CH VI

OVERVIEW OF EXPORT PROMOTION DURING VARIOUS PLAN PERIODS AND EXPORT-IMPORT POLICIES WITH FOCUS ON THE TENTH FIVE YEAR PLAN & THIRD EXIM POLICY (2002-2007)

Policy Framework

The basic element of early industrialization strategy was import substitution. Export pessimism was the underlying assumption. Consequently, since 1956, India placed high emphasis on the capital goods sector or the heavy industry. The choice of capital or investment goods sector over consumer goods’ sector was made on the assumption that the economy suffered from serious “capital constraint”. Capital constraint was said to be operating in terms of both financial capital [due to low propensity to save] and availability of physical capital goods. Allocating a larger share of the nation’s limited investable resources to create the capacity to produce capital goods whose output will also be used to produce capital goods was expected to remove this capital constraint.

The policy imperatives to implement this strategy includes industrial licensing, control on capacity, import and export controls, control of capital issues, control of foreign exchange, allocation of raw materials, price controls and allocations of credit. These measures suggest that the planners and policy makers understood the need for using a wide variety of instruments and controls to steer the industrial development in a desired direction.

During the late 1960s and early 1970s, government introduced further regulations to restrict the growth of monopoly in Indian industries and monitor the foreign exchange flows into the economy.

The heavy industry biased industrialization strategy stressed heavily on a “closed economy” approach. Very limited role was assigned to international trade. Achievement of national self-sufficiency was given top priority in the policy formulation. It was widely believed that controls and regulations of exports and imports, and state trading in select commodities, are necessary not only from the point of view of utilizing limited foreign exchange resources available but also for securing
an allocation of the productive resources of the country in line with the targets defined
in the Plan [Planning Commission 1950]. The implementation of import substitution
was ought to be achieved through the insistence on indigenization requirements of the
industrial output in most industries.

These elaborate system of government control over production, investment, technology, locational choice, prices and foreign trade instituted in the mid 1950s led to lackluster growth, an internationally uncompetitive industrial structure, a perpetually precarious balance of payments, and above all, rampant rent seeking and the corruption of social, economic, and political systems. Consequently, India neither achieved self-reliance in industrial growth nor eradicated poverty. Moreover, during the late 1960s and 1970s, Indian industry experienced a deceleration due to low productivity, high costs, low quality of production and obsolete technology [Ahluwalia, 1985]. Recognition of these bottlenecks lead to some fresh thinking among Indian planners on the need to promote technological modernization and competitiveness, apart from efforts to remove these supply-side hurdles.

In the early 1980s, three important committees namely, the Abid Hussain Committee, the Narasimhan Committee and the Sengupta Committee were set up to review industrial and trade policies. These committees recommended easing up of trade policy, the substitution of physical and quantitative controls by fiscal and other means of macroeconomic management, the promotion of greater public sector autonomy in business and operating decisions and the need for measures for enhancing productive efficiency and technological modernization.

These recommendations resulted in the process of de-regulation during the 1980s, but gathered more momentum in the early 1990s. The measures introduced in the 1980s include (i) de-licensing without any investment limit of thirty-two groups of industries, (ii) broad-based classification of commodities for issue of licenses, (iii) automatic permission for expansion of capacities, (iv) permission to MRTP and FERA companies also to avail (ii) and (iii), if they are located in an industrially backward region, (v) increase in the paid up capital limit of the firms to be covered under the MRTP Act from Rs.20 crores to Rs.100 crores and key changes in trade policy including increasing access of exporters to inputs at international prices and classification of several important inputs, parts and components under OGL. Further, selective permission for foreign direct investments was also granted in cases where the FDI involve transfer of technology.
As a result, during the 1980s industrial output and productivity performance improved significantly [Kelkar and Kumar 1990, Nagaraj 1991 and Ahluwalia 1991]. However, inspite of showing an up-beat performance during the early years of moderate reforms, the industrial sector exhibited severe structural rigidities by the end of this decade. The industrial growth rate, for the first time, turned out negative in 1990-91. The economy also experienced a severe balance of payments problem in 1991. The economy in early 1990s was seen as having a variety of problems including an inefficient, high cost and non-competitive industrial structure, serious infrastructure related bottlenecks and significant constraints on the availability of financial capital. It was argued that policy induced rigidities had constrained the choices of industries, apart from protecting them from internal and external competition. Efforts were directed to identify these rigidities and it was widely recognised that bureaucratic determination of plant capacity, product mix and location resulted in ignoring the market processes. Trade in scarce materials became more lucrative than efficient manufacturing. Further, the trade policy also had an anti-export bias, which blunted export orientation. This bias was reinforced by curbing of imports via tariffs and quantitative restrictions as a part of the import substitution strategy. All these necessitated major reforms not only in the industrial sector, but also in the trade, exchange rate, financial and fiscal sectors.

The reform measures, introduced since July 1991, are designed to remove these policy-induced distortions and foster efficiency to face global competitiveness. Liberalization measures include, widespread industrial de-licensing, dilution of MRTP Act, trade reforms including lowering of tariffs and removal of physical barriers on imports, opening up of many sectors for FDI and higher equity participation, changes in FERA, liberalization of policies related to foreign technology purchase and licensing, capital market reforms, liberal permission for inward flow of foreign portfolio investments from foreign institutions and allowing the exchange rate to be determined by the market forces. In the following section, the impact of these policies on the industrial performance is examined.

6.1. Introduction

India had followed the system of a control-and-command economy since 1951, based on the development policies as outlined in its Five-Year Plans. This continued for almost three decades. The principle objectives, among others, were: (a) to increase aggregate consumption, (b) to reduce unemployment, (c) to work towards self-
reliance and self-sufficiency and (d) reduction in disparities. The priority of these objectives changed from plan to plan. To quote an example, India's Fifth Five-year Plan of 1974-79 outlines: 'Removal of poverty and attainment of self-reliance are the two major objectives that the country has set out to accomplish in the Fifth Plan. As necessary corollaries, they require higher growth, better distribution of incomes and a very significant step-up in the domestic rate of saving' (c.f. Government of India, 1974).

