CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY
CHAPTER 1

INTRODUCTION AND DESIGN OF THE STUDY

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1.1 INTRODUCTION

India has been well-known to the world for international trade. "In spite of geographical, linguistic and racial isolation, India always maintained its contact with the outside world. The ports and the passes of our country were used by indigenous and foreign traders from very early times of its history. She formed an integral part of the ancient commercial world which extended from the Mediterranean Sea to the Indian Ocean".¹

All nations are not endowed with all wealth and natural resources. Hence, they have to trade with other nations to get whatever is not available indigenously. "The diversity in the geographical distribution of wealth renders it necessary for man to obtain from distant areas those commodities which are not produced within his own locality".² Hence foreign trade is essential for all nations. Generally, those who do business have been recognised by the society from ancient time onwards. In the ancient period "merchants were so prominent that they got royal chair in the court of the king. The Vaisyas were

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2. Ibid., p.8.
professionally associated with both the production of the commodities and exchange". ³

Hence, individuals and nations actively involved themselves in export trade to earn revenue. Generally, India developed trade with various nations. India had traded with China, Greece, Italy, Arabia, Egypt. "We may say that Indian vessels had a large share in the sea route transport if not monopoly over the trade."⁴

Different types of products from India attracted foreigners. The products were traditional and non-traditional. "Beauty products from India attracted the women of Egypt". ⁵ Hence, India had a major share in world trade in the past. But now India’s share in world trade is only 0.6 percent. India’s exports and Tamilnadu’s share in India’s exports are depicted in Table 1.1

3. Ibid., p.12.
4. Ibid., p.67.
5. Ibid., p.54.
<table>
<thead>
<tr>
<th>Year</th>
<th>India's Exports (Rs.in Lakhs)</th>
<th>Tamilnadu Exports (Rs. in Lakhs)</th>
<th>% share in India's Exports</th>
<th>Export-GDP Ratio in India (in %)</th>
<th>Export Import Ratio in India (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>3255800</td>
<td>412993</td>
<td>12.68</td>
<td>6.1</td>
<td>75.4</td>
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<tr>
<td>1991-92</td>
<td>4404200</td>
<td>538938</td>
<td>12.24</td>
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<td>1992-93</td>
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<td>12.82</td>
<td>7.6</td>
<td>84.7</td>
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<td>1993-94</td>
<td>6975100</td>
<td>908580</td>
<td>13.03</td>
<td>8.0</td>
<td>95.4</td>
</tr>
<tr>
<td>1994-95</td>
<td>8267400</td>
<td>1248009</td>
<td>15.10</td>
<td>8.0</td>
<td>91.9</td>
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<tr>
<td>1995-96</td>
<td>10635300</td>
<td>1583283</td>
<td>14.89</td>
<td>8.7</td>
<td>86.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>11881700</td>
<td>1759627</td>
<td>14.81</td>
<td>8.4</td>
<td>85.5</td>
</tr>
<tr>
<td>1997-98</td>
<td>13010100</td>
<td>1652964</td>
<td>12.71</td>
<td>8.3</td>
<td>84.4</td>
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<tr>
<td>1998-99</td>
<td>13975300</td>
<td>N.P.</td>
<td>-</td>
<td>8.1</td>
<td>80.4</td>
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<tr>
<td>1999-2000</td>
<td>15956100</td>
<td>N.P.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2000-2001</td>
<td>20251000</td>
<td>N.P.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: DCGI&S and CSO
P- Provisional. NP-Not Published.
In 1990-91 India’s exports amounted to Rs. 32,55,800 lakhs and Tamilnadu’s exports to Rs. 4,12,993 lakhs. Tamilnadu’s share in the exports of the country was 12.68 percent. In 1997-98 India’s exports was Rs. 1,30,10,100 lakhs and Tamilnadu’s share in it was 12.71 percent. In 1994-95 Tamilnadu’s share in India’s exports was 15.1 percent, which is the highest so far.

Export-GDP Ratio was 6.1 percent during 1990-91 but it has increased to 8.1 percent during 1997-98. The Export - Import ratio was 75.4 percent during 1990-91 but it has increased to 80.4 percent during 1997-98.

Both the small scale sector and large scale sector contribute their share to India’s exports. Efforts are taken by the Central Government to raise India’s share upto 2 percent in the global exports by 2005. Small scale industries play a vital role in the exports of India. They contribute nearly 35 percent to the Indian export basket and they provide employment opportunities extensively. The exports of small scale sector amounted to Rs.9,664 crore in 1990-91 and it is increased to Rs.44,437 crore in 1997-98 and to Rs.49,481 crore (Provisional) in 1998-99. Only 10 percent of the production of the small scale sector is exported. If the Government comes forward with appropriate export incentive schemes to encourage the SSI sector, its volume of exports would grow. Though the Government of India provides incentive schemes such as Concessional Export Credit, Duty Drawback, Special Import Licence, Market Development Assistance, Export Promotion of Capital Goods Scheme, Duty
Entitlement Pass Book Scheme and the like for the purpose of encouraging exports, the real benefit normally does not reach the beneficiary on time, due to procedural delays.

