CHAPTER III

INDIAN FOREIGN TRADE SCENARIO

INTRODUCTION

Foreign trade is a phenomenon of ever increasing importance in the life of people and is as old as the history of human civilization. It is a conception which has the attributes of historical persistence and the qualities of future permanence. Economic advantage associated with territorial division of labour reflected in the augmentation of aggregate world production is a principal factor responsible for foreign trade. For thousands of years particular kinds of goods have been hauled across national boundaries from territories of relative abundance to territories of relative scarcity. The prehistoric mythology has been regarded as the fascinating tales of man's adventures in distant lands in quest of gold and other precious metals. In ancient times fine silks and spices were moved from the orient to the occident. Many factors such as localisation of mineral deposits in certain regions, peculiarities of climate and soil as between different regions, differences in population density in different geographical territories and absence of territorial uniformity in the development and adaptation of improved production techniques have contributed to the increasing volume of foreign trade.

Foreign trade deals with business transaction between citizens of different nations and with considerations of commercial diplomacy that spring
from such business transaction. Consequently foreign trade may be defined as the exchange of goods and services among citizens of independent or sovereign states or countries. The subject matter of foreign trade includes the discussion of theoretical or analytical basis and the policy aspects of foreign trade. Since international exchange of goods necessitates money payments, a complete study of foreign trade also involves discussion of international monetary relations. Since each sovereign state or country has its own independent monetary system the discussion of international monetary relations has to be concerned with answering of various questions including such questions as:

- what are the instruments for effecting payments between two countries?
- Where from and how does a country obtain the necessary means of making international payments? What are the causes and effects of disequilibrium in the external balance of payment of a country?

Uneven distribution of resources gives rise to the relative differences in costs and prices of goods and services between countries including them to trade with one another. Foreign trade is necessary to maximise production in the world. Foreign trade is necessary not only to raise to the level of per capita productivity during the early stages of industrialisation of backward countries but also to maintain high productivity levels in industrially advanced countries. Foreign trade is needed to allow access of world's resources to all nations on terms of equality.
SALIENT FEATURES OF FOREIGN TRADE

Bertil Ohlin stated with emphasis that "international trade should be regarded as a special case within the general concept of inter-regional or perhaps rather inter-local trade. It is only thus that one can claim to have sufficiently elucidated the geographical or territorial element in price formation".1

Gottfried Von Haberler has stated that "it is neither possible nor essential to draw a sharp distinction between the problems of foreign trade. We find that we are dealing with differences of qualitative nature as would warrant sharp theoretical divisions".2

Further Bertil Ohlin stated that "while importance of the existence of international factor mobility in connection with the theory of international trade does not seem to have been sufficiently appreciated the assumption of free inland movements errs in the opposite direction. The mobility of capital and labour within the individual countries is by no means as complete as assumed by orthodox economists".3

The salient feature of international trade is inherent in the fact that "the existence of political boundaries carries with it controls and regulations of"

1 Bertil Ohlin, Inter-regional and International Trade, 1933, second printing, p.589.
3 op.cit, p.47.
international trade and payments in the form of customs duties, quotas, exchange control, foreign trade monopolies, the more subtle measures of control referred to as administrative protectionism and so forth, which do not generally exist in the domestic trade area". 4

SIGNIFICANCE OF FOREIGN TRADE

The total benefits of foreign trade comprise of

- The more direct gains to consumers who enjoy a higher level of total satisfaction partly owing to more favourable terms of trade and partly owing to more efficient use of country's abundant resources and

- The indirect gains that accrue in the form of increased international understanding, exchange of ideas and cultures which promote world peace. The direct gains from foreign trade follow from the fact that international exchange of goods and services benefits country by enabling to specialise in the production of those goods for which it is best suited looking to factor endowments.