The Indian economy since 1991 has been undergoing constant and drastic economic reforms. These reforms have resulted in a shift from the inward-oriented policy of the past to an outward-looking one. Although this process of reform had started in the mid-1980s, it suffered interruptions a few times owing to an over-cautious approach and several other factors. It was only in the early 1990s that the process was accelerated. The reforms had to take care of various short-term macro-economic (particularly fiscal and external) imbalances as well as integrate the domestic economy increasingly with the world through deregulation and competition. Although the reforms were driven by a macro economic crisis, they have been sustained for over a decade. The major emphasis of these reforms was to attain higher growth and efficiency. In a democratic country with a federal system, this was sought to be attained through a wide consultation process to achieve social and political consensus. The approach to India's reform program was gradual and steady rather than of a 'shock therapy' as was carried out in Latin America or in the East European economies.

6.2. Development Policy Perspective

The trend towards a liberal economic policy had found its full expression in the early 1990s with the Government of India announcing a series of packages of stabilisation and structural policy reforms. This was certainly a major departure from the relatively protectionist economic policies pursued till the early 1980s. Such a break was a result of a change in the perception of the economic policy mind-set in the country. While the objectives of self-reliance and self-sufficiency had influenced economic policy formulation in the 1950s and 1960s, factors like export-led growth, improving the efficiency and competitiveness of Indian industries prevailed upon economic policy-making during the late 1970s and the early 1980s. The current economic policy reforms, on the other hand, seem to have been guided mainly by concerns regarding the globalisation of the Indian economy, improving internal and external competitiveness, private sector participation and removal of inadequacies or
constraints.

Macro stabilisation policies were achieved through corrections in fiscal, financial, monetary and exchange rate imbalances, which were not being sustained. These policy changes were accomplished by structural reforms in the form of industrial deregulation, trade and tariff policies, increasing opportunities for foreign direct investment, public enterprise reforms and social sector policies. The main objective of these reforms was to re-orient the Indian economy so as to make it open to market-driven forces.

The reforms were carried out in many segments of economic activity, though their coverage and depth varied from sector to sector. A summary of these reforms is given in Box 1. There exists significant literature to analyze the varied impact of these reforms on the Indian economy.

Against a backdrop of these factors, the objectives of the plans and the strategy of development have completely changed in recent years. At present, the plans focus on growth targets per capita income of GDP, and the development strategy is to be indirectly planning to promote the private sector. The Tenth Five-Year Plan of the Government of India (2002) outlines the main objective as, '.... that the tenth plan should aim at an indicative target of 8 percent average GDP growth for the period 2002-07...' However, it adds: '... that economic growth cannot be the only objective of national planning and, indeed, over the years development objectives are being defined not just in terms of increase in GDP or per capita income but more broadly in terms of enhancement of human well being...' Regarding development strategy, the role of the government has drastically changed, as can be found in Tenth Five-Year Plan document. For instance, '... the public sector is much less dominant than it used to be in many critical sectors and its relative position is likely to decline further as government ownership in many existing public sector organizations is expected to substantially decline. It is clear that industrial growth in future will depend largely upon the performance of the private sector and our policies must therefore provide an environment, which is conducive to such growth. ...' (cf Government of India, (2002b), Vol. I, pp 7.)

6.3.  Macroeconomic Dimensions

<table>
<thead>
<tr>
<th>Box 1: Paradigms of Economic Reforms in India Since 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Reforms Period</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>1. Quantitative licensing on trade and industry.</td>
</tr>
<tr>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>4. Restrictions on foreign investment and technology.</td>
</tr>
<tr>
<td>5. Export promotion and export diversification.</td>
</tr>
<tr>
<td>7. Sector-specific monetary, fiscal and tariff policies.</td>
</tr>
<tr>
<td>8. End-use and sector-specific multiple interest rates.</td>
</tr>
<tr>
<td>10. Multiple and fixed exchange rates.</td>
</tr>
<tr>
<td>11. Administered prices for minerals, public utilities.</td>
</tr>
<tr>
<td>12. Tax concessions on exports and savings.</td>
</tr>
</tbody>
</table>
13. Explicit subsidies on food, fertilizers, and some strategic sectors. | 13. No significant change, budget subsidies on LPG essential items and kerosene introduced.
---|---
17. Outdated Companies Act. | 17. No change.
18. No exit policy for land and labour. | 18. No change in labour policy, slow progress of reforms in land markets.

**Source:** Das (2003)

After independence, the output of the Indian economy (i.e. Gross Domestic Product or GDP) stagnated around an average growth of 3.5 per cent per annum during three decades, (i.e. 1950 to 1970). This is sometimes referred to as the 'Hindu Rate of Growth'. This trend changed in the eighties, when output growth per annum was around 5.6 per cent. However, this growth rate could not be sustained due to an accumulation of imbalances on account of fiscal and external sectors, i.e., high fiscal and current account deficit, a significant level of external debt, weakening of the financial system, etc. These imbalances led to unprecedented external payment crises in 1991. India's foreign exchange reserves position fell to such an extent that it was unable to pay for more than two weeks of imports. All these led to a significant fall in India's economic growth in 1991-92.

As mentioned earlier, India took a number of steps towards stabilisation and structural adjustment, supplemented by reforms. These reforms were in the areas of
industry, trade, exchange rate management, public finance and the financial sector. The reforms were carried out keeping in view the priorities of these sectors. In the industrial sector, the emphasis was on removing distortions in resource allocation and the improvement of efficiency. This included the removal of industrial licensing, reduction in the number of public sector monopolies, a liberal investment regime, automatic foreign investment, the removal of quantitative restrictions on imports and a consistent decline in average and peak import tariffs, etc.