India's exports during the year 1990-91 was US$ 18.477 billion but it was US$ 36.700 billion in the year 1999-2000. During the period 1990-91 to 1999-2000 exports increased by 98 percent, and import by 90 percent. Though there is a substantial increase in exports, "India's share in global trade remains at 0.6 per cent only".6

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

It is the felt need of the hour to analyse the extent of utilisation of various export incentive schemes by the exporters and the problems faced by the exporters in utilisation of export incentives.

1.2 STATEMENT OF THE PROBLEM

The Government of India earns foreign exchange through exports. Exports should be increased to increase the foreign exchange reserve. The Government of India provides different types of export incentives to exporters in order to motivate them to increase their exports. Some of the exporters are not even aware of the export incentives offered by the Government of India. Even if they are aware of them, they are not utilising them due to so many reasons. Exporters have to follow an elaborate documentary procedure to utilise the incentives. The documents are to be routed through the various offices regulating export trade. Unless the exporters complete all the relevant procedural formalities and get approval of EPICs, they cannot utilise the incentives.

formalities, they cannot get the incentives in time. Export incentive schemes should motivate the exporters to come forward and take the initiative for increasing exports.

Export incentives should serve as a motivator for increasing exports. Export incentives should motivate exporters to utilise such incentives extensively for increasing their exports. Motivation and the utilisation of export incentives should go hand in hand. The real objective of export incentives can be achieved only when the exporters utilise them. If the incentives fail to motivate, exporters do not come forward to utilise incentives. Hence a study of the motivational value of the export incentive schemes and their exploitation by the exporters is essential. The researcher has made a modest attempt to study the motivational value and the utilisation of important export incentive schemes such as the Export Finance, Duty Drawback, Market Development Assistance, Export Promotion Capital Goods Scheme and the problems of exporters in utilising these. The motivational value of export incentives and their utilisation are core aspects of foreign trade. These core aspects of foreign trade should be given importance by the Government of India. So that expected growth in foreign trade can be achieved within the stipulated time. A study of the motivational value and the utilisation of the export incentives will throw light on the issues and problems involved in the process.
1.3 OBJECTIVES OF THE STUDY

The objectives of the study are given below:

i) To study the motivation value of the export incentive schemes to the exporters,

ii) To study the utilisation of the export incentive schemes by the exporters,

iii) To study the opinions of the exporters regarding the procedural aspects of the utilisation of the export incentives,

iv) To summarise the findings of the study and to provide suggestions for increasing the level of motivation and utilisation of export incentives.

1.4 SCOPE OF THE STUDY

The present research study analyses motivation and utilisation of export incentive schemes such as Duty Drawback, Export Finance, EPCG and MDA provided by the Government of India. This study is to ascertain to what extent exporters are motivated by the export incentive schemes. It attempts to find the percentage and level of motivation and the utilisation of export incentive schemes by exporters. The procedural aspects involved in the utilisation of the various export incentive schemes are also analysed. It also attempts to find the percentage of agreement and the level of agreement of the exporters with the various statements of the procedural aspects of the different export incentive schemes.
1.5 METHODOLOGY

The present study is descriptive and analytical. This study is based on both secondary and primary data. A comprehensive and duly pre-tested questionnaire has been designed to collect primary data. The sample selection is based on the judgement sampling technique. Statistical tools such as Mean, Co-efficient of Variation, Correlation, Chi-square test and Z test are used to interpret the processed data. Likert’s Five Point Scale is used in questionnaire to collect primary data. The Five Point Scale is used for analysis also. Z test is used to find out whether the sample mean is significant to the Grand Mean. Grand Mean is assumed as population mean.

1.5.1 TYPES OF DATA

This research study is based on both primary data and secondary data.

1.5.2 PRIMARY DATA

The researcher designed a questionnaire for collecting primary data, with the assistance of executives of the Export Promotion Councils and selected exporters. Questions relating to various aspects of export incentive schemes viz., Export Finance, Duty Drawback, Market Development Assistance, Export Promotion Capital Goods were incorporated in the questionnaire. The questionnaire was duly pre-tested and pilot study
undertaken. The researcher collected the primary data through questionnaire in person and met all 170 sample exporters. Out of 170 sample exporters 75 are garment exporters, 32 are leather exporters, 33 are engineering exporters and 30 are plastic exporters. The researcher selected value-added products for this research.

1.3 SECONDARY DATA

The researcher utilised the offices of the apex bodies of foreign trade in India such as Export Promotion Councils, Indian Institute of Foreign Trade, Federation of Indian Chamber of Commerce, Federation of Indian Export Organisation, Confederation of Indian Industry, the Union Ministry of Commerce, and Reserve Bank of India to collect relevant secondary data required for the study. The researcher approached the embassies of the various countries to gather the data regarding export incentives offered by them. Library services available in Indian Institute of Technology, Chennai, Institute of Financial Management and Research, Chennai, University of Madras, Chennai, Sri Venkateswara University, Andhra Pradesh and other universities utilised by the researcher for collecting secondary data.
1.5.4 PREPARATION AND CONTENTS OF THE QUESTIONNAIRE

The questionnaire consists of the following five parts:

Part-I is concerned with the profile of the exporters such as size of the industry and type of exporter. It also reveals the motivation and the utilisation of export incentive schemes. The exporter respondents are requested to give their opinions relating to motivation and utilisation of export incentives in the Likert’s Five Point Scale (strongly agree, agree, neither agree nor disagree, disagree, strongly disagree).

