Chapter-3

India’s Foreign Trade Policy Following Trade Liberalization: New Patterns and Perspectives in Post-Reforms Regime
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INDIA’S FOREIGN TRADE POLICY FOLLOWING TRADE LIBERALIZATION: NEW PATTERNS AND PERSPECTIVES IN POST-REFORMS REGIME

3.1 Introduction

As observed in the last chapter, the pre-reform period has not been very encouraging for the sufficient growth of foreign trade as import substitution system prevailed in the trade scenario. Considering the deficiencies of this system, viewing the worsening balance of payment condition at home as well as to respond to the challenges of globalization sweeping across the world, in July 1991, India’s export and import policies mark a major departure from the conservative approach regarding foreign trade and moved towards an export friendly environment. Accordingly, a dramatic and significant change has come in the perception towards the foreign trade and its role in the overall strategy of development. To review these changes, this chapter highlights the major foreign trade policy developments that India has witnessed in the post-reform period. In particular, a detailed illustration of different export and import policies since 1991 is provided to identify the major reform measures. An attempt is also made to find out certain gaps which are necessary to fill if India wants to achieve its target of doubling the share of world trade till 2020.

3.2 Features of Foreign Trade Policies Since 1991

In the year 1991, India initiated a wide-ranging program of trade liberalization and economic deregulation, with the objective of integrating the Indian economy more closely with the world economy. According to the eight five year plan (1992-97), the movement of India's trade policy regime was "towards greater openness and to reap the full benefits of international trade". This was sought to be achieved through (i) a reduction of the "negative" list of imports and exports, (ii) a gradual reduction in the level of tariff rates, and (iii) other trade policy reforms.
To provide a framework for globalization for India’s foreign trade, a new legislation, namely Foreign Trade (Development and Regulation) Act was introduced in 1992 to replace the Import and Export (Control) Act 1947. Rupee was devalued by 18 to 20 per cent on 1st and 3rd July 1991 to improve the price competitiveness of exports by reducing the domestic inflation rate. At the same time, the system of cash compensatory support which had so far been the most important instrument of export promotion was abolished in order to improve export incentives and make them uniform. Few months later, in March 1992, Rupee was made partly convertible, under a system known as Liberalized Exchange Rate Management System (LERMS). In March 1993 rupee was made fully convertible on trade account. Full convertibility on trade account was announced in the budget of 1993-94, while current account convertibility was introduced in the budget of 1994-95. To boost performance in export sector EXIM-SCRIPT was introduced which tied up import entitlement directly to export performance. Thus, as observed by Dikshit (2002), the policy of new trade regime attempted to liberate foreign trade from bureaucratic control, restrictions and complicated administrative procedures.

3.2.1 First Five Year Export-Import Policy (1992-1997)

On March 31, 1992 the government\(^1\) announced a new long term trade policy for a period of five years. This policy was titled as “Export-Import Policy” instead of “Import-Export Policy” as earlier, thus for the first time an export base provided to it. With the objective of liberalization and adoption of international practices, this policy incorporated the internationally accepted Harmonized System (HS) of commodity composition. Further phasing out quantitative restriction in the form of licensing and other discretionary control has remained one of the major objectives of this policy. Considering this, during the first four year of this policy following measures were taken:

- In 1991, imports were regulated by means of a positive list of freely importable items. Since 1992, imports are regulated through a limited negative list\(^2\).
• Quantitative restrictions in imports of most intermediate inputs and capital goods had been eliminated.
• More than 3000 tariff lines covering raw materials, intermediate and capital goods freed of import licensing requirements.
• A large number of items covering 1487 tariff lines whose import was otherwise restricted allowed to be imported under freely tradable Special Import Licenses.

Some other initiatives taken to liberalize the trade scenario during this policy period were:

➢ Adoption of market based exchange rate system;
➢ Introduction of Electronic and Hardware Technology Parks scheme (EHTPs);
➢ Development of a basic module for computerization and Electronic Data Interchange (EDI);
➢ Introduction of Super Star Trading Houses (SSTH) scheme;
➢ Introduction of 15x15 Matrix strategy, which was launched in 1995 to identify market diversification and commodity composition;
➢ Retention limit was increased from 15 per cent in 1991 to 50 per cent in October 1997 under Exchange Earners’ Foreign Currency (EEFC) account scheme in case of exporters and for other export organizations;

With these general reform measures initiated for the improvement of overall export trade, some special measures also taken such as exports of many agricultural products allowed to move freely, duties on most agro-processing equipment reduced remarkably, EOU-EPZ schemes extended to agricultural and allied products.

3.2.2 Second Five Year Export-Import Policy (1997-2002)

This policy came into effect from April 1997, for a period of five years that is up to March 31st 2002, coinciding with the Ninth five year plan. The principal objectives of this policy were (Annual Report, RBI, 1997):
• To accelerate the countries transition to a globally oriented vibrant economy with a view to deriving maximum benefits from expanding global market opportunities,

• To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production,

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

It is evident from these objectives that the focus of government was towards furthering and accelerating the pace of reforms and liberalizes the trade scenario. Thus, to achieve the above objectives and to consolidate the gains of previous policy many important measures contained in this policy. Firstly, initiatives taken to reduce the restrictions from export-import such as pruning of restricted list of imports and setting up a proposal for free trade zones with fewer restrictions to trade. Secondly, to simplify and decentralize the trade regulation scenario new measures included in the policy such as streamlining of Export Promotion Capital Goods (EPCG) scheme by reducing the duty from 15 per cent to 10 per cent and expansion of duty exemption scheme. Added to this, Foreign Exchange Management Act (FEMA) replaced Foreign Exchange Regulation Act (FERA) for facilitating foreign trade. Thirdly, special focus provided to certain categories of exporters. Towards this end, in the policy various facilities introduced to Export Oriented Units (EOUs) and Export Processing Zones (EPZs). At the same time concessional import benefits announced for export houses, trading houses, star trading houses, and super star trading houses. Fourthly, this policy envisaged the involvement of state government in export promotions as in 2001-02 annul supplement, permission given to state governments given for exempting export from all fiscal levies and provided Rs 250 Crore for infrastructure for facilitating exports. Lastly, keeping in view the
sanctions imposed by America from 1998-2001 under the nuclear proliferation act of USA and commitments of India to the WTO for the removal of quantitative restrictions, the government initiated many measures during this policy period for diversification in export markets as well as to safeguards Indian exports by providing certain incentives to them. For that purpose a Market Access Initiative (MAI) scheme introduced and a separate ‘Directorate General of Anti-Dumping, Allied Duties and Safeguards’ established in September 1998. Moreover, many encouraging steps initiated to give boost to Indian agriculture sector. These steps included allowing EOU’s and EPZ’s in agriculture sectors to sell 50 per cent of their output in the Domestic Tariff Area (DTA) on payment of duty; reduction in the threshold limit from Rs. 20 crore to Rs. 5 crore for agriculture and allied products under the zero duty EPCG Scheme; and the setting up of proposed agricultural economic zones.

3.2.3 Medium Term Export Strategy and Export-Import Policy of 2002-07

A medium-term exports strategy (2002–07) announced in January 2002, with the aim to increase India’s share in world merchandise trade from about 0.7 per cent to 1 percent by 2006–07. This medium term export strategy focused on exploring the key markets and select items in order to undertake aggressive market promotion. To promote the exports, this strategy also focused on providing incentives compatible with WTO norms to exporters, involvement of state governments for export promotion and to liberalize FDI in trade related infrastructure. In fact, contrary to the objective of earlier strategies of focusing on the supply side strengths, this strategy moved towards expending demand in key markets. Therefore, three leading export destinations of India i.e. USA, EU, and Japan analyzed in detail for export potential.

A five year export-import policy, announced on March 31, 2002, intended to remove all quantitative restrictions on exports except for a few sensitive items reserved for exports through the state trading enterprises. This policy gave a major thrust to agriculture exports by removing various export restrictions such as registration requirement, minimum export price etc. A special focus given to the
cottage sector, handicrafts, and assistance provided to states for infrastructure development for these exports (ASIDE). There were specific measures also for encouraging exports of gems and jewellery, leather, textiles, chemicals and petrochemicals and electronics hardware. Further, the commodity-country matrix expanded from the earlier 15 countries and 15 commodities to 25 countries and 220 export products. In this matrix, focus not only placed on those products in which we have revealed comparative advantage but also those products identified in which India has a real comparative advantage, based on the potentialities. Both micro and macro strategies advocated for the medium term like ‘Focus Africa’ strategy which launched in 2002 in line with past strategies such as ‘Extreme Focus Product Strategy’ of 1992, 15x15 strategy of 1995 and ‘Focus Latin America’ strategy of 1997. Thus, this policy aimed to augment India’s exports by facilitating access to raw materials, intermediates, components, consumables and capital goods from the international market.