Adam Smith rightly stated " The natural advantages which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, not leads, and not walls, very good graphs can be raised in

Scotland and very good wine too can be made of them at about thirty times the expense for which at least equally good wine can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment thirty times more of the capital and industry of the country than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted there must be an absurdity though not altogether so glaring. Yet exactly of the same kind in turning towards any such employment a thirtieth, or even a three hundred the part more of either. whether the advantages which one country has over another be natural or acquired is in this respect of no consequence. As long as the one country has those advantages and the other wants them it will always be more advantageous, and other wants them, it will always be more advantageous for the latter rather to buy of the former than to make. It is an acquired advantage only which one artificer has over his neighbour, who exercises another trade, and yet they both find it more advantageous to buy of one another than to make what does not belong to their particular trade". 5

Foreign trade by ensuring free competition reduces the danger of monopolistic exploitation of consumers because production of goods takes place in the most efficient manner and the price is no higher than the average cost of production.

1 Adam Smith, "An enquiry into the nature and causes of wealth of nations", volume I, chapter II p.401.
Foreign trade safeguards the economic interests of all the countries. Foreign trade depends upon the multilateral payments system which it makes it possible to effect payments from debtor to creditor countries through enabling the former to create export surplus in their balance of trade. Foreign trade allows for the working of international monetary system with free multilateral convertibility of currencies. Foreign trade is a pre requisite of international economic co-operation and brotherhood.

Foreign trade provides maximum scope for the optimum exploitation and allocation of world's scarce resources. Under the system of multilateral trade every country is able to sell its products in those markets where it can get the best prices for its products and is also free to buy essential raw materials and other consumer goods at best terms from the cheapest sources of supply. Consequently in foreign trade a country enjoys the best advantage both as a consumer as well as a producer. Economic exploitation of one country by another country is difficult since there are numerous buyers of its goods and country can who buy the requirement from various sources of supply. Thus foreign trade is inimical to monopolistic and monopolistic exploitation of one country by others.

The contribution of foreign trade to national well being is so immense that few countries could become self-sufficient even with the greatest effort. Modern economies have been structured by international trade and specialisation of the past, and their continued viability is dependent in no small
measure on the world economy for many nations foreign trade is literally a matter of life and death.

The present day unprecedented economic prosperity of the members of OPEC (organisation of the Petroleum Exporting Countries) would never have been possible in the absence of large world markets made possible by foreign trade for their petrol and petroleum-based products. Today the petrol-rich and middle-east countries are booming with industrial activity and they own large chunk of capital in international money and capital markets. But for foreign trade, their vast petroleum reserves would never have been exploited and these countries would have remained among world's poorest countries. Thanks to foreign trade their economic lot has been transformed and today they are counted among world's rich countries.

INDIA'S FOREIGN TRADE - TRENDS AND POLICIES

A vital sector of a country's national economy, foreign trade contributes a lot to the economic welfare of people and the development of resources. Economies of scale and international specialisation as also the fruits of scientific and technical progress in the world become more easily available. In the context of planned economic development an appropriate trade policy becomes necessary and significant. India's foreign trade can be examined in various facets: value, composition direction and policies. In other words the Indian foreign trade has been studied, under the balance of payments, balance of trade, patterns and direction of imports and exports.
INDIA'S DEBT POSITION

India is one of the largest borrowers among the Third World Countries. The total external debt of India is estimated to be at $70115 millions for the year 1990, as against $41088 millions in 1986. It now ranks in the third position next only to Brazil with $116713 millions and Mexico with $96190 millions. But during 1986 India was in the sixth position. A point to be noted here is that, India alone belongs to the group of low-income group countries and population being 849.5 millions during the mid 1990. The debt service as a percentage of exports of goods and services is 28.8. The total external debt as a percentage of goods and services is 282.4 and as a percentage of GNP is 25.0 interest payment as a percentage of exports of goods and services is 15.9. Total External Debt is defined as the sum of public, publicly guaranteed and private non-guaranteed long term debt, use of IMF debt, and short term debt. Total External Debt as a percentage of exports of goods and services is the sum of principal repayments and interest payments on total external debt. Interest payment as a percentage of exports of goods and services are actual payment made on total external debt.