Part-II contains questions relating to the utilisation of Duty Drawback, amount of Duty Drawback utilised, delay in getting Duty Drawback claim. It also contains procedural aspects of Duty Drawback scheme. Exporters are asked to give their opinions related to the procedural aspects of Duty Drawback in the Likert’s Five Point Scale.

Part-III consists of the questions relating to the utilisation of EPCG scheme, value of machinery imported under EPCG, export obligation met under EPCG scheme and percentage of export obligation fulfilled. Exporters are requested to give their opinions related to the procedural aspects of EPCG scheme in the Likert’s Five Point Scale.

Part-IV contains questions relating to utilisation of MDA, amount of utilisation of MDA and Ranks given by the exporters to different schemes of
MDA. Exporters are requested to give their opinions related to the procedural aspects of MDA in the Likert’s Five Point Scale.

Part-V consists of questions relating to utilisation of pre-shipment finance, problems faced by the exporters in securing export finance from banks, utilisation of post-shipment finance and problems faced in securing export finance. Exporters are also asked to give their opinions related to the procedural aspects of export finance in the Likert’s Five Point Scale.

1.5.5 PRE-TESTING AND PILOT STUDY

Researcher distributed the questionnaire to a selected twenty exporters at a random for the purpose of pilot study. The exporters’ suggestions relating to the construction of questionnaire are carefully assessed and incorporated suitably to make the questionnaire a comprehensive data collection tool.

1.5.6 SAMPLING

The identification of products and sample exporters of the products for the purpose of this study is based on Judgement Sampling. The entire sample selection process regarding products and exporters is based on the value judgement of the officials involved in the Export Promotion Councils and Federation of Indian Export Organisation. The suggestions of the officials were carefully considered in the process of sample selection. The researcher
had discussions with the officials of the Federation of Indian Export Organisation (FIEO), Tamilnadu, for the identification of the products. The FIEO officials suggested the four value added products gaining exports in the world market. They are garment, engineering, leather and plastic. The first two products i.e. garment and engineering are at the top of the Indian export basket and the other two products, i.e., leather and plastic, are at the bottom. The share of garment, engineering, leather and plastic in the total of the export of the Government of India are 11.9%, 14%, 5.4% and 1.5% respectively. This is the average of the period from 1992-93 to 1998-99.

Later, the researcher had discussions with the officials of the Apparel Export Promotion Council, Tirupur, the Engineering Export Promotion Council, Chennai, the Council for Leather Exports, Chennai, and the Plastic Export Promotion Council, Chennai, for identifying the sample exporters. The above Export Promotion Councils maintain detailed records relating to export performance of the exporters. They publish the Directory of Exporters periodically.

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Officials of the Apparel Export Promotion Council suggested 75 exporters, the Leather Export Promotion Council 32 exporters, the Engineering Export Promotion Council 33 exporters, and the Plastic Export Promotion Council 30 exporters for the purpose of the present research study. The total sample respondents of this study thus 170. The exporters suggested by the Export Promotion Councils have been actively involved in export business for the past ten years. Their export units are located in Chennai, Coimbatore, Tirupur, Dindigul, Madurai and other towns of Tamilnadu. The researcher met all the 170 sample exporters in person for collecting relevant primary data.

Export incentives contribute to price competitiveness in the world market for the exportable commodities. The Government of India provides export incentives such as Export Finance, Duty Drawback, Market Development Assistance, Export Promotion Capital Goods, Duty Entitlement Pass Book Scheme, Special Import Licence, Quantity Based Advance Licence, Value Based Advance Licence, etc., for the benefit of exporters for increasing exports. Of the above export incentives, export finance, duty drawback, market development assistance and export promotion capital goods are popular and are highly utilised export incentives. It is evident from the Annual Report of the Ministry of Commerce, 1999-2000 (upto December 2000), that the share of duty drawback and export promotion capital goods scheme are 30 percent and 7 percent respectively. Export finance is the felt need of the hour to increase
exports and encourage exporters to compete in the world market. The Confederation of Indian Industries and the Federation of Indian Exporters' Association are of the opinion that the rate of interest on Export Finance should be reduced by the Reserve Bank of India and it can be equivalent to the rate of interest charged by the foreign countries on export finance. The Reserve Bank of India directed the commercial banks to earmark 12 percent of their net bank credit to export credit.

Market Development Assistance is an important export incentive scheme to identify export potentials for Indian products in the overseas market. The above analysis proves that the export incentive schemes such as Export Finance, Duty Drawback, Market Development Assistance and Export Promotion Capital Goods identified by the researcher play a significant role in export promotion. Hence the researcher has identified and selected these four export incentive schemes for the purpose of the study.