3.2.4 Third Five Year Foreign Trade Policy (2004-2009)

Due to some political changes the previous policy scrapped back and a new policy named as National Foreign Trade Policy announced on 31 August 2004 which replaced the former policy. In this policy an integrated view of the overall development of India’s foreign trade taken and thus this policy move ahead from the traditional focus on exports. The objective of this policy was to double India’s percent share of global merchandise trade i.e. from 0.7 per cent in 2003 to 1.5 per cent in 2009 and help in enhancing economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

To achieve these objectives, two new schemes launched. First, to provide additional stimulus to export of products having large employment potential and for greater penetration in strategic markets ‘Focus Product Scheme’ launched. It proposes additional duty credit facility at 2.5 per cent of FOB value of export turnover of notified products such as value added fish and leather products, stationery, fireworks, sports goods, handloom products bearing handloom marks and handicraft items. The scheme was aimed to offset inherent infrastructure
bottlenecks in rural and semi-urban areas. Second, a new ‘Focus Market Scheme’ initiated with the aim of offsetting the high freight cost and other disabilities faced in accessing select international markets. In this scheme duty credit facility at 2.5 per cent of the FOB value of export of all products to notified countries.

Along with it, special thrust sectors identified i.e. agriculture, handlooms, handicrafts, gems and jewellery, and leather and footwear sector. The threshold limit of designated ‘Town of Export Excellence’ reduced from Rs 1000 crore to Rs 250 crore in these thrust areas. For agricultural exports growth the scheme of ‘Special Agriculture Produce Plan’ or Vishesh Krishi Upaj Yojana introduced to provide duty free credit entitlements on export of selected agricultural exports namely fruits, vegetables, flowers, minor forest produce and their value added products. This scheme renamed as Vishesh Krishi and Gram Udyog Yojana in the annual supplement of 2006. Handloom and handicraft sector, being a core sector of rural industries allowed import up to 5 per cent of FOB value of exports free of duty. Handicraft export promotion councils authorized to import trimmings, embellishments and samples for small farmers and a ‘Handicraft Special Economic Zone’ proposed.

Recognizing the potentialities of other labour intensive sector i.e. gems and jewellery, duties allowed on necessary import for manufacturing to this sector. Added to this, special benefits provided to leather and footwear sector, including, custom duty exemptions for import of machinery and equipment along with duty free import of specified items up to 5 per cent of FOB value of exports.

Taking the liberalization program further in the annual supplement 2007 different new measures inculcated. Firstly, following the principle that only export goods should be exported and not the taxes and duties thereon, services rendered abroad and charged on exports from India to be exempted from service tax. Along with the above measures, an exemption of service tax was provided on those services which are rendered in India and utilized by exporters. Secondly, for rationalization and change in export performance parameters, categorization of exporters as ‘one to five star export houses’ has been changed to ‘export houses and trading houses’. Thirdly, ‘Vishesh Krishi and Gram Udyog Yojana’ scheme,
focus product, focus market scheme expanded. Lastly, to give impetus to exports of high tech products a new scheme launched, in which exports of specified high tech products proposed to be rewarded.

In the annual supplement 2008 also several innovative steps proposed with the aim of promoting the liberalization of trade sector. First, to re-emphasis the importance of modernization in export units, customs duty payable under EPCG reduced from 5 per cent to 3 per cent. Second, with the aim of reducing the transaction cost advance authorization scheme and EPCG scheme was brought under the EDI system and a few additional ports included under export promotion schemes. Third, for promoting the exports of specific fruits, vegetables and flowers, additional duty-free credit scrip of 2.5 per cent over and above the existing available was provided under VKGUY. Lastly, to promote export of high value added manufactured products incentives under focus product scheme at 2.5 per cent for few notified products enhanced.

3.2.5 Fourth Five Year Foreign Trade Policy (2009-2014)

The government of India announced a “forward looking” foreign trade policy on 27 August 2009 for the next five years i.e. 2009-2014. This policy came into existence in a scenario when India and the global economy were grappling with one of the worst economic crises. Both exports and imports were dipping due to the current slowdown in global markets particularly in India’s conventional trading partner’s i.e. North America and Western European markets. Therefore, the short-term objective taken in the policy was to arrest and reverse the declining trend of exports and to provide additional support to sectors hit badly by recession in the developed world. In this policy, export target of 200 billion US dollar was set for 2010-11 and target growth rate is proposed 15 percent for next two years and 25 percent thereafter. The long-term policy objective set out in this policy was to double India’s share in global trade by 2020. Many significant issues addressed in the policy like diversification of the export basket, improvement in trade-related infrastructure, and full refund of all indirect taxes to exporters for achieving the objectives of the policy.
The current trade policy seeks to encourage the diversification of India’s trade into new emerging markets of Africa, South America, and CIS countries. It is a significant move as nearly 40 percent of India’s exports go to developed country markets, which are facing the adverse impact of the financial crisis. In the policy, 26 new markets have been added to Focus Market Scheme (FMS), including 16 new markets in Latin America and 10 in Asia-Oceania, which will enable the exporters to expend and diversify in different markets. Along with it, many products such as additional engineering products, plastic, and some electronic products have been included under Focus Product Scheme (FPS) for diversification in export products. Incentives have also been increased under FMS and FPS to 3 percent and 2 percent respectively to direct the trade to the desired destinations. The ‘Market Linked Focus Product Scheme (MLFPS)’ has also been expended notably by adding 13 new markets like Egypt, Kenya, Algeria, and 150 new products. In further steps, higher allocation has been provided for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes to make the exports more valuable, and a plan has also been introduced to organize ‘Made in India’ show in at least six countries to encourage exporters to explore untapped markets. It shows that the focus of the policy has been to encourage the exporters to shift from the recession hit developed countries to emerging countries that provide lucrative opportunities to them. However, increase in cash assistance under FPS and FMS, and the expansion of MLFPS is not a comprehensive and competitiveness oriented move. The short term implications of these measures are not very large, yet their long-term impact will be more significant.

This policy focuses on another significant matter of the improvement of trade-related infrastructure in the country. The scheme of ‘Town of Export Excellence’ has been enhanced by adding new cities for export of handicraft, leather, and horticultural products. This would increase the export prospects of the designated products, which are mainly from labour intensive sectors. However, more measures like reducing the port congestion, setting up cold chains for agricultural exports, enhancing the road and rail network will be required for the development of trade supportive infrastructure in the country.
To safeguard the exporters from the adverse conditions in different markets many new proposals have also been included in the policy. A new ‘Zero duty’ Export Promotion Capital Goods (EPCG) scheme has been introduced for two years for certain export groups and grant of 1 percent ‘Status Holder Incentive Scrip’ is provided for imports of capital goods. Considering the dollar fund requirement of the exporters it is proposed that state-run banks will provide dollar credit to exporters. Moreover, interest subvention of 2 percent for pre-shipment credit has also been allowed. These schemes are important as they can improve the financial position of the exporters in the short run.

Commencement of steps like no fee on grant of incentives and a common simplified form for taking benefits under various schemes, making additional ports/locations EDI enabled will help exporters to reduce the transaction costs and at the same time reduce the procedural hurdles. Extension of various schemes like ‘Duty Entitlement Passbook scheme’, ‘Interest Subvention Scheme’ and ‘Adjustment Assistance Scheme’ will be a very important stimulus for the recession hit export sector. New proposals like establishment of an Inter-Ministerial Committee to serve as a single window mechanism for resolution of trade related grievances and a plan of a ‘Directorate of Trade Remedy Measures’ are laudable moves and would be helpful for the long term trade growth.