These reforms probably led to the higher growth performance in the post-reform era. The overall growth in the post-reform era was accelerated by a relatively higher growth in the services sector. To some extent, during the first phase (1992-93 to 1996-97) the spurt in industrial activities and output could also be noticed. The growth rate of 6.1 per cent in real output during the post-reform period (i.e. 1992-93 to 2002-03) was slightly higher than the pre-reform decade of the eighties. In short, the reform process has helped India's economy during the 1980s to grow at a more sustainable healthy rate. This was achieved through competitiveness and efficiency gains.

In comparison to other emerging market economies, India's growth performance is significantly higher than a large number of other countries (Table 1). Similar patterns were observed in other sectors such as industry and services as well. Although other emerging markets show industrially-led growth, India's growth performance is led by the service sector. During the last 8 years (1995-2002), India's output (i.e. GDP) has been growing at a rate (6.0 per cent per annum), which is almost double that of the world output. It has been probably growing at a rate which is higher than that of all other countries, except China. In this context it should be remembered that the Indian economy is the fourth largest in the world after USA, Japan and China (measured in terms of purchasing power parity adjusted GDP). The world economies have improved in the recent past, particularly since April 2003. The growth rate experienced by India's output, therefore, is probably the highest in the emerging markets- around 8.0 per cent during 2003-04.

6.4 RECENT EVENTS IN INTERNATIONAL ECONOMY

During the Ninth Five Year Plan, there have been a number of events in the international economy that have influenced the behavioural pattern of the international economic relationship significantly, especially from the Indian point of view. These include the East Asian crisis of 1997-98, global slow-down since 1999-
2000, and the September 11, 2001 event. Some of these are outlined in this section.

(a) East Asian Crisis

Prior to the Ninth Five Year Plan, the East Asian Countries were visualized as the harbinger of economic growth – their performance being described as the East Asian Miracle. The scenario, however, changed in 1997 when financial and corporate sector weaknesses combined with macroeconomic vulnerabilities sparked off a crisis. The weakness can be explained as exposure of financial institutions to a variety of external threats including decline in asset values, market contagion, speculative attacks, and a reversal of capital flows. Formal and informal currency pegs, which discouraged lenders and borrowers from hedging, contributed to the problem. Capital inflows had helped rapid credit expansion while lowering the quality of credit, thereby leading to asset inflation. The inflated asset prices encouraged further capital inflows, lent often by weakly supervised non-bank financial institutions. Highly leveraged corporate sectors and large unhedged short-term debt made the crisis ridden countries vulnerable to changes in the market sentiments in general, and exchange rate changes in particular.

The initial priorities in dealing with the crisis were to stabilise the financial system and to restore confidence in economic management. Forceful measures were needed to stop bank runs, protect the payment system, limit central bank liquidity support, minimise disruptions to credit flows, maintain monetary control and stem capital outflows. In the crisis-ridden countries, emergency measures, such as the introduction of blanket guarantees and bank closings, were accompanied by comprehensive bank restructuring programmes and supported by macro-economic stabilisation policies.

India could escape the contagion because the management of our external sector was governed by parameters indicated by the High-level Committee on Balance of Payments (Rangarajan Committee) such as a flexible exchange rate, sustainable current account deficit, preference to non-debt creating resource flows, limits on the quantum, use and cost of external debt and a highly restrictive approach to short-term debt.

Lessons learnt from the Asian Crisis

- Any currency could come under speculative attack if its exchange rate is out of alignment with the fundamentals for a prolonged period of time.
- Once the speculative attack is launched on any currency, the neighboring
currencies are also vulnerable, no matter how sound their policies may be.

- The overvaluation of the currency acts as a catalyst when there is a run on the currency, as all the market players base their action on the information that the currency is due for correction.

6.5 EXTERNAL SECTOR DIMENSIONS

Since efficient markets cannot always overcome speculative activities, it is necessary to remain ever vigilant on the performance of economic parameters both on domestic and external front. Efficient micro and macro-economic management, transparency, putting in place an appropriate regulatory framework and government’s effective and timely intervention in case the markets dither, are necessary measures to avoid the occurrence and impact of such crisis in India.

(b) Global Slow-down

While the East Asian crisis was being resolved, the prospects for global growth weakened significantly, particularly during recent times due to a slow-down in the United States, a stalling recovery in Japan, and a moderate growth in Europe and in a number of emerging market economies. The growth rate of global output increased from 3.6 per cent in 1999 to 4.7 per cent in 2000, but declined to around 2.2 per cent in 2001. The projections for 2002 and 2003 are 2.8 per cent and 3.7 per cent respectively (World Economic Outlook, IMF, September 2002).

In the context of the world economic outlook, the following observations are worth noting:

- In an environment of slowing global growth, commodity prices may decline. Oil prices have retreated from their late 2000 high though their volatility remains a matter of concern and continues very much to depend upon the production decisions of the Organization of Petroleum Exporting Countries (OPEC), though the risks may be on the downslide.

- Non-fuel prices are expected to remain broadly unchanged; but if global demand slows down more than expected, prices may decline, affecting adversely commodity producers, including many poor countries.

- With the possibility of oil prices declining and wage increases remaining moderate, inflation levels are likely to stabilise. This would allow fiscal maneuvering in many countries.

- While a number of countries continue to face serious difficulties, external and financial vulnerabilities in emerging markets have been generally reduced since
the 1997-98 crisis, and the shift away from soft exchange rate pegs has improved their ability to manage external shocks.