The share of Tamilnadu in total exports of the Government of India in the year 1997-98 was 12.71 percent. Steps should be taken to increase it at least 15 percent to strengthen manufacturing activities in Tamilnadu state. It has been presumed that utilisation of export incentives contribute to increase in exports. Hence the researcher has attempted to study utilisation of export incentives by the exporters in Tamilnadu state that throws light on the extent of utilisation of export incentives and paves the way for effective utilisation of
export incentives for increasing exports. This study also analyses the opinions of exporters on the various procedural aspects of export incentives.

1.5. RESEARCH HYPOTHESES

The following research hypotheses are framed by the researcher.

1. There is no significant relationship between the amount of duty drawback utilised and category of exporters.

2. There is no significant relationship between the utilisation of the amount of duty drawback and size of exporters.

3. There is no significant relationship between the amount of duty drawback utilised and type of exporters.

4. There is no significant relationship between the utilisation of the amount of duty drawback and average annual value of exports.

5. There is no significant relationship between the amount of duty drawback utilised and experience in export business.

6. There is no significant relationship between the utilisation of pre-shipment finance and size of exporters.

7. There is no significant relationship between the utilisation of pre-shipment finance and type of exporters.

8. There is no significant relationship between the utilisation of pre-shipment finance and category of exporters.
9. There is no significant relationship between the utilisation of the amount of export finance and the size of exporters.

10. There is no significant relationship between the amount of utilisation of export finance and the type of exporters.

11. There is no significant relationship between average annual value of exports and the amount of export finance.

12. There is no significant relationship between experience in export business and the amount of export finance.

13. There is no significant relationship between the utilisation of EPCG scheme and category of exporters.

14. There is no significant relationship between import of capital goods and category of exporters.

15. There is no significant relationship between the utilisation of the amount of MDA and category of exporters.

16. There is no significant relationship between the utilisation of MDA and the size of exporters.

17. There is no significant relationship between the utilisation of MDA and the type of exporters.

18. There is no significant relationship between the average annual value of exports and the utilisation of MDA among the various categories of exporters.
19. There is no significant relationship between experience in export business and the utilisation of MDA by the various categories of exporters.

1.6 REFERENCE PERIOD

The researcher collected the primary data from the sample exporters about the utilisation of export incentives for the period 1996 to 2000.

1.7 OPERATIONAL DEFINITIONS

1.7.1 UTILISATION

Concise Oxford Dictionary defines utilisation as "to make use of".

Generally the term utilisation has contextual meaning. There can be utilisation of capacity, utilisation of manpower, utilisation of resources and the like. In this study, the term utilisation has been used to mean availing of incentives by the sample exporters.

1.7.2 MANUFACTURER EXPORTER

"Manufacturer exporter means a person who exports goods manufactured by him or intends to export such goods."

1.7.3 MERCHANT EXPORTER

"Merchant Exporter means a person engaged in trading activity and exporting or intending to export goods."

1.7.4 LARGE SCALE EXPORTER

Exporters who have invested more than Rs. 1 crore in the form of capital investment are called ‘Large Scale Exporters’.

1.7.5 SMALL SCALE EXPORTER

"Exporters who have invested less than or upto Rs. 1 crore in the form of capital investments are called ‘Small Scale Exporter’.

1.7.6 DRAWBACK

Drawback in relation to any goods manufactured in India and exported, means the rebate of duty chargeable on any imported material or excisable material used in the manufacture of such goods in India. The goods include imported spares, if supplied with capital goods manufactured in India.

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Ibid., pp.6-7.
1.7.7 EXCISABLE GOODS

“Excisable goods means any goods produced or manufactured in India and subject to a duty of excise under the Central Excises and Salt Act 1944 (1 of 1944).

1.7.8 EXPORTER

Exporter means a person who exports or intends to export and holds on Importer - Exporter Code Number.

1.7.9 IMPORTER

Importer means a person who imports or intends to import and holds an Importer - Exporter Code Number.

1.8 FRAMEWORK OF ANALYSIS

The collected data were processed with due care and attention and the tabulation done based on the nature and size of the data gathered. Relevant statistical tools were used for analysis.

Statistical tools such as mean, standard deviation, percentage analysis, co-efficient of variation, chi-square test, z test were used to analyse and interpret the data. Mean has been used to measure the level of motivation, utilisation and agreement of exporters with various statements on the procedural aspects of the export incentive schemes. Standard deviation has
been used to find the dispersion of exporters' opinions from the mean. Both mean and standard deviation have been used to find the co-efficient of variation. The Co-efficient of variation has been used to find the consistency of the exporters' opinions on motivation and utilisation of incentive schemes and opinions on various statements of the procedural aspects in utilising the incentive schemes. Percentage analysis has been used to find the level of agreement of the exporters on various procedural aspects of export incentive schemes. Z test has been used to interpret whether the sample mean is significant to the population mean. Grand mean is assumed as the population mean. Grand mean is the average of the sum of mean of individual statements.