This policy also identified major issues affecting the exports from labour intensive sectors such as tea and jute products, gems and jewellery products, leather products and addressed them with specific initiatives. Inclusion of tea under the Visesh Krishi and Gram Udyog Yojana (VKGUY) and 50 percent reduction in minimum value addition limit under advance authorization scheme has been the two major benefits to tea exporters. The long standing issues have been addressed in the policy such as a ‘Single Window Scheme’ for perishable agriculture products and permission has been provided for re-exports of unsold imported leather products. These incentives will facilitate the promotion of export of agriculture and leather products. Permission for tax refund scheme for jewellery sector, extension of duty drawback to gold jewellery exports and plan for diamond bourses in the country have been the main benefits announced for
gems and jewellery sector, which has 13 percent share in India’s total exports. This policy also provided benefits to textile sector and includes 17 technical textile products in the FPS. Further, it removed the requirement of 'handloom mark' for availing benefits under FPS for handloom exports, which would simplify the claim procedures of small exporters. Thus the policy attempts to stimulate the bottom line of export units to overcome the challenges of global slowdown and to take the benefits of opportunities prevailing in other parts of the world.

It is apparent from the above illustrations that various liberal measures have been initiated in foreign trade policies during the post-reforms regime. Now, to take a better view these measures are divided into two parts i.e. liberal measures introduced in imports policy and liberal measures introduced in exports policy. Further to take a better view of reform measures adopted in various policies for the growth of foreign trade various trade facilitation measures commenced during post-reforms scenario has elaborated separately.

3.3 Liberal Measures Introduced in Imports Policy

The main objectives of the liberalization in the import policies during the post-liberalization regime were:

- To give stimulus to investments in the economy;
- To facilitate the easy availability of required imported inputs including capital goods for sustaining industrial growth and for modernization and technological up gradation of the industrial sector;
- To support indigenous research and development so as to build up capability for technology absorption and development;
- To encourage rapid expansion of exports with special emphasis on exports which generate higher net foreign exchange earnings; and
- To help manufacturers to become internationally competitive

Taking into consideration the above stated objectives following liberal measures introduced in the import policy framework.
3.3.1 Annual Highlights of Liberal Import Policy Measures

In July 1991, a two-pronged strategy of reduction in import duties and dismantling of import controls or quantitative restrictions (QR's), adopted by the Government of India with the aim of reforming the import policy. Since then, import duties have gradually brought down. Relaxation of the QR regime over the years came in the form of shifting of items from restricted items to limited permissible category and from there to Open General license (OGL). This reduction in QR began with capital and intermediate goods and at a later stage with consumer goods (Bhat, 2007). In brief, following liberal measures were included in the import policy scenario:

**During 1991-92**

To reduce the control on imports many items of capital goods, raw materials, and intermediaries freed from licensing requirements. A 'negative list of imports' introduced, by which several goods were shifted from more restrictive to less restrictive lists. Added to this, ‘EXIM scrips’ introduced to liberalize the import licensing mechanism. These scrips linked import entitlement with export earnings and also served as a means of allocating imports to market forces.

**During 1992-93**

In the policy it was granted that only essential imports need to be financed by the foreign exchange surrendered at official rates while most of other imports (except restricted and banned items) free foreign exchange from the market was allowed. Partial convertibility of rupee was also allowed. The customs duty on imports was rationalized and peak rate of tariff reduced to 110 per cent, free imports were allowed of almost all intermediate and capital goods. The general duty on project capital goods was reduced from 80 per cent to 60 per cent. In the case of capital goods, the import duty was reduced from 50 per cent to 60 per cent. A Special Import License (SIL) was issued to star exporters for importing restricted items. Further, the scope of SIL was extended and the second hand capital goods (with residual life of 5 years) were also allowed to be imported.
During 1993-94 and 1994-95

The number of restricted items was reduced to 215. Of these 16 were prohibited, 109 licensed, 34 canalized and 56 subject to specified terms and conditions. Peak rate of tariff reduced to 85 per cent. During 1994-95, many items related to consumer goods category added in free import list such as sugar, pulses, edible oils, and skimmed milk powder. Along with it, textiles and garments products placed on the list of items that could be imported through special import license.

During 1995-96

To liberalize the import policy further, the negative list was pruned and brought down to only 3 prohibited items and 65 restricted items. The Special Import License (SIL) facility extended to domestic capital goods suppliers. Additional SIL was announced for small-scale industries for exploration of new markets. The threshold limit of zero duty imports was cut to Rs. 5 crores for agriculture and allied sectors (Narayana and Nataraj, 2000). Thus, all non-tariff barriers phased out from all tradable except consumer goods and tariff rates brought down to the maximum of 50 per cent. Moreover, the definition of consumer goods changed to suit the needs of importers and list of freely importable consumer goods increased.

During 1996-97 and 1998-99

In this year policy, 488 items, included consumer goods, were moved from the restricted list to the Open General Licenses (OGL) list. The import limit of capital goods under export promotion and capital goods schemes (EPCG) was cut to 10 per cent. During the year 1998-99, 128 items freed and 340 items shifted from the restricted list to the OGL. Along with it, all quantitative restrictions on imports of around 2300 items from SAARC countries were removed.

During 1999-00 and 2000-01

As a step further to remove the QR's, 894 items made license free and 414 items put on SIL. Peak rate of tariff reduced to 35 per cent. Post-export duty
replenishment license scheme introduced for enabling import of inputs on the basis of input-output norms.

**During 2001-02 and 2002-03**

715 items were removed from restricted list. 8 digit commodity classification systems for imports adopted for creating a more transparent import scenario.

**During 2003-04**

In 2004, ceiling tariff rate reduced to 20 per cent. Further, 4 per cent special additional duty (SAD) was eliminated, which had been levied on all imports since 1998–99 budget. A substantial progress was made to simplify applied tariff rate structure to two-tier tariff structure (10 per cent on inputs and 20 per cent on finished products) by March 2004. The average tariff duty rate was 29 per cent in 2003 down from 32 per cent in 2002 and the average duty was again reduced in 2004 on some selected products (Bhat 2007).

**During 2004-05 and 2005-06**

In 2004–05, the peak tariff rate was brought down to 20 per cent and in 2005–06 it was further down to 15 per cent. Thus, in more than 90 per cent of non agricultural items, the import tariffs were around 10-15 per cent points below the bound rates. This reduction was done with the aim to align Indian tariff rates to the level of Southeast Asian countries tariff rates (Bhat 2007).

**During 2007-08 and 2008-09**

A Duty Free Tariff Preference (DFTP) Scheme launched in 2007-08 for least developed countries. In this scheme preferential market access provided to 50 LDCs, 34 of which are in the African continent. To check inflation import duties were reduced to zero for several food products.

3.3.2 The Major Liberalization Measures Commenced

a) Reforms in Tariff Structure and Custom Duties
Tariffs had been the main instrument of trade reforms in India. This is evident by the fact that tariff revenue as a proportion of imports went up from 20 percent in 1980-81 to 44 percent in 1989-90 (Panagriya, 2004).

Table 3.1: Change in Customs Tariff Rates (1991-92 to 2008-09)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tariff Rate (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>150</td>
<td>Basic plus auxiliary duties to a maximum of 150%. Tariff peaks above 150% eliminated except for alcoholic beverages and passenger baggage.</td>
</tr>
<tr>
<td>1992-93</td>
<td>110</td>
<td>Basic + Auxiliary rates to a maximum of 110 % except alcoholic beverages and passenger baggage.</td>
</tr>
<tr>
<td>1993-94</td>
<td>85</td>
<td>Excluding the above two</td>
</tr>
<tr>
<td>1994-95</td>
<td>65</td>
<td>Excluding the above two</td>
</tr>
<tr>
<td>1995-96</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>1997-98</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>(40)</td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>(40)</td>
<td>Reduction of 7 major ad valorem rates of customs to 5 basic rates.</td>
</tr>
<tr>
<td>2000-01</td>
<td>(35)</td>
<td>Economic Survey 2000-01 stated that after a gap of 3 years, peak customs tariff rate was scaled down from 40% to 35% &amp; no. of slabs reduced from 5 to 4.</td>
</tr>
<tr>
<td>2001-02</td>
<td>(35)</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>30</td>
<td>Peak rate reduced from 35% to 30%</td>
</tr>
<tr>
<td>2004-05</td>
<td>20</td>
<td>Peak rate lowered for non-agriculture goods.</td>
</tr>
<tr>
<td>2005-06</td>
<td>15</td>
<td>Peak rate lowered for non-agriculture goods.</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.5</td>
<td>Peak rate reduced from 15% to 12.5%</td>
</tr>
<tr>
<td>2007-08</td>
<td>10</td>
<td>Peak rate reduced from 12.5% to 10%</td>
</tr>
<tr>
<td>2008-09</td>
<td>8</td>
<td>On 24th Feb 2009 peak rate reduced from 10% to 8%</td>
</tr>
</tbody>
</table>

Source: Compiled from various budget documents.

