CHAPTER VI

FACTORS INFLUENCING EXPORT PERFORMANCE

INTRODUCTION

In this chapter the factors influencing the export performance have been identified. These factors are exogenous factors outside the purview of analysis made in chapter five.

LIBERALISED ECONOMIC SCENARIO

The Government of India has recently taken a number of steps towards liberalisation in the areas of export policy, infrastructure, and export know how and markets. It also carried out a 23 percent devaluation of the rupee vis-à-vis the dollar in July 1992.

The ministry of commerce has set-up high level standing committees for the promotion of exports.

If exports are to acquire dynamism the Government will have to give priority to improving the infrastructural facilities of all kinds available to Indian exporters.
Indian Institute of Foreign trade is actively involved in foreign trade. The commercial attaches in Indian missions abroad are of much help in providing market intelligence.

UNIFIED EXCHANGE RATE MECHANISM

In yet another land mark budget (1993-94) presented by the Hon'ble finance minister, unified exchange rate mechanism was introduced. It enables all exporters and other foreign exchange earners abroad to convert 100 percent of their earnings at the market rate.

Simultaneously all imports are to be paid for at the market rate which in effect ushers in what is popularly known as full convertibility of rupee on current account. This system replaces dual exchange rate mechanism introduced in the budget 1992-93 under which foreign exchange earners could convert 60 percent of their earnings at the market rate and the rest at the official rate.

In the liberalised scenario exchange rate alone can provide enough incentive to exporters. In that situation the importance of appropriate exchange rate is of paramount importance. The exchange rate has to be right to make the exports competitive in order to ensure a sustained growth of exports and equilibrium on the balance of payments.
RUPEE CONVERTIBILITY

India has moved into the regime of full convertibility on trade accounts with the devaluation of rupee in 1991 followed by a partial convertibility in March 1992. These measures served well in at least preparing the nation for the changes ahead. It holds out lots of hopes for the economic health of India. In the liberalised economy the exports have a fair chance to grow, given a proper response by the foreign exchange market which anyway can be managed since the Central Bank holds the option of intervention. Hence the success of new system hangs crucially on one important factor i.e. export growth.

Unification of exchange rates on balance will improve our exports, balance of payments and generate confidence.

Convertibility measures that accompany the easing of controls on foreign investments and capital inflows are expected to boost technology transfers and enhance productivity growth of the domestic economy. These measures act together to eliminate the economic distortions of an otherwise inward looking trade regime and often come as part of the Fund Bank structural reforms.
EXIM BANK

The main focus of the export import Bank is export finance related to export of capital goods and other manufactured goods, consultancy and technology services involving deferred payment term. The bank also provides Pre-shipment finance where the production process exceeds 6 months. In addition to extending non fund based assistance by way of guarantee on behalf of Indian exporters for construction, turnkey and consultancy projects abroad, the Exim Bank provides financial assistance for the export of Indian goods under its various schemes of assistance.

Direct assistance to exporters

- **Preshipment term finance**: It is provided to Indian exporters of eligible goods and services to enable them to offer deferred credit to overseas buyers.

- **Preshipment credit**: It is offered to firms executing export orders where the production process exceeds 6 months. The facility also covers the requirement of rupee funds for incurring domestic mobilisation expenses related to execution of construction / turnkey projects abroad.

- **Term loans for export oriented units**: It is the scheme which finances EOUs and units established in FTZ. The scheme also covers exporters of
computer software to meet the requirements of small and medium scale entrepreneurs to upgrade their production capability for Agency credit Line in collaboration with the International Finance Corporation.

- **Overseas Investment Finance:** It is designed to cover the requirement of Indian firms establishing joint ventures abroad to enable them to finance their contribution to the equity of the joint venture.

- **Finance for export marketing:** It is offered out of a World Bank credit and is designed to assist exporters in undertaking export market development programs. Under this scheme the Exim bank meets on a grant basis 50 percent of the expenditure incurred on eligible export marketing activities.

**Loans to foreign government importers and financial institutions**

- **Overseas buyers' credit:** It is extended directly to buyers abroad for the importation of eligible goods and services on deferred payment.

- **Lines of Credit:** They are extended to foreign governments or governmental agencies and foreign financial institutions for on lending to importers of goods and services from India in the countries concerned.

- **Relending facility to Banks abroad:** It provides term finance in their clients for the import of goods and services from India.
Refinance facility for banks in India

- **Rediscount of export bills:** Export bills discounted by commercial banks in India where the usance period is less than 90 days are undertaken by the Exim bank.

- **Small scale industry export bills:** Rediscounting extends to SSI units export bill also.

- **Refinance of Export Credit:** It provides 100 percent refinance to commercial banks in India against deferred payment loans extended by them to cover exports of eligible Indian goods.

- **Bulk import finance:** This scheme was introduced and designed to enable commercial banks to finance import of raw materials for exporting finished goods manufactured out of the raw materials imported.

**Foreign Currency loans**

Exim Bank may provide foreign currency loans to commercial banks who are not able to raise foreign currency funds on their own to extend preshipment credit in foreign currency (PCFC).

**RBI AND EXPORTS**

Policies governing the provision of credit to the export sector, cost of export credit, interest subsidy payable to banks and availability and cost of refinance are determined by the RBI. Nationalised banks, private and foreign banks are required to operate within the guidelines laid down by RBI.
Export lending in fact encouraged through the variety of mechanisms like concessional interest rates, interest subsidies to banks, rediscounting facilities and informal exhortation by RBI. The RBI stipulates the rate of interest applicable to domestic industry. Not only that the RBI notifications stipulate the period for which concessional credit would be available both at preshipment and post shipment stages. Periodically the RBI reviews the rates on export credit and modifies them in the light of country's export performance.

The RBI has provided additional resources to commercial banks for export credit by enhancing the refinance facility through a modified two tier formula. Operational flexibility was given to banks so as to be able to support the recovery in the real sector by relaxing norms for maximum permissible bank finance and consortium lending etc. Relaxation of selective credit control measures was also resorted to. The policy was to simultaneously expand the lendable resources of banks and entitlements of borrowers to borrow from banks. Significant moves were also made towards interest rate liberalisation and rationalisation to expand exports. With the deterioration in the BOP and the pressing need to promote exports RBI envisages the provision of credit to the 'extreme focus' thrust sector.

SUMMARY

In this chapter the factors influencing exports have been discussed. These factors operate at the macro level. Their impact on export performance has been discussed theoretically.