1.9 CHAPTER CLASSIFICATION

The first chapter entitled “Introduction and Design of the study deals with introduction, statement of the problem, objectives of the study, scope of the study, review of the related literature, reference period, operational definitions, methodology, preparation and contents of the questionnaire, pre-testing and pilot study, sampling, statistical tools used, research hypotheses and chapter classificaion.

Chapter I-A entitled “Review of Literature” deals with three sections namely Export Subsidies and incentives, export promotion and problems of exporters in utilising export incentives and subsidies.
The second chapter entitled “Export Incentive Schemes” gives a brief description of the various export incentive schemes offered by the Government of India.

The third Chapter entitled “Export Finance” deals with the utilisation of pre-shipment credit and post-shipment finance, sources of export finance, the extent of motivation provided by export finance, the level of utilisation export finance, opinion agreement of the exporters on the statements related to the procedural aspects of export finance.

The Fourth Chapter entitled “Duty Drawback” deals with the utilisation of Duty Drawback by the categories of exporters, amount of utilisation of Duty Drawback by the size of exporters, amount of utilisation of drawback by the type of exporters, the extent of motivation provided by duty drawback, the level of utilisation of duty drawback by the exporters, opinion agreement of exporters on the statements related to procedural aspects of Duty Drawback.

The Fifth Chapter entitled “Market Development Assistance” deals with utilisation of MDA scheme by categories of exporters, the utilisation of MDA by the size of exporters, the utilisation of MDA by the type of exporters, Ranks given by the exporters towards MDA schemes, the extent of motivation provided by MDA, the level of utilisation of MDA and opinions of exporters on the statements related to the procedural aspects of MDA.
The sixth chapter entitled “Export Promotion Capital Goods Scheme” deals with the utilisation of EPCG Scheme by the exporters, import of capital goods by the categories of exporters, the extent of motivation provided by EPCG Scheme, the level of utilisation of EPCG scheme and opinions of exporters on the statements related to the procedural aspects of EPCG scheme.

The Seventh Chapter incorporates major findings arrived at, in various chapters of this research work and offers some valuable suggestions based upon the findings of this research study.
CHAPTER I – A

REVIEW OF LITERATURE
CHAPTER 1-A

REVIEW OF LITERATURE

In this chapter the researcher has attempted to present an elaborate discussion on the available literature relating to the identified research problem. The review of literature is given into the following three sections.

1. Export subsidies and incentives,

2. Export promotion,

3. Problems of exporters in utilising export incentives and subsidies.

The following discussion and analysis of review of literature deal with the above three sections.

Dr. Van Duren, highlighted in his Ph.D. thesis titled “An Economic Analysis of Counterveiling Duty Law: Cases involving Agriculture” submitted to the University of Guelph (Canada) in 1990, says that counterveiling duty is one that restores the price that faced the domestic industry and thus reproduces the economic state of the industry, that would exist in the absence of a subsidy. Any duty in excess of this level should be considered illegal.

highlighted three main factors: export subsidies, domestic market conditions and the interest of transnational capital in using Brazil to supply foreign market with industrial products. He showed that Brazil offered financial and fiscal incentives to any industrial firms that would export.

Dr. Adams Laurel Althea in his doctoral dissertation titled "Are Export Promotion Policies Enough? A focus on Infrastructure and Export Sector Performance (Trade Policy)" submitted to the University of Pennysylvania in 1993 has concluded that adequate infrastructure is necessary for successful export promotion. He also stated that countries desiring to increase export earnings must devote resources to maintain and develop their infrastructure.

Dr. J.R. Binanchi Albert Phillip, in his Ph.D. thesis titled "Export Marketing Development Program Selection" submitted to the Old Dominion University in 1993, has concluded that export promotion activities are needed to achieve results like employment generation and economic growth in general.

Dr. Heo Yoon in his Ph.D. thesis submitted to the George Washington University in 1994, titled "Export Subsidies, Exports and Productivity: A Vector auto-regression Analysis Of Korean Manufacturing Industries", has highlighted the role of export subsidies in the economic development and the determinants of total factor productivity growth, using
evidence from Korea. In his study he found that export subsidies positively contributed to the growth of exports in Korea during 1981-1992.

Dr. Kelly John Francis in his Ph.D. thesis titled "An International Foreign Policy Agenda for sub-national Government" submitted to the Wayne State University in 1996 stressed the State Governments in the US system have to allocate revenue for export promotion and highlighted that export promotion has become a strategic mission for State Governments.

Dr. Mrs. Mercy Henry in her Ph.D. thesis titled, "The trends in Trade between India and USA" submitted to the Madurai Kamaraj University during July, 1984, briefly explained a variety of measures to promote exports. These measures include some export incentives also. The promotion measures include:

i) Fiscal reliefs such as refund of taxes paid on inputs used in the manufacture of export goods,

ii) Reducing or abolishing export subsidies,

iii) Enforcement of quality standards,

iv) Special rail and shipping facilities for the transport of exportable product,

v) Removal of export restrictions such as the relaxation of control, incentive payments to exporters, market research and participation in international trade fairs and exhibitions.
The role of the ECGC in promoting exports is also discussed in detail in this study, which insures against export risks and also provides guarantee to banks financing exports.