The total external debts and other service ratios are given in table 3.1.

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### Table 3.1

**TOTAL EXTERNAL DEBT AND OTHER SERVICE RATIOS - 1990**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total external debt (millions of $)</th>
<th>Total external debts as a percentage of</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total exports of goods &amp; services</td>
<td>GNP</td>
<td>Debt service as a % of exports of goods &amp; services</td>
<td>Interest payment as a % of exports of goods &amp; services</td>
</tr>
<tr>
<td>1. Low Income</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Nigeria</td>
<td>36,068</td>
<td>242.7</td>
<td>110.9</td>
<td>20.3</td>
<td>12.1</td>
</tr>
<tr>
<td>India</td>
<td>70,115</td>
<td>110.9</td>
<td>25</td>
<td>28.8</td>
<td>15.9</td>
</tr>
<tr>
<td>China</td>
<td>52,555</td>
<td>77.4</td>
<td>14.4</td>
<td>10.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Pakistan</td>
<td>20,683</td>
<td>249.6</td>
<td>52.1</td>
<td>22.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>67,908</td>
<td>229.4</td>
<td>66.4</td>
<td>30.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Egypt Arab Rep</td>
<td>39,885</td>
<td>300.8</td>
<td>126.5</td>
<td>25.7</td>
<td>11.1</td>
</tr>
<tr>
<td>2. Middle Income</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Philippines</td>
<td>30,456</td>
<td>229.2</td>
<td>69.3</td>
<td>21.2</td>
<td>13.</td>
</tr>
<tr>
<td>Morocco</td>
<td>23,534</td>
<td>282.5</td>
<td>97.1</td>
<td>23.4</td>
<td>11.7</td>
</tr>
<tr>
<td>Peru</td>
<td>21,105</td>
<td>488.3</td>
<td>58.7</td>
<td>11</td>
<td>5.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>17,241</td>
<td>183.4</td>
<td>44.5</td>
<td>38.9</td>
<td>15.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>25,868</td>
<td>82</td>
<td>32.6</td>
<td>17.2</td>
<td>6.</td>
</tr>
<tr>
<td>Turkey</td>
<td>49,149</td>
<td>195</td>
<td>46.1</td>
<td>28.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Poland</td>
<td>49,386</td>
<td>251.5</td>
<td>82</td>
<td>4.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Chile</td>
<td>19,114</td>
<td>181.3</td>
<td>73.5</td>
<td>25.9</td>
<td>16.8</td>
</tr>
<tr>
<td>Algeria</td>
<td>26,806</td>
<td>193</td>
<td>53.1</td>
<td>59.4</td>
<td>15.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>19,502</td>
<td>55.9</td>
<td>48</td>
<td>11.7</td>
<td>4.</td>
</tr>
<tr>
<td>Argentina</td>
<td>61,144</td>
<td>405.6</td>
<td>61.7</td>
<td>34.1</td>
<td>18.4</td>
</tr>
<tr>
<td>3. Upper Middle Income</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Mexico</td>
<td>96,810</td>
<td>222</td>
<td>42.1</td>
<td>27.8</td>
<td>16.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>33,305</td>
<td>158.7</td>
<td>71</td>
<td>20.7</td>
<td>15.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>116,173</td>
<td>326.8</td>
<td>25.1</td>
<td>20.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Hungary</td>
<td>21,316</td>
<td>188.6</td>
<td>67.8</td>
<td>37.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>20,690</td>
<td>67.1</td>
<td>23.7</td>
<td>13.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>20,413</td>
<td>75.4</td>
<td>36.5</td>
<td>17.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Korea Rep</td>
<td>34,014</td>
<td>44</td>
<td>14.4</td>
<td>10.7</td>
<td>3.5</td>
</tr>
</tbody>
</table>


The tremendous importance of trade for underdeveloped countries follows from the classical theory of comparative cost. Historically trade has
been recognised as an important mainspring of growth for countries at different stages of development.  