- Over the past several years the strong expansion in the US economy has been instrumental in stabilising global activity in the face of weak demand elsewhere. Unfortunately, with the recovery in Japan stalling, and its potential growth being still modest, the present slow-down in the US is likely to be offset by higher demand growth elsewhere. In these circumstances, there would be greater risk of spillovers to other countries through financial market and confidence effects.

- Given that financial risks often tend to be underestimated in periods of rapid expansion, lower growth could expose fragility of financial markets. Further, downward revision to expectations of corporate profit growth could intensify pressures on equity markets in the United States and elsewhere, with adverse effects on wealth, investment, confidence and risk aversion.

- In emerging markets, prospects depend critically on maintaining investor confidence. External financing conditions have recently deteriorated. Given the global outlook, and continued economic difficulties in some emerging market countries, economies are likely to remain volatile in the period ahead. This underscores the need to maintain prudent macro-economic policies and to press ahead with corporate, financial and institutional reforms.

c) Post September 11, 2001 Situation

Even before September 11, 2001, world’s major economies had been witnessing a slow-down. In USA, growth rates had dropped to near-zero due to weakening consumption growth, declining investment and reduced imports, coupled with a dwindling manufacturing sector growth. Japan witnessed deflationary pressures and Europe’s growth rate was slowing sharply. The events of September 11, 2001 further hit the global economy at a vulnerable point when it had fewer buffers to offer and its resilience to absorb new shocks was suspect. As a result, world trade growth is anticipated to decline from 12.6 per cent in 2000 to (–) 0.1 per cent in 2001, 2.1 per cent in 2002 and 6.1 per cent in 2003 (World Economic Outlook, September 2002).

Insofar as India is concerned, the post-September 11 developments have affected a few important sectors adversely. The Nasscom had first estimated the software exports to grow by 52 per cent during 2001-02, but the actual rate came down
to only 13 per cent during the year. The civil aviation sector has also been hit, apart from fall in demand, hike in insurance costs has increased the operational cost. India’s tourism industry, which serves 2.6 million tourists a year, has been adversely affected. The flow of remittances has also declined during the year 2001-02.

Adverse external developments after September 11, and their effect on India’s financial markets, necessitated a quick response to provide appropriate liquidity and overall comfort to the markets. In order to stabilise domestic financial markets, the Reserve Bank of India (RBI) ensured that interest rates are kept stable with adequate liquidity. The RBI also undertook sale/purchase of foreign exchange as and when it was necessary to meet any unusual supply-demand gap. In view of the extraordinary circumstances in the government securities market, the RBI opened a purchase window for select government securities on auction basis. Indian companies were permitted to increase the foreign institutional investment (FII) limit. A special financial package was announced for large value exports of six select products, which were internationally competitive and had high value addition.

The above measures had the desired effect of moderating possible panic reactions and reducing volatility in financial markets, particularly in money, foreign exchange and government securities markets. While financial markets are generally stable, liquidity is adequate, and interest rate environment is favorable so far, the outturn of industrial output has been limited. This continues to be a matter of serious concern. It is hoped that as global markets gain back momentum after some time, it will have a favorable impact on the investment climate in India as well.

The series of international disturbances, however, throw open a window of opportunities that can be harnessed. The interest rates have been cut several times in the USA giving an opportunity to off-load the interest burden. Excess capacity afflicts virtually every capital goods sector across the globe, which presents an opportunity to import machines and equipments at bargain prices. It may be possible for India to attract higher FDI under the circumstances. This is a time for the Indian multinationals to look for cheap global acquisitions. When US companies resort to cost-cutting exercises, they may also resort to outsourcing, due to which the IT-enabled services sector such as call centers, back-office operations, transcriptions, payroll accounting services etc., will get a boost.

6.6 STATUS OF THE EXTERNAL SECTOR

During the Ninth Plan period, India’s balance of payments position
remained mostly comfortable. The current account deficit narrowed down and on the average was 0.8 per cent of gross domestic product (GDP), less than one half of the 2.1 per cent envisaged in the plan. The growth of exports in dollar terms during the Ninth Plan period has been 5.6 per cent as against the targeted growth rate of 11.8 per cent. During the same period, import growth has been 3.3 per cent as against the target of 10.8 per cent. The country has withstood the East Asian Crisis of 1997-98 and the recent global slowdown. Invisible receipts have been buoyant. Foreign exchange reserves have increased significantly to around $ 54 billion by the end of March 2002. The exchange rate of the Indian rupee, in terms of the US dollar, has depreciated by 6 per cent. The external value of the rupee seen in terms of real effective exchange rate (REER) has, however, appreciated slightly. Foreign direct investment inflows have increased while foreign institutional investments have gone down. The key indicators of external debt have improved considerably as a result of better management of external debt. It is some of these trends that are discussed in greater detail in this section.

**Exports**

The Ninth Plan had envisaged a growth of 11.8 per cent per annum in exports, against which the actual growth was 5.6 per cent (in dollar terms) during the Ninth Plan period. Even this unsatisfactory performance was accompanied by high volatility. Exports had recorded a negative growth of 3.9 per cent during 1998-99. The year 2000-01 witnessed a high growth of 19.6 per cent but declined sharply to 0.05 per cent in 2001-02. The Ninth Plan had also envisaged that the export-GDP ratio would be 10.4 per cent, but the likely outcome would be lower, at around 9 per cent.

The drastic reduction in growth rate of exports during 2001-02 was primarily due to structural constraints operating on the demand as well as on the supply side. The reversionary tendencies across the world affected the demand for our exports as well. World trade in goods and services was projected to record a negative growth of 0.1 per cent in 2001 as against a growth rate of 12.6 per cent during 2000. Such slowdown and contraction of world trade also resulted in emergence of protectionist policies by developed countries in some sectors in the form of barriers of technical, environmental and social standards, affecting market access and disrupting our exports.