Dr. P. Sennakesavan in his Ph.D thesis titled "A study of Cotton Hosiery Knitting Industry in Tirupur" submitted to the Madurai Kamaraj University, October, 1987, has studied the problems in getting the reimbursement of export entitlements such as payment of excise duty drawback and cash incentives which are all of a very complicated nature.

Dr. S. D. Latha Bhaskar showed in her Ph.D. thesis titled "Export Marketing of Readymade Garments: Problems and Prospects" submitted to the University of Madras, July, 1997 that the non-tariff barriers, international retailing problems, infrastructural facilities and modernisation and technological changes are the problem areas considered to be impacting on garment exports. He has taken the EPCG Scheme, the SIL, the ceiling on duty drawback, the Excise duty cut as the variables for his study.
Dr. T.S. Devanarayanan in his Ph.D. thesis titled "Performance Analysis of Indian Leather Industry" submitted to the University of Madras, October, 1997 has suggested that a Modernisation Fund could be created for modernisation of leather industry and it should be operated preferably through financial institutions like the IDBI, the SIDBI and the ICICI by extending financial assistance in the form of partial grants/soft loans. He has studied the export problems of the leather industry and has given suggestions to overcome these problems.

Prof. Mathew Joseph states in his book that the Indian export incentive system should consist of: (a) a duty drawback system, (b) cash compensatory support, (c) concessional export credit, (d) tax rebates on export income and (e) import replenishment licences. He pointed out that there is a delay in the disbursement of the claims under these items and he also noted that they do not amount to much in the form of additional incentive for exports as the bulk of it just compensates the disadvantages in export production in comparison with the production for domestic sales".

\[\text{\footnotesize\textsuperscript{12}}\]

Ms. Raj Kapila and Uma Kapila in their book “Economic Developments in India” have reviewed the Exim Policy - 2000. The Exim Policy 2000 encourages the involvement of all the State Governments in the national export promotion. A Scheme has been evolved for granting assistance to the States on the basis of their export performance for development of export related infrastructure. Electronic filing of licence applications has been introduced in seven major ports in order to speed up the transactions and to bring about transparency in the offices of DGFT. EXIM policy 2000 also announced rationalisation of existing export promotion schemes”.

Prof. Rajiv Kumar in his book “India's Export Processing Zones” has analysed the history of various export processing zones and explained the incentive package and concessions offered to units operating in KFTZ (Kantla Free Trade Zone and SEEPZ (Santa Cruz Electronics Export Export Processing Zone).

A few incentives offered to these zones are given below:

i) Duty - free imports of capital goods and equipment from preferred sources.

ii) No customs duties on raw materials, components etc.,

iii) No import licences required as all imports into the zone are placed under the Open General Licence.

iv) Locally procured supplies (from the DTA) treated as exports, thus attracting all export incentives for the suppliers.

v) Blanket foreign exchange sanction for business trips abroad.

vi) The KFTZ and SEEPZ Boards as nodal agencies for clearance and approval of applications and licences etc.

Prof. Martin Wolf in his book "India’s Exports" has elaborately discussed various export incentive schemes such as cash assistance, duty drawback, freight subsidies, income-tax concessions and subsidised export credit and he has also evaluated the export incentives system. He has concluded that,

(a) Incentives were concentrated on a few industries, especially engineering goods and chemicals, which are certainly not the only categories with high potential as exports and are among the least labour intensive,

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(b) Export incentives were part of a trade policy regime that was generally conducive to economic inefficiency,

(c) The burden of administrative cost and delays was substantial,

(d) Uncertainty about the value of incentives made any expansion highly oriented toward exports extremely risky.

Prof. Maneet Kumar in his book “Export Marketing of Traditional Goods attempted to study the export marketing problems and prospects of Indian non-traditional items”. He pointed out that the export policy 1982 stressed the need for the development and expansion of export-oriented industries. The policy explained the need to assist industry with a view to (a) make their products competitive, (b) modernising machinery, (c) improving quality control, (d) providing marketing aids, (e) providing adequate and timely finance and (f) providing adequate shipping facilities at reasonable freight rates has been recognised. The Export Policy Resolution is more in the nature of

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guidelines than a time-bound action programme, but it gives an indication of the kind of policies the government will pursue in order to promote exports.

Prof. Francis Cherunilam in his book "International Business" evaluated the export incentives and export promotion measures. He showed that export development measures in India have not been successful in producing the needed results. The infrastructure for international marketing is not efficient enough. Effective export promotion should compensate for the disadvantages faced by the national exporters and should make export business profitable enough to attract entrepreneurs to this sector and to achieve the ultimate objective of boosting exports. The general feeling is that the export promotion regime in India has not succeeded in achieving this objective. The author has also pointed out that one of the drawbacks of the export incentives regime in India is that it is largely transparent in character.