On the eve of reforms, in 1990-91, the highest tariff rate stood at 355 percent, simple average of all tariff rates at 113 percent and the import-weighted average of tariffs for all import stood at 87 percent (WTO, TPR, 1998). Import-
weighted average tariffs on consumer goods imports were as high as 164 percent. Therefore, during the post-reforms regime, lowering of tariff rates and designing an appropriate tariff structure had been the focus agenda for the foreign trade policy makers. Consequently, as shown in the table below, these rates came down significantly.

The “peak” tariff rate came down from 150 percent in 1991-92 to 40 percent in 1997-98. The downward momentum, however, reversed the next year with the imposition of a surcharge. This momentum resumed with the reduction of the “peak” rate to 35 percent in 2001-02 and 30 percent in 2002-03. Due to reforms, the current "peak rate" has declined up to only 12.5 percent in 2007-08. Nevertheless, these tariff reductions were confined to non-agricultural, industrial goods. Therefore, the liberalization brought noticeable changes for industrial goods but not for agricultural goods.

Over the period 1990-2007, the proportional tariff reductions on imports of manufacturing merchandise have gone much deeper than corresponding cuts in the agricultural sector (Table 3.1). In fact, for agriculture products the reduction calculated on the basis of trade-weighted average tariffs is negative, with tariffs actually increasing by 24% over the period while that for manufacturing is a reduction of 83%; indicating a very impressive liberalization effort (Kowalski 2009).

### Table 3.2: India’s Tariff Structure

<table>
<thead>
<tr>
<th></th>
<th>Agricultural Products</th>
<th>Non - Agricultural Products</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Simple Mean</td>
<td>Weighted</td>
<td>Std. Dev.</td>
</tr>
<tr>
<td>1990</td>
<td>73.1</td>
<td>50.3</td>
<td>71.6</td>
</tr>
<tr>
<td>2001</td>
<td>38.9</td>
<td>48.2</td>
<td>33.2</td>
</tr>
<tr>
<td>2004</td>
<td>39.1</td>
<td>60.7</td>
<td>35.6</td>
</tr>
<tr>
<td>2005</td>
<td>37.9</td>
<td>50.2</td>
<td>38.7</td>
</tr>
<tr>
<td>2007</td>
<td>39.1</td>
<td>62.2</td>
<td>38.9</td>
</tr>
</tbody>
</table>

Source: United Nations (TRAiNS) Database
However, the structure of the tariff still remains complex, with a large number of bands. This point is also highlighted by Kowalski (2009) that despite impressive past and on-going reforms, India remained relatively closed to trade as compared to other emerging countries, including China. It still has the highest tariff and most dispersed tariffs of all the BRIC (Brazil, Russia, India and China) countries. This point is also raised in WTO trade policy review 2007 that in India, applied tariff rate is much lower than the bound rate for most tariff lines, resulting in a wide gap between the two rates. This large gap creates uncertainty for importers as it gives the government a room to raise the actual tariffs substantially. Thus there is a need to further rationalize and simplified tariff structure.

b) Removal of Quantitative Restrictions

India had removed most but not all QRs on manufactured intermediate goods and machinery in 1991. But, nearly all consumer goods remained subject to import licensing, in practice an import ban, and the import of nearly all agricultural products was subject to import licensing or controlled by canalizing agencies. In April of 1992 all 26 import licensing lists were abolished, except for a negative list. In the year 1997, approximately 6,647 items were freely importable; 58 items were prohibited, 168 items were canalized, and certain products were restricted. Out of the restricted items, 1,051 were importable against Special Import Licenses (SILs), which were freely tradable and transferable. Among the items importable under freely transferrable SILs were a number of consumer durables. Many of the canalized items were also under the special import license regime. India had removed all quantitative restrictions in a progressive manner, culminating in the completion of this process in March, 2001. Today, except for a handful of goods disallowed on environmental, health and safety grounds and a few others including fertilizer, cereals, edible oils and petroleum products that are canalized, all goods can be imported without a license or other restrictions.
3.4 Liberal Measures Introduced in Export Policy

A large number of measures were initiated in India to make the overall policy stance more explicitly export oriented. Main measures taken can be categories in two parts. First is removal of tariff and non-tariff barriers and second is increase in incentives and subsidies for exports. A year-wise illustration of these measures is in order:

3.4.1 Annual Highlights of Liberal Export Policy Measures

During 1991-92

EXIM scrips at rate of 30 per cent of FOB (Free on Board) were allowed for majority of the export products. 29 items of restricted category and 116 items of canalized exports shifted to Open General License (OGL). For facilitation of service exports the rate of replenishment of these exports raised to 30 per cent of net foreign exchange from 10 per cent.

During 1992-1993

Special Import License (SIL) was issued by which a category of exporters were allowed to import different consumer goods for export production. A ‘Liberalised Exchange Rate Management System’ was introduced by which exporters were allowed to convert 60 per cent of their foreign exchange earnings in rupees at the free market rate and the rest 40 per cent at official exchange rate. A new ‘Extreme Focus Product Strategy’ introduced. Added to this, EOU-EPZ system expanded to agricultural and allied exports.

During 1993-94

An ‘Electronic Hardware Technology Park’ scheme was introduced on par with the EPZ. Introduction of new scheme called the ‘Export Promotion Capital Good’ scheme for the services sector which permits import of capital goods on concessional rates for export purposes. The number of restricted items was further reduced from 439 in March 1990 to 210 in March 1994 (Narayana and Nataraj, 2000). SIL scheme was simplified and average export earnings were taken as a base for licenses. Full convertibility of the rupee on trade account was announced.
by which exporters were allowed to convert their foreign exchange earnings in to rupees at the market rate.

**During 1994-1995**

A new category of super star trading houses was created. Specified professional services were counted towards the granting of Export/Trading/Star Trading House status. EOU status was given to units engaged in exports of agriculture and allied sectors. Current account convertibility of rupee was introduced in 1994-95 budgets to facilitate exports.

**During 1995-1996 and 1996-97**

Export taxes were abolished. Export subsidies were streamlined. Direct subsidies, in particular, were to be gradually eliminated and sector specific subsidies were to be replaced by more general schemes such as not taxing export profits and duty drawback schemes (Narayana and Nataraj, 2000). 15x15 Matrix strategy was launched in 1995 to identify the scope for diversification in trade markets and commodity composition.

**During 1997-98**

To strengthen the Export houses and trading houses, they were exempted from paying the Minimum Alternate Tax (MAT). Retention limit was increased from 15 per cent in 1991 to 50 per cent in October 1997 under Exchange Earners’ Foreign Currency (EEFC) account scheme in case of exporters and for other export organizations. ‘Focus Latin America’ strategy launched in the year 1997 for diversification in export markets.

**During 1998-99 and 1999-00**

Export credit interest rates reduced to 9 percent from 11 percent. Exemption of special additional duty of 4 per cent provided under all export promotion schemes. The concept of a ‘Free Trade Zone’ to replace export processing zones was accepted. Recognizing the potential of service exports a new chapter was included in EXIM policy for such exports.
**During 2000-01 and 2001-02**

Special import licenses were abolished from April 1, 2001 to rationalize the export promotion schemes. Foreign Exchange Management Act (FEMA) was introduced on June 1, 2000. Agri-Economic Zones proposed to set up for promotion of agriculture exports. To promote select Indian products and brands in the international market a Market Access Initiative (MAI) scheme was introduced. Assistance to ‘States for Development of Export Infrastructure and Allied Activities (ASIDE)’ scheme launched.

**During 2002-03 and 2004-05**

‘Focus Africa’ strategy was launched in 2002 in line with past strategies. A new scheme called ‘Target Plus’ has been introduced to accelerate exports. A scheme titled as Vishesh Krishi Upaj Yojana (Special Agriculture Produce) scheme introduced to boost agricultural products. A duty free import facility provided for service sector to boost such exports. ‘Served From India’ scheme was introduced in 2004 for all service providers with total foreign exchange earnings of at least Rs.1 million in the previous or current financial year. The exporter under this scheme were sanctified with concessions of duty-free imports of all goods including capital goods, office equipment, and consumables up to 10 percent of the value of foreign exchange earnings of the previous financial year.

**During 2006-07**

In April 2006, the twin schemes of focus product and focus market announced. Village and cottage industry products were included in the Vishesh Krishi Upaj Yojana, and it renamed as Vishesh Krishi and Gram Udyog Yojana.