Movements of the exchange rate also affected export performance. Major supply constraints that continued to hamper our exports include infrastructural constraints, high transaction costs, reservation for small scale industries, labour inflexibility, constraints in attracting FDI in exports sector and maintenance of product
quality.

Changes in the composition of exports during the Ninth Plan may be seen in Table 6.1. It may be observed that the share of agriculture and allied products has been declining, while that of ores and minerals has remained more or less steady. Share of manufactured goods increased during the first three years, but came down during the two later years. Share of petroleum products increased significantly in 2000-01 and more so in 2001-02, while ‘others’ have shown a gradual rising trend during the Ninth Plan period. It is important to note that the share of processed agricultural exports and manufactured goods must be suitably raised not only for a sustainable balance of payments position, but also to provide adequate aggregate demand to support the projected growth in these sectors.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Commodity Group</th>
<th>Percentage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agri and Allied Products</td>
<td>18.9</td>
</tr>
<tr>
<td>2.</td>
<td>Ores and Minerals</td>
<td>3.0</td>
</tr>
<tr>
<td>3.</td>
<td>Manufactured Goods</td>
<td>75.8</td>
</tr>
<tr>
<td>4.</td>
<td>Petroleum Products</td>
<td>1.0</td>
</tr>
<tr>
<td>5.</td>
<td>Others</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Looking at the direction of these exports, it was observed that the share of our exports to the Organization for Economic Cooperation and Development (OECD) countries has been declining, especially due to decline in our share to the European Union (EU) and Japan. Share of exports to USA has increased and so has to the OPEC and Latin American countries. It has gone down in the case of Eastern Europe, with slowing down of exports to Russia, while shares of exports to less developed countries in Africa and Asia have remained more or less at the same level. Exports to ‘other’
countries have increased and need to be further stepped up.

The policy reforms have aimed at creating an environment for achieving rapid increase in exports to make it an engine for achieving higher economic growth. Depending on the international environment and domestic exigencies, various export policies have been formulated from time to time. More recently, a number of steps have been taken to enhance the export growth. This includes reduction in transaction costs through decentralisation, simplification of procedures and various other measures, which are enumerated in the EXIM Policy 2002. Steps have been taken to promote exports through multilateral and bilateral initiatives, identification of thrust sectors and focus regions. Special economic zones are being set up to further boost the exports. Import of second hand capital goods, which are of less than 10 year vintage, have been allowed. In order to encourage export of quality/branded goods, double weightage has been accorded to exports made by units having ISO or equivalent status. Other measures include promotion of agricultural exports, market access initiative, setting up of business-cum-trade facilitation centers and trade portals, strengthening of the Advance Licensing Scheme, Duty Free Replenishment Certificate (DFRC), Duty Entitlement Pass Book (DEPB) Scheme, etc.

The EXIM Policy 2002 has removed all quantitative restrictions (QRs) on exports, except for a few sensitive items retained for export through the State trading enterprises. The comprehensive policy covers the agricultural sector, cottage and handicrafts and the small-scale sectors. Apart from removing restrictions on agricultural exports, it is proposed that transport assistance be made available for exports of fresh and processed fruits, vegetables, floriculture items, poultry and dairy products, and products of wheat and rice.

Some of the sector-specific packages in the policy include incentives for export of jewellery, leather and textiles, handicrafts, and other items from the small-scale sector. To elaborate, the package includes reduction of customs duty on import of rough diamonds to zero per cent; abolition of licensing for rough diamonds which should help India to emerge as a major international center for diamonds; reduction in value addition norms for export of plain jewellery from 10 per cent to 7 per cent; and allowing export of all mechanised unstudded jewellery at a value addition of 3 per cent only as part of the effort to achieve a quantum jump in jewellery exports. Further, relaxations have been made in terms of extension of duty-free imports of trimmings and embellishments up to 3 per cent of f.o.b. value, hitherto confined to leather garments to
all leather products; and permitting DEPB rates for all kinds of blended fabrics among several other benefits for the textile sector. The policy also marks the launching of a new programme called, Special Focus on Cottage Sector and Handicrafts, keeping in view that the small scale products form 50 per cent of India’s exports.

In addition to merchandise exports, there is tremendous scope for increasing exports from the services sector as India has a highly skilled manpower and a large industrial base. This is being tapped for electronic and computer software, engineering consultancy, banking, insurance, tourism, etc. The Policy is geared towards nearly doubling India’s present exports of about $ 45 billion to more than $ 80 billion over the Tenth Five Year Plan by 2007.

It was also announced that overseas banking units (OBUs) would be permitted to be set up in special economic zones (SEZs). These units would be virtually foreign branches of Indian banks but located in India. These OBUs would be exempt from usual requirements of credit reserve ratio and statutory liquidity ratio. The banks would provide access to SEZ Units and SEZ developers to international finances at international rates. The policy includes various duty-neutralisation instruments for exports such as the Duty Entitlement Pass Book. Export Promotion Capital Goods (EPCG) and all other schemes like Advance Licenses, etc., would continue along with the existing dispensation of not having any value caps. EPCG licenses of Rs.100 crore or more will have 12 years export obligation period (as against 8 years earlier) with a five-year moratorium. A Plan scheme entitled, Market Access Initiative (MAI) was initiated to assist industry in research and development, market research, warehousing and marketing infra-structure. Also, a scheme for participation of States in the export endeavor, Assistance to States for Infrastructure Development for Exports (ASIDE) is being encouraged. Moreover, attention is being paid to aspects of grading and quality control, and scientific packaging methods to meet international standards/specifications.