"While foreign buyers have sharp eyes for them, these constitute an eyesore for the governments particularly of the industrial products importing countries. The importers try to grab these incentives entirely on the pretext of growing competition, thus depriving the Indian exporters of the benefits of the

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promotional measures. The author had the opinion that these tend to create an unsatiating urge for more and more in extent and magnitude. The effectiveness and purposiveness of incentives thus lie in their non-transparent character. This could be possible only by devising a policy framework with inherent and inbuilt, albeit latent, promotional incentives.

It is further pointed out that a major factor necessitating large incentives is the structural weakness and high cost of the Indian Economy. It is necessary to remove these handicaps to reduce the needs for exogenous incentives. Further, the institutional inadequacies and procedural complexities and delays need to be urgently attended to. Lack of dynamism and innovativeness in policies, procedures, product development and marketing continue to hamper India's export development.

The Alexander Committee Report highlighted that a number of export incentives were provided to exporters but they were not adequate for enhancing the competitiveness of India's exports.

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Bhatnagar, S.M., in his article titled “Export - Oriented Units” EPZ and FTZ - Law and Procedures” elucidated the objectives of setting up of Software Technology Parks. They are:

i) to establish and manage the infrastructure resources and to provide service to the user for development and export of software and software services.

ii) to carry out development and export of software and software services,

iii) to undertake export promotion services,

iv) to train professionals in the area of software technology,

v) to undertake and encourage design and development in the field of software and software technology”.

Prof. Kirit S. Parikh, in his article “India’s Economy To-day - Prospects for the future” says that the right strategy to promote exports would be to permit an impact neutral devaluation. He rightly points out that the

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devaluation would be accompanied by tariff reductions and there should be no change in import price.

Prof. Mamta Vyas in her article titled "Export of Indian Spices - An Analysis" explains that Export Promotion Offices may be set up by the Government in various regions of the world for export promotion. She also suggests that the Spices Board should open a Spices Export Bank (like Export-Import Bank) to give financial facilities not only to exporters but also to farmers.

Dr. Rajkumar Sen in his article "Kautilya’s Tariff Policy" suggested that “the export duty has been minimised for the purpose of earning foreign exchange through export promotion”.


Prof. M. Dattatreyulu in his article “Industrial Development and Export Potential of the North - Eastern Region” has emphasised the necessity of setting up of Export Promotion Industrial Parks (EPIP) in every State in the North - Eastern Region to capture the neighbourhood markets of Bangladesh, Myanmar, China and Bhutan. In his study he proposed the declaration of the North - Eastern Region as an Export Processing Zone, keeping in view certain ecological parameters. This would encourage entrepreneurs to set up industries to cater to the needs of these bordering countries. Trade and commerce would flourish as the region has 98 per cent of its border with neighbouring countries and shares only 2 per cent of its border with the mainland of the country. This study concluded that the proposed Export Processing Zone for the North - Eastern Region should be distinctly different from the Export Processing Zone Scheme that is in operation in the country since 1965 and suggested that there is a need to modify some of the provisions of the scheme particularly in relation to export obligation, sale in the Domestic Tariff Area, tax holiday, etc., keeping in view the ground realities in 1998 so as to make it very attractive for the flow of investment into the North - Eastern Region and to stimulate industrial growth and promote legal and direct exports from industries based on plantation, agriculture, horticulture,
floriculture, forestry, herbal and medicinal plants and mineral-based industries in the region.

N.V. Narasimham and Nawal Kishor in their article "Floriculture Exports - Potential and Challenges" highlighted the export incentives and concessions offered to exporters by the Government of India. They are:

(a) Floriculture exports have been identified as a thrust area for exports. The Government proposes to set up a model floriculture centre under the public sector and 20 small tissue culture centres in the private sector for plant multiplication. For this purpose, Rs.10 crore has been earmarked in the year 1997.

(b) The import duty on seeds, bulbs, cuttings, etc., has been reduced to zero. Similarly, import duty on goods for greenhouse items, seed development machinery, etc., has been brought down to 25 per cent. Income - tax and other tax concessions have been granted to new floriculture exporting companies.

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(c) International Air Transport Association approved rates are Rs. 10 per kg to Europe and the USA and Rs. 6 per kg for South East Asia and Middle East.

(d) A 50 per cent subsidy on post-harvest facilities subject to a ceiling of Rs. 50 lakh and balance could be obtained as bank loans.

(e) There is a 25 percent subsidy for refrigerated transport units with a ceiling of Rs.5 lakh.

(f) A 30 percent assistance for developing packaging through outside agencies and a 60 percent assistance if the packaging is developed by exporters with a ceiling of Rs. 1 lakh, are available.

(g) Assistance for developing new markets, literature, etc., is available.²

Ramani Kumar and Pranab K. Banerjee in their article "Role of States in Export Promotion Efforts: A Case Study of Rajasthan" have shown that the Central Government recognises the altered role of the state

governments in export promotion efforts. In their article they have suggested that

(a) states should exempt inputs for export production and inter-unit transfers between EOU's (Export-Oriented Units) from state levies,

(b) states should permit unrestricted inter-state movement of raw materials for export production,

(c) states should extend all the benefits applicable to manufacturing industries in backward areas or SSIs to units which undertake exports,

(d) states should set up criteria to recognise export units and accord them formal recognition in order to extend infrastructural facilities to them, and

(e) states should incorporate specific promotional measures and mechanism for export of agricultural products and services.