**During 2007-08 and 2008-09**

On the technology front, to harness the potential of skilled manpower, ‘high-tech products scheme’ was initiated allowing duty free credit as an incentive against such exports. Higher support provided for market and product diversification and additional resources granted under the Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes. A new scheme
was launched for duty free import of capital goods related to infrastructure meant for agro processing to promote agricultural exports and provide employment.

3.4.2 The Major Liberalization Measures Commenced

a) Removal of Quantitative and Other Restrictions on Exports

Traditionally India had restricted exports of several commodities on account of balance of payment reasons. As a part of liberalization policy, the government began to reduce the number of products subject to export controls in 1989-90. But prior to the July 1991 reforms, export of 439 items were subject to controls including prohibition (185 items), licensing (55 items), quantitative ceilings (38 items), canalization (49 items) and pre-specified terms and conditions (112 items) (Panagriya 2004). The March 1992 Export-Import policy reduced the number of items subject to controls to 296 with prohibited items reduced to 16. Moreover, minimum export price had been abolished in the new foreign trade policy regime. With this, further liberalization came in state trading in exports especially since 2002.

b) Implementation of Exchange Rate Reforms

In July 1991, as part of the general trade policy reforms exchange controls were lifted and rupee was devaluated. The government devalued the rupee by 22 percent against the dollar from 21.2 rupees to 25.8 rupees per dollar. In February 1992, a dual exchange rate system was introduced, which allowed exporters to sell 60 percent of their foreign exchange in the free market and 40 percent to the government at the lower official price. In March 1993, the exchange rates were unified and transactions on the trade account were freed from foreign exchange control. Further measures taken to simplify procedures related to the purchase of foreign exchange to enhance current account convertibility. As a result of reforms the Indian rupee is now being managed according to market principles with the reserve bank of India intervening occasionally to curb excessive volatility whenever such circumstances arise. Along with this with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India and to
consolidate and amend the law relating to foreign exchange, the new Foreign Exchange Management Act (FEMA) came in force from 1 June 2000 replacing the more stringent Foreign Exchange Regulation Act (FERA). Full convertibility had been preserved in the FEMA for current account transactions. A more recent development had been the move towards capital account convertibility. Several steps had also been taken to liberalize foreign exchange transactions. A key consideration had been the rationalization and simplification of procedures for facilitating prompt and efficient customer service in external transactions.

c) Reduction in Export Taxes and Subsidies

During the post-reforms regime, with the exception of few products like tanned and un-tanned hides, skins and leathers (except manufactures of leather), all other exports otherwise subject to tax had been exempted through notifications. Subsidies streamlined as direct subsidies eliminated and sector specific subsidies replaced by more general schemes such as non-taxation of export profits and duty drawback schemes. Further, an export cess applied to various products including coffee, spices, tobacco and other agricultural commodities had been repealed by the Cess Laws (Repealing and Amending) Act, 2005 enacted in 2006 (WTO, TPR, 2007, p.60).

d) Expansion of Various Duty and Tax Concessions Schemes

To mitigate the anti-export bias inherent in the tariff and other indirect taxes, various schemes were established for exporters to obtain tax rebates or remissions. The schemes include drawbacks for customs duty paid, and exemptions from payment of import duty. Now due to liberalization move the duty drawback rates had been rationalized in 2001-02. Moreover, in order to offset the incidence of import duties and internal taxes, different tax exemptions and rebates had been provided to exporters through various schemes in foreign trade policies. In the foreign trade policy, announced in March 2006, the Duty Free Import Authorization (DFIA) scheme was announced to replace the Duty Free Replenishment Certificate (DFRC) scheme. The Duty Free Import Authorization (DFIA) scheme offers exemptions in respect of customs duty,
additional duty, education cess, and any anti-dumping or safeguard duties in force for inputs used in exports. VKUY, the agriculture scheme was expanded to include village industry products, while the Target Plus scheme introduced in 2004 was discontinued.

e) **Enhancement of Free-trade zones and Export Oriented Units**

During the post-reforms regime, the Government expanded the previous network of export processing zones by establishing Special Economic Zones (SEZs) and converting EPZs into SEZs. In order to promote the SEZs for the growth of India's foreign trade the SEZ Act, 2005 supported by SEZ rules, came into affect on February 10, 2006. Concessions were provided to the units based in these zones by way of duty-free imports of all types of goods. Imports from domestic tariff area treated as deemed exports. These units also benefit from tax holidays under the income tax act.

It is noteworthy that in short span of about three years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 570 SEZs out of which 346 have been notified. By July, 2007 there are 75 operational SEZs in our country in which 1277 units are functioning and the remaining are at various stages of implementation. Exports from SEZs grew by 16.40 per cent from 2000-01 to 2004-05. In the same period, total exports from India grew by 12 per cent (Confederation of Indian Industry, 2006). Exports from the SEZs during 2005-06 have registered a growth of 25 per cent in rupee terms over the previous year and 52 per cent in 2006-07 over the previous year. The exports during the first two quarters of the year 2009 have been to the tune of Rs. 89,750 crores (Annual Report 2008-09, MOC). This clearly signifies the importance of SEZs in India.

f) **Encouragement of Export finance, insurance, and guarantees**

With the aim of reducing the cost of exports and making our export competitive various measures had been initiated for liberalization of export credit interest rates and to increase the disbursement of Export finance. Moreover, Export Insurance was provided on a liberal basis to exporters. This includes credit
risk insurance for exporters of goods and services; pre and post shipment cover to banks and financial institutions, to enable exporters to obtain adequate and need-based financing; and overseas investment insurance to Indian companies investing in joint ventures abroad either through equity or loans on a "liberal basis".

g) Export promotion and marketing assistance

In addition to the tariff concessions and exemptions and export programs mentioned above, the department of commerce encourages exports indirectly through the ‘Assistance to States for Development of Export Infrastructure and Allied Activities (ASIDE)’ scheme, which provides assistance for setting up new export promotion parks and zones and complementary infrastructure such as road links to ports, container depots, and power supply; the ‘Marketing Development Assistance (MDA)’ scheme, to support efforts by the export promotion councils (EPCs) in their export promotion activities; the ‘Market Access Initiative (MAI)’ scheme, which provides assistance for research on potential export markets; as well as other incentives to improve quality, infrastructure, etc. related to agriculture through the commodity boards and councils. India's export promotion councils and commodity boards also continue to promote exports of specific products. The India Trade Promotion Organization (ITPO) also continues its promotion activities by organizing trade fairs and exhibitions in India and abroad.

3.5 An evaluation of various Export and Import Liberalization Measures

Firstly, a ‘Tariff Trade Restrictiveness Index’ or TTRI (MFN applied tariff) is provided which calculates the equivalent uniform tariff of a country’s tariff schedule that would keep domestic import levels constant. India’s trade regime has steadily opened since 1991, but it ranks among the top 20 percent of countries with the most restrictive tariff regimes, with an MFN Tariff Trade Restrictiveness Index (TTRI) for overall trade of 12 percent. Much of this is due to the protection the government provides the agricultural sector, which employs over half of the labor force of the country, as demonstrated by a TTRI of 28 percent.
Table 3.3: Tariff Trade Restrictiveness Index (TTRI)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>India 2000-04</th>
<th>India 2005-08</th>
<th>India 2006-09*</th>
<th>South Asia 2006-09*</th>
</tr>
</thead>
<tbody>
<tr>
<td>TTRI (MFN applied tariff)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Goods</td>
<td>27.14</td>
<td>13.83</td>
<td>12</td>
<td>11.75</td>
</tr>
<tr>
<td>Agricultural</td>
<td>24.54</td>
<td>50.57</td>
<td>28</td>
<td>14.64</td>
</tr>
<tr>
<td>Non-Agricultural</td>
<td>27.38</td>
<td>12.33</td>
<td>11</td>
<td>11.62</td>
</tr>
</tbody>
</table>


Tariff barriers to non-agricultural goods are much lower, with a TTRI of 11 percent. India’s rank improved from 117th to 102nd of 125 countries, as cereal tariffs dropped (WTI, 2009-10). India’s trade regime is only slightly more restrictive than that of the average South Asian country, which has a TTRI of 11.3 percent, but significantly more restrictive than regimes of lower-middle-income countries, which have an average TTRI of 8.6 percent (WTI, 2009-10).