In order to promote exports to Latin America, Africa and the Commonwealth of Independent States (CIS) countries, various programmes have so far been launched. It is expected that in addition to the Focus: LAC programme for accelerating trade with Latin American countries, the new programme called Focus: Africa would give a boost to India’s trade with the sub-Saharan African region. In order to strengthen trade ties with the CIS countries, a Focus: CIS programme would be launched in the coming year.
A Medium-Term Export Strategy 2002-07 was announced in January 2002, with a view to providing a road map for the export sector in the medium term. The aim is to focus on the import baskets of our major trading partners (USA, Japan and EU) in the context of India’s export basket, and arrive at focus products and focus markets for India. A total of 220 items and 25 markets have been identified for special attention based on various criteria, and indicative sector-wise strategies have been formulated. The Export Strategy 2002-07 aims to achieve 1 per cent share in world exports by 2006-07, from a 0.67 per cent in 2000-01. In order to achieve this, there is a continued need to address the domestic problem of infrastructural bottlenecks in the country, mainly relating to transport problem and ports facilities. Further, in order to improve the price competitiveness of our exports, provision is being made for WTO compatible subsidies, transport, pricing and comprehensive tax system especially for exporters, strengthening export oriented small-scale industries, dissemination and extension of information to potential exporters, etc. At the international level, apart from genuine trade fluctuations, restrictive trade practices by some of the trading partners in developed countries need to be negotiated.

Thus, in order to facilitate promotion of exports during the Tenth Plan, there is need to give further impetus to the major foreign exchange earning sectors of cottage and handicrafts, gems and jewellery and exports from the services sector, including electronic and computer software, engineering, and consultancy. The special economic zones already set up could be allowed greater relaxations from investment restrictions, particularly small scale industries reservations, foreign equity limits, real estate, etc. These zones could be classified as completely duty free enclaves for trade operations and be treated as ‘foreign country’ insofar as trading conditions are concerned. Relaxations may be given to corporate income tax and other excise and service taxes, and appropriate labour laws made applicable to these enclaves.

6.7 THIRD FIVE-YEAR EXIM POLICY (2002-2007)

A FREE TRADE REGIME

The third five-year Exim Policy has been formulated with the objective of achieving at least 1% share of world exports by 2006-2007 from the present level of 0.67%. The projected export growth means doubling the present exports of US $46 billion to more than US $80 billion over the Tenth Five Year Plan period, requiring a compound annual growth rate of 11.9%. In this context, the commodity-country matrix has been expanded from the earlier 15 countries and 15 commodities to 25 countries
and 220 export products under the Medium Term Export Strategy announced by the Ministry of Commerce and Industry.

The Union Budget for the current fiscal has triggered the process of trade liberalization further by keeping the sensitive component of the domestic sector well protected. The customs duty rates are retained at the existing levels of 5%, 15%, 25% with the peak duty rate at 30%, as against the earlier 35%. The uniform CENVAT rate at 16% and Special Additional Duty rate at 4% have been retained. The time span for bringing down the customs duty to zero by 2003 under the Information Technology Agreement has been extended to 2005. The Finance Minister has stated that by the year 2004-2005, there would be two slabs of customs duty rates at 10% and 20%.

On the trade front, export restrictions like registration and packaging requirements are removed on butter, wheat & wheat products, coarse grains, groundnut oil and cashew exports to Russia under Rupee Debt Repayment Scheme. Quantitative and packaging restrictions on wheat and its products, butter, pulses, grain and flour of barley, maize, bajra, ragi and jowar have also been abolished. Export of all cultivated varieties of seed with the exception of onion and jute is allowed.

Transport assistance would be made available for export of fresh and processed fruits, vegetables, floriculture, poultry, dairy products and products of wheat & rice. Besides, 3% special DEPB rate has been provided for primary and processed foods exported in retail packaging of 1 kg or less.

With a view to transforming select rural regions as regional rural motors of export economy by promoting export of agro products and agro-based processed products, 20 Agri Export Zones have been sanctioned. This would provide enhanced international market access to Indian farmers.

Special emphasis has been laid on promoting exports of cottage and handicraft sectors. An amount of Rs 5 crore has been earmarked for promoting cottage sector exports coming under the Khadi and Village Industry Commission. The units in the handicrafts sector have been given access to the funds from the Market Access Initiative Scheme for all the permissible activities including development of website for virtual exhibition. No past average is required under the EPCG Scheme for these units and the export house status will be provided based on the average export performance of Rs 5 crore. The handicraft sector units are entitled to duty free imports of specified items as embellishments upto 3% of FOB value of their exports.

Based on their export performance, the Policy has identified Tirupur for
hosiery, Panipat for woolen blanket and Ludhiana for woolen knitwear as Towns of Export Excellence. In order to enhance export capabilities of these first three industrial cluster-towns, the common service providers in these towns are made eligible to the facilities of EPCG Scheme. The recognized associations of the units in these towns are provided the necessary access to the funds under the Market Access Initiative Scheme for creating focused technological services. Further, such areas will receive priority for assistance for identified critical infrastructure gaps from the scheme on Central Assistance to States. The export house status is granted based on export performance of Rs 5 crore on an average. The units will also take full advantage of the various facilities provided under the Policy.

While duty free imports of trimmings and embellishments up to 3% of the FOB value hitherto confined to leather garments has been extended to all leather products, duty free import of sample fabrics are allowed to the textiles within the 3% limit provided for import of trimmings and embellishments. The other facilities to the textiles include 10% variation in GSM for fabrics under Advance Licence; additional items such as zip fasteners, inlay cards, eyelets, rivets, eyes, toggles, Velcro tape, cord and cord stopper included in input output norms; and Duty Entitlement Passbook rates for all kinds of blended fabrics allowed.

With a view to strengthening the participation of States in the national export effort, the new Scheme Assistance to States for Infrastructural Development for Exports (ASIDE) would provide funds based on twin criteria of gross exports and the rate of growth of exports from different States. Eighty per cent of the total funds would be allotted to the States based on the above criteria and the remaining 20% will be utilized by the Centre for various infrastructure activities that cut across State boundaries. A sum of Rs 49.5 crore has already been sanctioned and a further sum of Rs 330 crore has also been approved for the current financial year.