S.N. Panigrahi in his article "Garment Exports: A Strategic Shift Needed" has pointed out that "the exporters expressed grave concern over mid-term downward revision of drawback rates and they prefer the drawback

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routes". The author explained that a faulty quota system and delays in releasing technology upgradation funds adversely affect the growth of garment exports. The author suggested that a concerted effort has to be made to reduce time taken in getting clearance from the Director General of Foreign Trade, Customs, Banks and Ports. This study stated that the interest rates on lending are high and suggested that the Government should release technology upgradation funds to finance the units at concessional rates for modernisation.

Prof. Atmadip Ray in his article "Credit Delivery Mechanisms must be spruced up to boost export growth" has stated that the exporters should cope with stringent credit delivery norms and the exporters cannot have logic for banks not providing post-shipment credit or delaying the delivery process in such cases. The author also said that there could be reasons for cautious pre-shipment assistance from banks as they have to shoulder the risk associated with it. However, post-shipment credits are guaranteed by the Export Credit Guarantee Corporation and banks should not have any problems in providing such assistance. It is also highlighted in this article that some banks have announced a policy to offer credit at concessional rates though this

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is only for ‘credit-worthy’ borrowers. One cannot blame banks for becoming cautious specially when every possible attention is paid to lessen the burgeoning volume of non-performing assets.

Dr. Sanjeev Dubey in his article “Food Processing Industries in India-Export Problems and Prospects” has stated that export potential of processed food product is highly promising specially Indian processed foods will become more competitive in the world market when the GATT laws on agriculture come into effect in 2005. He concludes that agriculture in developed countries is highly subsidised. Indian processed foods, not used to subsidies, will have an edge in the post-GATT scenario. 2.7

Dr. A.K. Bandyopadhyay and B.Jayaraman in their article “Globalisation, World Trade Organisation: Role of Co-operative Sector” say that the Agreement on Agriculture prohibits export subsidies on agricultural products unless the subsidies are specified in a member’s lists of commitments.

Where they are listed, the agreement requires the WTO members to cut both the amount of money they spend on export subsidies and the quantities of exports that receive subsidies. Taking averages for 1986-90 as the base level, developed countries have agreed to cut the value of export subsidies by 36% over the six years starting from 1995 (24% over 10 years for developing countries). Developing countries have also agreed to reduce the quantities of subsidised exports by 21% over six years starting from 1995 (14% over 10 years for developing countries). The least developed countries do not need to make any cut.

Ms. Nirupam Bajpal and Jeffrey D. Sachs in their article “Strategy for Economic Growth” have stated that China’s export strategy was the Special Economic Zones (SEZs) in which favourable export conditions were assured. These SEZs were designed to give the foreign investors and domestic enterprises favourable conditions for rapid export promotion. Exporters in these zones were allowed to import intermediate products and capital goods duty-free. The exporters were assured a decent physical infrastructure and they

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received tax holidays also. The author also expressed that the Export Processing Zones (EPZs) approach in India has been one of neglect rather than support. Many State Governments in India have been averse to the idea of EPZs.

V.Vidyaranthan in his article “Bank Finance for Export Basics Explained” has concluded that the priority in lending overtly provides that no worthwhile export proposal should languish for want of finance. The banks which are the purveyors of export credit provide adequate finance at a right time and at concessional rate of interest.

Sen Gupta and Kashari in their article “Study of Export Trade Financing in India” have concluded that “exports are instrumental in the development of an economy, particularly developing nations. The Indian financial system through commercial banks under the direction of RBI have been all our efforts to offer financial resources for promoting exports by providing both pre and post-shipment finances. Liberalised exchange Rate


Management System and full convertibility on trade account of Indian Rupee have provided export financing to importers. So also the New Trade Policy provides a favourable climate for exports.\(^{32}\)

H.D. Manjappa in his article shows that India is one among the countries using medium and long term concessional export financing to promote the export of engineering goods. In the modern world especially in developing countries, the success of an export promotion drive depends, among other things, on the capacity of the supplier to offer deferred payment to prospective buyers. Because of BOP and debt trap of LC’s export credit financing policy is the key determinant for winning export contract and project orders.\(^{33}\)

It is found while reviewing the earlier studies that research studies have been undertaken by the researchers on the significance of providing incentives to exporters, the development and adequacy of export infrastructure, the necessity of export incentives for export promotion and the role of subsidies


in export promotion. They have not analysed the extent of motivation and the utilisation of the export incentive schemes and the problems of the exporters in obtaining export incentives. This researcher identified this as the gap in the earlier studies. Hence, he has attempted to fill the gap. He attempts to assess the level of motivation and the extent of utilisation of the export incentive schemes and to analyse the level of agreement of the exporters with various statements related to the procedural aspects of various incentive schemes.