Secondly, Most Favored Nation (MFN) applied tariff is provided that represents protection in the import regime. A high rate shows high protection. The simple average of the MFN applied tariff rate has decreased significantly to 14 per cent in 2006-09 from 32 per cent for the period 1995-99. But it still remains higher than the averages for both the regional and income group comparators. India’s maximum tariff (including ad valorem equivalents of specific duties) on all goods (excluding alcohol and tobacco) now stands at 322 per cent during 2005-08, which is very high as compare to South Asia. A further exploration of the table below depicts that the share of tariff lines with domestic peak\(^5\) has increased during the post-reforms regime and is very high as compare to average of south Asia. This situation is more deteriorating in the case of agriculture goods, whose share increased from 2.66 during 1995-99 to 14.2 in 2006-09. This share is far above from the share of South Asia i.e. 5.27.
### Table 3.4: MFN Applied Tariff and Tariff Lines

<table>
<thead>
<tr>
<th>Indicators</th>
<th>India</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFN applied tariff - Simple Average - All</td>
<td>31.54</td>
<td>31.85</td>
</tr>
<tr>
<td>MFN applied tariff - Maximum - All Goods</td>
<td>245</td>
<td>322.9</td>
</tr>
<tr>
<td>Share of Tariff Lines with Domestic Peaks - All</td>
<td>0.36</td>
<td>1.60</td>
</tr>
<tr>
<td>Agricultural Goods</td>
<td>2.66</td>
<td>6.21</td>
</tr>
<tr>
<td>Non-Agriculture Goods</td>
<td>0.01</td>
<td>0.93</td>
</tr>
<tr>
<td>Share of Tariff Lines International Peaks - All</td>
<td>89.80</td>
<td>93.96</td>
</tr>
<tr>
<td>Agricultural Goods</td>
<td>66.77</td>
<td>92.70</td>
</tr>
<tr>
<td>Non-Agriculture Goods</td>
<td>93.32</td>
<td>94.14</td>
</tr>
</tbody>
</table>

Source: UNCTAD TRAINS tariff database through WITS until 2004, then ITC database for 2005-09. Also World Trade Indicators, 2009-10.

Thirdly, a description of various export restrictive measures such as percentage of quota usage, custom duties, dummy variables of export license requirement, and export taxes is given. The exploration of data describes that restrictive measures though reduced during the course of reforms yet they are high as compare to the average of South Asia.

TRQ usage in agricultural goods, which reflects the share of agriculture tariff lines that are subject to tariff rate quota, is 0.7 for India as compare to mere 0.1 for South Asia. Custom duties as a percentage of goods, which represent the implicit ad valorem tariff of a country, are now equal to the average of South Asia. Due to substantial reduction in the taxes on exports since 1991, export taxes have only 0.03 per cent share in total tax revenue, while share of South Asia is only 3.30. However, the dummy variable of one for export license usage and export tax usage indicates that even after the 18 years of reforms regime Indian exporters are facing the licensing and other barriers on export.
### Table 3.5: Custom Duties and Export Restrictive Measures

<table>
<thead>
<tr>
<th>Indicators</th>
<th>India</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Rate Quota usage in Agricultural</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Customs and Other Import Duties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as a percent of goods imports</td>
<td>25.26</td>
<td>16.32</td>
</tr>
<tr>
<td>as a percent of tax revenues</td>
<td>29.86</td>
<td>21.04</td>
</tr>
<tr>
<td>Export taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as a percent of goods exports</td>
<td>0.18</td>
<td>0.10</td>
</tr>
<tr>
<td>as a percent of tax revenues</td>
<td>0.17</td>
<td>0.11</td>
</tr>
<tr>
<td>Export license usage</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Export tax usage</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

Source: Compiled from World Trade Indicators database. Original information from taken from World Bank WDI database and IMF Government Finance Statistics database.

**Fourthly**, contingency protection measures also shows that India is using various trade remedy measures such as anti dumping, countervailing measures and safeguard impositions. Over the period 1995–2008, India was the world’s leading initiator of anti-dumping investigations (564), followed by the United States (418) and the EU (391). Steel and chemical products faced the most anti-dumping investigations, and the top five targets were China, members of the Association of Southeast Asian Nations (ASEAN), the EU, the Republic of Korea, and Taiwan (China). Over the same period, the country initiated 18 safeguard actions, the most in the chemicals sector. In fact, for the period 2006-09, India imposed averagely 31 Anti-dumping duty measures, while South Asia average remain only four.

#### 3.6 Trade Facilitation Measures

“The trade policy literature has for many years emphasized the importance of taking in to account the impact of non tariff measures (NTMs) in addition to tariffs – Deardorff and Stern (1998)”. Recent research on trade and development has emphasized the magnitude of the trade costs associated with administrative red tape and entry barriers, informed by the emergence of new datasets such as the OECD’s product market regulation database, the World Bank’s “Doing
Business" indicators and Logistics Performance Index (LPI), as well as firm-level surveys of the prevailing investment climate and business environment (Hoekman et al, 2008). Therefore, this part illustrates various trade facilitation measures initiated in India during post-reforms regime and further explore those areas where more steps are needed.

3.6.1 Liberal Initiative Taken to Reduce Trade Cost in India

Several steps have been taken to simplify the rules and procedures and improve the speed of transaction during the post-reforms regime. Modernization of Directorate General of Foreign Trade (DGFT) with the help of information technology has been doing since the initiation of reforms. All 32 offices of the DGFT have been fully computerized and the exporters can transact all business with the DGFT on-line without having to visit these offices. All the rules and notifications are available real time on the DGFT website and 75 percent of the license applications are being filed and processed on-line (WTO, TPR, 2007).

A new commodity classification for imports and exports has been adopted by DGFT and this classification has been adopted by the Central Board of Excise and Customs (CBEC) and Directorate General of Commercial Intelligence and Statistics (DGCI&S). This was done with the aim to eliminate the classification disputes and hence reduce transaction cost and time.

a) Electronic Data Interchange System

To speed up customs clearance, the electronic data interchange (EDI) system was introduced in May 1995 and is applied at all major ports and air cargo complexes. It is operational in 34 customs stations, and about 85 percent to 90 percent of imports and exports documents are processed electronically (WTO, TPR, 2007, p.34).
### Table 3.6: Various Trade Automation Initiatives in India

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Initiatives</th>
<th>Parent Department</th>
<th>Year</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICES</td>
<td>CBEC, Ministry of Finance</td>
<td>1992</td>
<td>Specific customs locations</td>
</tr>
<tr>
<td>2</td>
<td>ICEGATE</td>
<td>CBEC, Ministry of Finance</td>
<td>1995</td>
<td>Integrated customs network</td>
</tr>
<tr>
<td>3</td>
<td>eTrade</td>
<td>Ministry of Commerce and Industry</td>
<td>1997</td>
<td>Compatibility between various trade agencies</td>
</tr>
<tr>
<td>4</td>
<td>ACP/RMS</td>
<td>CBEC, Ministry of Finance</td>
<td>2005</td>
<td>Compliant large traders</td>
</tr>
<tr>
<td>5</td>
<td>PCS</td>
<td>Indian Port Association, Ministry of Shipping</td>
<td>2008</td>
<td>Integrates all the major ports and all the major actors at the port</td>
</tr>
</tbody>
</table>


#### b) Automation of Custom Clearance

During the post-reforms regime, the automated customs clearance system has been extended to 24 locations covering all major ports, airports, inland container depots (ICDs), and land customs stations. This system enabled on-line assessment, duty payment, and clearance procedures and EDI connectivity with clearing agents. Moreover, greater transparency for goods clearance had been imparted with the implementation of the Interactive Voice Response System (IVRS) in some of the major ports and airports. This was specifically aimed to reduce the percentage of physical examination of export cargo.

#### c) Risk Management System

In December 2005 the Risk Management System (RMS) program introduced. By its implementation routine assessment, audit, and examination of all imported goods/bills of entry had been discontinued. The focus is now on quality assessment, examination and post clearance audit of bills of entry selected by the RMS. Import declarations filed with customs are processed electronically and produce an electronic output that determines whether the consignment needs to be appraised or examined or both, or be cleared after payment of duty.
d) **Removal of Procedural Hurdles**

The National Import Data Base (NIDB) had been used by the ‘Directorate General of Valuation’ in order to speed up valuation procedures since December 2002. The NIDB permits a comparison with data gathered on the value of recent imports of comparable goods and is used by all 34 EDI stations as well as non-EDI stations through electronic mail. Currently, following steps are included as trade facilitation measures:

i) Advance authorization scheme and EPCG scheme will be brought under the EDI system with effect from 1.7. 2008.

ii) With effect from 1.1.2009, all existing EDI ports will be treated as a single port and there will be no requirement of TRA under advance authorization scheme.

iii) Payment of duty under EPCG Scheme, through debit of DEPB or other duty credit scrips would be allowed w.e.f. 1.1. 2009.

iv) To facilitate faster clearance of deemed export benefits, central excise authorities will now endorse the supply invoices within 21 days.

v) A few additional ports have been included under export promotion schemes. This will help in reducing costs and adhering to delivery schedules. Some more ports are also under consideration.