The Market Access Initiative (MAI) announced last year for undertaking marketing promotion efforts abroad on country-product focus approach basis has been further strengthened. The small allocation of Rs 14.50 crore made last has been further increased to Rs 42 crore during the current financial year. The area of operation of this Scheme is proposed to be further enlarged by including activities considered necessary for focused market promotion efforts.

**Exim Policy Facilities**

The existing export promotion schemes such as Export Promotion
Capital Goods Scheme, Duty Exemption and Remission Scheme, Scheme for Gems and Jewellery Exports, EHTP and SEZ Schemes have been further strengthened and simplified. The various relaxations provided under the above Schemes are given below:

**Export Promotion Capital Goods Scheme (EPCG)**

1. EPCG licenses of Rs 100 crore or more to have 12 years export obligation period with 5 years moratorium period;
2. Export Obligation fulfillment period extended from 8 to 12 years in respect of units in agri-export zones and in respect of companies under the revival plan of BIFR;
3. Supplies under Deemed Exports to be eligible for export obligation fulfillment along with deemed export benefits.
4. Re-fixation of export obligation in respect of past cases of imports of second hand capital goods under EPCG Scheme

**Duty Exemption and Remission Scheme**

i) Duty Exemption Entitlement Certificate (DEEC) book is abolished. Redemption based on shipping bills and bank realization certificates allowed.

ii) Annual Advance Licence is withdrawn. The exporters can avail advance license for any value.

iii) Mandatory spares upto 10% of the cif value is allowed in the advance license.

iv) Technical characteristics with regard to the imported inputs against Duty Free Replenishment Certificate (DFRC) are dispensed with for audit purpose.

v) DEPB Value cap exemption granted on 429 items will continue.

vi) No Present Market Value verification except on specific intelligence.

vii) Same DEPB rate for exports whether as CBUs or in CKD/SKD form.

viii) Reduction in DEPB rates will be only after due notice.

ix) DEPB for export of transport vehicles to Nepal in free foreign exchange.

x) DEPB rates for composite items to have lowest rate applicable for such constituents.

**Gems and Jewellery Exports**

i) Customs duty on import of rough diamonds is reduced to zero. Import of rough diamonds is already freely allowed. Licensing regime for rough diamond is abolished. This should help the country emerging as a major international center for diamonds.

ii) Value addition norms for export of plain jewellery reduced from 10% to 7%. Export of all mechanized unstudded jewellery allowed at a value addition of 3%
only. Having already achieved leadership position in diamonds, now efforts will be made for achieving quantum jump on jewellery exports as well.

iii) Personal carriage of jewellery is allowed through Hyderabad and Jaipur airports as well.

**Special Economic Zones**

i) Offshore Banking Units shall be permitted in SEZs. Detailed Guidelines will be issued by RBI.

ii) Units in SEZ would be allowed to undertake hedging of commodity price risks, provided such transactions are undertaken by the units on stand-alone basis. This will impart security to the returns of the unit.

iii) External Commercial Borrowings for a tenure of less than three years will be allowed in SEZs. Detailed guidelines will be issued by RBI.

**Electronic Hardware Technology Parks**

i) Positive Net foreign exchange as a percentage of exports is to be achieved in five years. No other export obligation for units in EHTP.

ii) Supplies of ITA 1 items having zero duty in the domestic market are made eligible for counting of export obligation.

**Other Facilities**

**Chemicals and Pharmaceuticals**

i) All pesticides formulations to have 65% of DEPB rate of such pesticides.

ii) Free export of samples without any limit.

iii) Reimbursement of 50% of registration fees for registration of drugs.

**Projects**

Free import of equipment and other goods used abroad for more than one year.

**Strategic Package for Status Holders**

The status holders shall be eligible for the following new/special facilities:

i) Licence/Certificate/Permissions and Customs clearances for both imports and exports on self-declaration basis.

ii) Fixation of Input-Output norms on priority;

iii) Priority Finance for medium and long term capital requirement as per conditions notified by RBI;

iv) Exemption from compulsory negotiation of documents through banks. The remittance, however, would continue to be received through banking channels;
v) 100% retention of foreign exchange in Exchange Earners’ Foreign Currency (EEFC) account;

vi) Enhancement in normal repatriation period from 180 days to 360 days.

**Neutralising high fuel cost**

1. Fuel costs to be rebated by Standard Input Output Norms (SIONs) for all export products. This would enhance the cost competitiveness of our export products. The value of fuel to be permitted as a percentage of FOB value of exports for various product groups is as under:

<table>
<thead>
<tr>
<th>Product Group</th>
<th>Value of fuel as a percentage of FOB value of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk Drug and Drug intermediates</td>
<td>5%</td>
</tr>
<tr>
<td>Dye and Dye intermediates</td>
<td>4%</td>
</tr>
<tr>
<td>Glass</td>
<td>5%</td>
</tr>
<tr>
<td>Ceramic Products</td>
<td>5%</td>
</tr>
<tr>
<td>Paper made from wood pulp/waste paper</td>
<td>5%</td>
</tr>
<tr>
<td>Pesticides (Technical) Pesticides</td>
<td>5%</td>
</tr>
<tr>
<td>Formulation from Basic storage</td>
<td></td>
</tr>
<tr>
<td>Refractory items</td>
<td>7%</td>
</tr>
<tr>
<td>Ferrous engineering products manufactured through</td>
<td>7%</td>
</tr>
<tr>
<td>forging/casting process</td>
<td></td>
</tr>
<tr>
<td>Non ferrous basic metal</td>
<td>4%</td>
</tr>
<tr>
<td>Plastic and plastic products from basic/monomer</td>
<td>5%</td>
</tr>
<tr>
<td>stage</td>
<td></td>
</tr>
<tr>
<td>Fibre to yarn</td>
<td>4%</td>
</tr>
<tr>
<td>Yarn to fabric/made ups/garment</td>
<td>3%</td>
</tr>
<tr>
<td>Fibre to fabric/made ups/garment</td>
<td>7%</td>
</tr>
</tbody>
</table>
Diversification of markets

i) Setting up of “Business Centre” in Indian missions abroad for visiting Indian exporters/businessmen.

