovering bad debts (vi) Provides information on credit-worthiness of overseas buyers

- **Export Import Bank of India**

Export Import Bank of India, in certain cases, participates with commercial banks in extending medium term loans to exporters. EXIM Bank is statutory corporation wholly owned by the Union Government. It has been designed to operate as a specialized institution devoted entirely to provide package finance and allied services to the export sector. Prior to the establishment of EXIM Bank, the International Finance Wing of the Industrial Development Bank of India (IDBI) was looking after the export financing operations. The IDBI continued to handle operations till Feb. 28, 1982 and from 1st March 1982; EXIM Bank started handling the export financing operations.
A refinancing scheme for medium term export credits with a maturity of over six months but not exceeding five years was introduced in 1963, for the benefit of the commercial banks and the exporters. Initially it was taken by the Refinance Corporation for industry and later on, after its merger, by the IDBI. The IDBI introduced the scheme of export loans and guarantees directly and jointly with commercial banks. In August 1967, for deserving bills maturity within seven years and special deserving bills up to ten years, were also made eligible for refinancing. In 1968, IDBI started the scheme of providing suppliers credit for exports of engineering goods and services, on different payment schemes. A buyer scheme was also introduced in 1973 for granting credit directly to the foreign importers of Indian capital goods. The Bill Market Scheme was also introduced again for packing credit in 1967. At the same time, the export bill credit scheme was also extended to currencies other than rupees.

In August 1967, the banks were asked not to charge more than 6% in respect of packing credit advances to exporters of engineering and metallurgical products and not more than eight percent in respect of packing credit advance to other exporters and post shipment credit. The later was subsequently reduced to 7.5 % towards the close of January 1968. In March 1968, R.B.I. notified that the rate of interest chargeable on packing credit and post-shipment credit for export should not exceed 6% and to relieve the commercial banks of the burden to some extent, the interest subsidy scheme was also introduced. The ceiling rate of interest was again raised to 7.7 % by R.B.I. with effect from April 17, 1971, but the maximum rate of interest on deferred payment terms was kept at six percent. But some of these concessions were withdrawn in 1973 and 1974 because of the restrictive credit policy followed by it.

A Standing Committee on Export Finance was set up in 1975. The main function of the committee was to deal with the problem, which might arise, in the matters of export financing by banks from time to time. On August 17, 1981 Parliament passed the bill for setting up the long awaited Exim Bank to work in close collaboration with R.B.I., The ECGC and commercial banks. The Exim Bank begins functioning with an authorized capital of Rs. 200 crores from March 1, 1982. It was
designed to operate as a specialized institution devoted entirely to providing package finance and allied services to the export sector. In the Year 1982, the Export-Import Bank of India (EXIM BANK) was established as an apex institution to strengthen the country’s system of export financing. It was designed to operate as a specified institution devoted entirely for providing package finance and allied services to the export sector. The Bank extends both short-term and long-term finance to exporters of capital and manufactured goods, software and consultancy services, overseas joint ventures and turnkey projects, through its various programmes.

Besides these institutions, Government also helps the exporters in meeting their financial requirement industry through various schemes. They include cash compensatory support scheme 1966, to increases export ability of non-traditional goods. The duty draw back schemes, under which duty paid on the inputs imported for exportable production is reimbursed to make the exportable goods competitive market development assistance to exporters for activities like participation in fairs and exhibition opening foreign offices, sending sales team etc., 100 % export oriented schemes to allow free imports of inputs from raw materials to capital goods such units; export market development allowance under Income Tax Act ( (53 B) exemption from sales Tax) etc. With a view to providing pre-shipment credit to Indian exporter at internationally competitive rates, interest, Reserve bank of India announced a new scheme in November 1993 to provide Pre-shipment Credit in Foreign Currency (PCFC) by the banks in India. The PCFC scheme is in addition to normal packing credit schemes in Indian rupees presently available to Indian exporters. Exporters are also permitted to draw foreign exchange from the authorized dealers for the purposes such as foreign travel or for giving advertisement aboard. Therefore, a person resident in India may open, hold and maintain with an authorized dealer, a foreign currency to be known as Exchange Earners’ Foreign Currency (EEFC) Account, subject to the terms and conditions of the EEFC Account Schemes.

Besides these organisations, the Government of India, Indigenous Bankers, State Financial Corporations, local money lenders, manufacturers, wholesalers etc. are also engaged in extending financial help to the exporters.
The above discussion clearly indicates that there was an urgent need of a specialised and apex organisation for export financing in India and accordingly the Exim Bank of India was established in 1982. After more than two decades of its establishment, it is worthwhile to examine the role played by the Exim bank in promoting the exports from the country. The present study is an humble effort in this direction. The study is undertaken to make a critical evaluation of export financing by Exim Bank in general with special reference to the various programmes offered by it.