3.7 **An Exploration of Trade Facilitation Measures**

Firstly, to capture the dimensions of prevailing domestic regulatory regimes that affect trade, ease of doing business ranks and governance effectiveness index is presented. Ease of doing business ranks represents a country’s overall business climate based on seven indicators. Government effectiveness index (2.5 – (+) 2.5, best) represents a country’s governance quality in government effectiveness. The exploration of the data given in table below shows that India’s regulatory environment is not highly favorable to operating a business. This is evidenced by its rank of 133rd in the ease of doing business for
2009 out of the 183 countries ranked in the doing business index. This rank is even high even for South Asian average, which are 117. At the same time, the performance on the basis of governance is not encouraging. These are very significant sources of barriers of trade as they increase the trade cost.

Table 3.7: Institutional Environment In India

<table>
<thead>
<tr>
<th>Indicators</th>
<th>India</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business - Rank</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Worldwide Governance Indicators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>-0.16</td>
<td>-0.13</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>-0.20</td>
<td>-0.29</td>
</tr>
<tr>
<td>Rule of Law – WGI</td>
<td>0.29</td>
<td>0.10</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>-0.35</td>
<td>-0.38</td>
</tr>
<tr>
<td>Political Stability</td>
<td>-0.93</td>
<td>-0.94</td>
</tr>
</tbody>
</table>


Secondly, internal trade and transactions costs may be of equal if not greater importance in reducing volumes of trade. Many of these trade costs reflect the domestic economic environment, the legal and regulatory framework, the efficiency of infrastructure services and related regulation, customs clearance procedures, administrative red tape, etc (Hoekman, 2008). So to capture the impact on these costs logistics performance index, trading across boarder cost and trade finance situation is providing in the table 3.8.
The Logistics Performance Index, a measure of the countries' logistic environment and supply chain performance, rates India at 3.07 on a scale from 1 to 5 with 5 being the highest performance. This compares with 2.3 for the South Asia region and 2.47 for countries in the lower-middle-income group. These scores correspond to India being ranked 39th in the world and 1st in the South Asia region. India performed best in the timeliness of shipments in reaching their destination, but needs most improvement in increasing the efficiency and effectiveness of customs procedures (WTI, 2009-10). Another criterion also shows some ease of trade facilitation, yet number of document required for export and import is more than South Asia as well as World. Along with it, the availability of trade finance to exporters is also very low than South Asia and World average.
ICT and some other variables like electricity cost and enrollment ratio are a measure of the service-sector infrastructure in a country. The variable of ICT measures the extent to which an economy has the necessary domestic infrastructure for e-business transactions and employs information networks to improve efficiency of business. The analysis of the data points out that there is a large gap between India and world average of ICT that need to be filled by the proper formulation and implementation of regulatory policies so that trade cost could be decreased and trade competitiveness increased. This supply constraints was also analyzed by Banik (2001), who opined that India’s weak electronic infrastructure is preventing Indian exporters to availing various business opportunities. Panagriya (1998) also strengthen this point by quoting that domestic-policy reforms must continue in virtually all sectors but especially in services sectors such as banking, insurance, telecommunications and power generation as without these reforms, the benefits from trade liberalization cannot be fully exploited. Srinivasan (2001) and Henry (2008) also asserted that lack of infrastructure, particularly in transport and electricity, is one of the main obstacles to trade and FDI development. The similar point is raised by Hoekman (2008) by

<table>
<thead>
<tr>
<th>Indicators</th>
<th>India</th>
<th>South Asia</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and Communication Technologies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone subscribers (per 100 people)</td>
<td>5.87</td>
<td>22.37</td>
<td>33.75</td>
</tr>
<tr>
<td>Population covered by mobile cellular network (%)</td>
<td>21.10</td>
<td>45.70</td>
<td>60.90</td>
</tr>
<tr>
<td>Personal computers (per 100 people)</td>
<td>0.77</td>
<td>2.54</td>
<td>3.29</td>
</tr>
<tr>
<td>Internet users (per 100 people)</td>
<td>1.56</td>
<td>5.96</td>
<td>7.20</td>
</tr>
<tr>
<td>Internet subscribers (per 100 people)</td>
<td>0.37</td>
<td>0.99</td>
<td>1.20</td>
</tr>
<tr>
<td>Other Variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pump price for diesel fuel (US$ per liter)</td>
<td>0.47</td>
<td>0.73</td>
<td>0.70</td>
</tr>
<tr>
<td>Electricity cost for industry (US$ per kilowatt hour)</td>
<td>0.05</td>
<td>0.06</td>
<td>..</td>
</tr>
<tr>
<td>Secondary gross school enrollment (%)</td>
<td>48.59</td>
<td>54.33</td>
<td>54.63</td>
</tr>
<tr>
<td>Tertiary gross school enrollment (%)</td>
<td>10.06</td>
<td>11.44</td>
<td>11.85</td>
</tr>
</tbody>
</table>

Source: Compiled from World Trade Indicators, World Bank, 2009-10.
empirically analyze the impact of various trade facilitation measure. The result of the study show that measures to improve logistics performance and facilitate trade are likely to have the greatest positive effects in expanding developing country trade, increasing the trade impacts of lowering remaining border barriers by a factor of two or more. In sum, India should focus on regulatory policies as this will have a greater payoff than further reductions in tariffs and NTMs, or seeking additional trade preferences.

3.8 An Overall Evaluation

It is cleared from the above explanation that the main objective of the government's export import policy shifted towards promotion of exports to the maximum extent. India’s trade policy reforms have been aimed towards freeing imports and exports; rationalization of tariff structure/reducing tariffs; decanalisation; liberalization of the exchange rate regime; setting up of trading houses, SEZ’s and Export promotion industrial parks; to provide various exemptions under the EXIM policies to boost exports and imports, and to make the trade policy regime transparent and less cumbersome. Therefore, quantitative restrictions on imports of agricultural products have been phased out in 2001. Services trade barriers have also come down and contributed to the expansion of a new dynamic services sector.

The major achievements of trade policy during the post-reforms regime are:

- In the post-reforms regime, lowering of tariff rates and designing an appropriate tariff structure has been the focus agenda for the foreign trade policy makers. These rates came down significantly due to the reform process. Due to reforms, the current "peak rate" has declined up to only 12.5 percent in 2007-08. Nevertheless, these tariff reductions has confined to non-agricultural, industrial goods.

- Today, except for a handful of goods disallowed on environmental, health and safety grounds and a few others including fertilizer, cereals, edible oils and petroleum products that are canalized (meaning they can be
imported by government only), all goods can be imported without a license or other restrictions.

- Quantitative restrictions on exports have been removed barring only few items necessitated on account of security, health, safety, environment and public morals. Moreover, Minimum Export Price has been abolished in the new foreign trade policy regime. With this, further liberalization came in state trading in exports especially since 2002.

- The lifting of exchange controls and elimination of overvaluation of the rupee that had served as additional barriers against the traded goods sector also accompanied the nineties reforms. (As a part of the 1991 reform, the government devalued the rupee by 22 per cent against the dollar from 21.2 rupees to 25.8 rupees per dollar. In February 1992, a dual exchange rate system was introduced). As a result of reforms the Indian Rupee is now being managed according to market principles with the Reserve Bank of India intervening occasionally to curb excessive volatility whenever such circumstances arise. Full convertibility had been preserved in the FEMA for current account transactions. A more recent development had been the move towards capital account convertibility. Several steps had also been taken to liberalize foreign exchange transactions.

- Reduction in export taxes and subsidies is another significant feature in the area of export reforms. With the exception of few products like tanned and un-tanned hides, skins and leathers (except manufactures of leather), all other exports otherwise subject to tax has been exempted through notifications. Subsidies streamlined as direct subsidies eliminated and sector specific subsidies replaced by more general schemes such as nontaxation of export profits and duty drawback schemes. Further, export cess had been repealed by the Cess Laws (Repealing and Amending) Act, 2005 enacted in 2006.