ii) ITPO portal to host a permanent virtual exhibition of Indian export products.

iii) Focus LAC (Latin American Countries) was launched in November, 1997 in order to accelerate our trade with Latin American countries.

iv) Focus Africa is launched. There is tremendous potential for trade with the Sub Saharan African region. During 2000-01, India’s total trade with Sub Saharan African region was US$ 3.3 billion. Out of this, our exports accounted for US$ 1.8 billion and our imports were US$ 1.5 billion. The first phase of the Focus Africa programme shall include 7 countries namely, Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana. The exporters exporting to these markets shall be given Export House Status on export of Rs. 5 crore.

v) Links with CIS countries to be revived. We have traditional trade ties with these countries. In the year 2000-01, our exports to these countries were to the extent of US$ 1082 million. In this group, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, Ukraine and Azerbaijan to be in special focus in the first phase.
North Eastern States, Sikkim and Jammu & Kashmir

Transport subsidy for exports will be given to units located in North East, Sikkim and Jammu & Kashmir so as to offset the disadvantage of being far from ports.

Re-location of industries

To encourage re-location of industries to India, plant and machineries would be permitted to be imported without a license, where the depreciated value of such relocating plants exceeds Rs. 50 crores.

Reduction in transaction time & cost

With a view to reducing transaction cost, various procedural simplifications have been introduced which include:

DGFT
i) A new 8 digit commodity classification for imports is being adopted. This classification shall also be adopted by Customs and DGCI&S shortly. The common classification to be used by DGFT and Customs will eliminate the classification disputes and hence reduce transaction cost and time. Similarly, Ministry of Environment and Forests is in the process of finalisation of guidelines to regulate the import of hazardous waste.
ii) Reduction of the maximum fee limit for filing electronic application under various schemes from Rs. 1.5 lakhs to Rs. 1.00 lakh.
iii) Same day licensing introduced in all regional offices.

Customs
i) Adoption and harmonization of the 8 digit ITC(HS) code.
ii) The percentage of physical examination of export cargo has already been reduced to less than 10 percent except for few sensitive destinations.
iii) The application for fixation of brand rate of drawback shall be finalized within 15 days.

Banks
i) Direct negotiation of export documents to be permitted. This will help the exporters to save bank charges.
ii) 100% retention in EEFC accounts.
iii) The repatriation period for realization of export proceeds extended from 180 days to 360 days. This facility is already available to units in SEZ and exporters
exporting to Latin American countries. These facilities are limited only to status holders.

**Trust Based**

i) Import/Export of samples to be liberalized for encouraging product upgradation.

ii) Penal interest rate for bonafide defaults is brought down from 24% to 15%.

iii) No penalty for non-realisation of export proceeds in respect of cases covered by ECGC insurance package.

iv) No seizure of stock in trade so as to disrupt the manufacturing process affecting delivery schedule of exporters.

v) Foreign Inward Remittance Certificate (FIRC) to be accepted in lieu of Bank Realisation Certificate for documents negotiated directly.

vi) Optional facility to convert from one scheme to another scheme. In case the exporter is denied the benefit under one scheme, he shall be entitled to claim benefit under some other scheme.

Newcomers to be entitled for licenses without any verification against execution of Bank Guarantee.

**6.8 Evaluation of the third Exim Policy**

In an increasingly deregulated economy, the role of Export-Import Policy has to be evaluated more in its facilitating ability rather than as an instrument to make exports more price competitive by allowing access to preferential imports. In a controlled import regime, imports become costlier because of high tariff rates and quantitative restrictions. In India, effective March 2001, all quantitative controls on imports have been withdrawn. The customs duty rates are, however, still appreciably high. As a result, it is necessary to continue special facilities for export production such as the Export Promotion Capital Goods Scheme.

However, India has already indicated its medium term plan to bring down tariff rates to almost half of the current level. With the coming negotiations under the Doha Round, this process of bringing down tariff rates will get a further boost. These developments will increasingly make special schemes for exports for accessing imports at a lower tariff less relevant.

In the coming years, the really important scheme for export promotion will be the duty drawback scheme. This is practised globally, is WTO-consistent and theoretically justifiable. What India needs is to proceed fast towards a full VAT system so that a comprehensive drawback scheme can be developed and other incidental
schemes can be withdrawn.

The process of globalisation will force Indian-economy towards a higher level of competitiveness. This will automatically lead to an increase in the relative importance of the external sector. As the share of trade in GDP rises, macro-economic policies in general will be the major determinants of the state of the competitiveness. Exports-specific policies will increasingly become redundant. In a way, the current year’s EXIM policy appreciates this longterm trend and the increasing irrelevance of the traditional type of export-import policies that the country had so far.

It is in this context that this year’s policy goes beyond purely export and import control measures and tries to visualise the international trade as ‘a vital part of development strategy and … an effective instrument of economic growth, employment generation and poverty alleviation’.

These objectives are sought to be actualised by the schemes that the policy had announced on agriculture, cottage and the small scale sectors. These sectors account more than half of India’s exports. More importantly, 80 percent of the population are engaged in these sectors and, therefore, stands to benefit from the initiatives taken in the current policy. India’s economic reforms in 1991 started in the external sector. The ultimate objective of any economic reforms process is improvement in social welfare and bringing benefits to those who are at the bottom of the economic scale. This year's export-import policy scores quite high, viewed against this objective.