- Various duty and tax concessions scheme such as Duty Drawback, the Duty Free Replenishment Certificate (DFRC) scheme, now known as ‘The Duty Free Import Authorization (DFIA)’ expanded.
Import of Technology has been liberalized. Hence, technology can be imported through the automatic route without any restriction. This has increased the access of modern and efficient techniques of production to Indian industries, making them more competitive and profitable than before so that quality production could be done for export sector.

During the post-reforms regime, the Government further expanded the network by establishing Special Economic Zones (SEZs) and converting EPZs into SEZs. In order to promote the SEZs for the growth of India’s foreign trade the SEZ Act, 2005 supported by SEZ rules, came into affect on February 10, 2006. Concessions were provided to the units based in these zones by way of duty-free imports of all types of goods.

Added to this, liberal export finance, insurance, and guarantees were provided to exporters. Keeping in view the export promotion and marketing assistance, different schemes such as Marketing Development Assistance (MDA) scheme initiated.

Various export incentives schemes such as Export Promotion Capital Goods (EPCG) scheme, Export Oriented Units (EOUs), Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Biotechnology Parks (BTPs); Served from India Scheme; Special Agriculture and Village Industry Scheme; Focus Market and Focus Product Schemes introduced and advanced.

For the first time, export of services has been given separate focus in the export-import Policy and the future potential in them has been realised. The schemes for export promotion available to merchandise exporters to be extended to service exporters as well. Special advance licensing scheme for export of electronic items has been introduced and tourism industry has been granted an export house status.

For trade facilitation, several steps had been taken to simplify the rules and procedures and improve the speed of transaction during the post-reforms regime. These steps includes introduction of electronic data interchange (EDI) system in May 1995; extension of automated customs
clearance system; introduction of Risk Management System (RMS) program in Dec. 2005; use of a National Import Data Base (NIDB) by DGCI&S since Dec. 2002 etc.

Regarding tariff reforms, India's trade liberalization efforts can be broadly divided into two periods. The first five years from 1991 to 1996 was a period of intense liberalization as tariffs fell dramatically. The second half of the nineties can at best be characterized as a period of consolidation of but definite deceleration in the pace of tariff compression in general; the average tariff level remained largely unchanged. In fact, while the simple average tariffs remained more or less constant, there was a slight increase in the trade-weighted tariffs from a low of 25 percent in 1996 to 30 percent by 2000 (Rajen and Sen 2002). In the second decade also successive steps has been taken to removal of quantitative restrictions, reduction of tariffs and trade facilitation.

However, there are various tariff, non-tariff and regulatory issues, which demands further liberal initiatives.

**Firstly**, in India, despite very substantial tariff reduction and rationalization, tariff structure remains complex. As observed by table 3.3 and 3.4 India's trade regime is only slightly more restrictive than that of the average South Asian country, which has a TTRI of 11.3 percent, but significantly more restrictive than regimes of lower-middle-income countries, which have an average TTRI of 8.6 percent. Therefore, as a part of further reform, it will be best for India to move to a single uniform tariff for non-agricultural goods (Panagriya, 2004). It is also necessary to reduce peak tariff to 5 per cent for non-agriculture products eventually (11th five-year plan document). This will involve an end to the plethora of exemptions and raising tariffs. The single tariff rate also has the advantage of transparency and administrative simplicity. It eliminates the prospect of a higher tariff through classification of one's product as finished rather than intermediate and removes the provisions of exemptions.

**Secondly**, in addition to high and complex tariffs, India continues to have a policy of tightly regulating trade. It monitors imports of around 300 sensitive products and uses state trading companies in agriculture, officially to ensure the
country’s food security. As shown in Table 3.5 various custom duties and export restrictive measures though reduced during the course of reforms yet they are high as compare to even average of South Asia. Tariff rate quota usage in agriculture is high, and export licensing system prevails in country even after 18 years of reforms. Therefore modernization and rationalization of regulatory system and reduction of duties as well as taxes should be a part of trade policy reforms.

Thirdly, India is using various contingency protection measures such as anti dumping, countervailing measures and safeguard impositions. India reported as a high user of anti dumping and compensation measures. Over the period 1995–2008, India was the world’s leading initiator of anti-dumping investigations (564), followed by the United States (418) and the EU (391). Thus there is a need to greater transparency in the trade regulation regime as well as further liberalization of the trade sector.

Fourthly, it is observed that India’s regulatory environment is not highly favorable to operating a business. This is evidenced by its rank of 133rd in the ease of doing business for 2009 out of the 183 countries ranked in the doing business index. This rank is even high even for South Asian average, which are 117. At the same time, the performance on the basis of governance is not encouraging. These are very significant sources of barriers of trade as they increase the trade cost. Thus India needs significant regulatory policy corrective measures in order to reduce trade cost and increase the trade sector competitiveness.

Fifthly, internal trade and transactions costs may be of equal if not greater importance in reducing volumes of trade. As observed from table 3.8 India is improving in terms of logistics environment yet further ease of trading across borders and availability of trade finance to exporters is essential steps that need attention of policymakers. Along with it, ICT and some other variables like electricity cost and enrollment ratio are a measure of the service-sector infrastructure in a country. But there is a large gap in India and world averages (Table 3.9) that need to be filled by the proper formulation and implementation of related policies. Added to this, time limits must be fixed for various
clearances/approvals/filing of documents so that trade cost could be decreased and trade competitiveness increased.

3.9 Notes

1. Trade policy formulation and implementation are the responsibility of the Department of Commerce under the Ministry of Commerce and Industry. The Foreign Trade Policy (FTP) is announced for a five-year period, along with annual reviews, by the Department of Commerce. The FTP is then implemented by the Directorate General of Foreign Trade (DGFT) which is an attached office under the Department of Commerce and has a network of 34 regional offices. A draft of the FTP is widely consulted with other key ministries, the RBI, state governments, industry and farmers' associations, trade bodies, research and academic institutions, and other stakeholders (OECD Investment Policy Reviews: India 2009).

2. Indian Import Policy operates on a negative list approach so that all items not on the list could be imported freely. Goods on the negative list, however, could be imported at market rates only if a license is obtained. The negative list had three categories: prohibited items, which may not be imported under any circumstances, restricted items, which require a specific import license or a public notice for imports, and canalized items, which can only be imported by public-sector undertakings.

3. In India, a new tariff policy including the peak rate of tariffs is announced every year in India’s annual budget by the Ministry of Finance. However, the applied tariff rates are frequently changed on an ad hoc basis via notifications. Complicating the actual tariff structure, these announced tariffs are exempted or reimbursed under various trade incentive schemes which are adopted in the foreign trade policy and its annual supplements.

4. Tariff Trade Restrictiveness Index or TTRI (MFN applied tariff) – All Goods calculates the equivalent uniform tariff of a country’s tariff schedule that would keep domestic import levels constant. It is weighted by import shares and import demand elasticity.

5. ‘Percent Share of Tariff Lines with Domestic Peaks’ calculates the total share of lines in the country’s MFN tariff schedule with the value above 3 times the simple average tariff. It is expressed as a percentage of total lines. International Peaks calculates the total share of lines in the country tariff schedule with applied tariff rates that exceeds 15 percent.

6. TRQ usage in agricultural (AoA) goods (%) reflects the share of agriculture tariff lines that are subject to tariff rate quota. TRQs specify one (mostly lower) tariff for an initial quantity of imports (within quota), and a higher tariff for imports beyond the quota limits.

7. Custom duties as a percentage of goods imports are the collected duties or revenues based on import customs. Thus the ratio represents the implicit
ad valorem tariff of a country, except excluding certain exemptions in many developing countries

8. Export License Usage is a dummy variable that takes the value 1 if a country requires exporters to obtain licenses for products, excluding weapons, nuclear materials, endangered species, and dual use goods, 0 otherwise.

9. Export Tax Usage is a dummy variable that takes the value 1 if the country imposes export taxes, 0 otherwise.

10. The Logistics Performance Index, a measure of the ease of trade facilitation, rates India at 3.07 on a scale from 1 to 5 with 5 being the highest performance. This Index reflects the overall perception of a country’s logistics environment based on about 1,000 responses to a survey of logistics performance evaluated on six key criteria such as Efficiency of customs & other procedures, Quality of transport and IT infrastructures, International transport costs, Logistics competence, Traceability of shipments, Domestic transportation costs, and Timeliness of shipments.

3.10 References


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