Foreign trade consists of imports and exports while formulating foreign trade strategy which has a great influence on industrial performance and economic development a country has to combine the following quantitative and qualitative indicators,

- The high rate of protection for domestic markets.
- Direct controls on imports such as quotas and import licensing schemes.
- Use of export incentives.
- Maintain stability of exchange rate.

INDIA'S SHARE IN WORLD EXPORTS

Many developing countries encountered several problems over the last four decades or so. India also faced the problem of sluggish growth in exports and fast rising imports during its planned economic development. India lost its share in world exports in U.S. dollar terms. It declined from 1.9% in 1950 to 1.1% in 1960, 0.7% in 1980 and again it reached 0.47% in 1986. Thereafter a small percentage increased to 0.54% in 1990. World trade has been growing at 3% to 4% per year but our share in it is only 0.5% at present.

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Although India is basically not an export-oriented economy like Taiwan, Korea and Singapore yet it cannot be denied that a vast and developing country like India required modern technology and multifarious goods and services to build up a strong industrial base and it is difficult to pay for these imports of capital goods unless we are capable of making surplus exports. So at the present juncture India cannot afford to provide low priority to exports. If the experience of certain developed countries is any guide it can be undoubtedly declared that the key to the self sustained growth, self reliance and favourable balance of payment is prosperous export performance. 10

There has been wide fluctuations in our export performance from year to year. Our exports have failed to keep pace with growing imports. From a peak increase of 16.3% in 1981-82, the annual rate of growth of Indian export slumped to 14.2% in 1982-83 and further to 10.8% in 1983-84. In 1984-85 there was however a modest rise of 15.4% in the growth of exports as revealed from Table 3.2.

### Table 3.2

**FOREIGN TRADE OF INDIA 1988-89 TO 1993-94.**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Rate of Growth</th>
<th>Imports</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>20,232</td>
<td>-</td>
<td>28,235</td>
<td>-8,003</td>
</tr>
<tr>
<td>1989-90</td>
<td>27,658</td>
<td>36.7</td>
<td>35,328</td>
<td>-7,670</td>
</tr>
<tr>
<td>1990-91</td>
<td>32,558</td>
<td>17.5</td>
<td>43,193</td>
<td>-10,635</td>
</tr>
<tr>
<td>1991-92</td>
<td>44,042</td>
<td>32.8</td>
<td>47,851</td>
<td>-3,809</td>
</tr>
<tr>
<td>1992-93</td>
<td>53,688</td>
<td>21.9</td>
<td>63,375</td>
<td>-9,687</td>
</tr>
<tr>
<td>1993-94</td>
<td>69,751</td>
<td>29.9</td>
<td>73,101</td>
<td>-3,350</td>
</tr>
</tbody>
</table>


The gross imports in the year 1991-92 amounted to Rs.47,851 crores, while our exports accounted for Rs.44,042 crores only. The RBI reports reveals the fact that the balance of payments crisis of 1990-91 was not only due to deterioration in the trade account, but also due to deficit in the capital account. It was accompanied by other adverse developments on the capital account reflecting the loss of confidence in the government's ability to manage the situation.

**TRADE ACCOUNT AND CAPITAL ACCOUNT**

Balance of payments is a comprehensive record of economic transactions of the residents of a country with the rest of the world during a given period of time. The main purpose of keeping these records is to inform government of the international economic position of the country and to help it
in reaching decisions on monetary and fiscal policy one the one hand and trade and payments questions on the other.

**BALANCE OF PAYMENTS**

**Current and Capital Accounts**

The balance of payments on current account includes items like imports and exports, expenses on travel, transportation, insurance, investment income, etc. These relate to current account transactions.

The capital account on the other hand is made up of capital transactions e.g., borrowing and lending of capital, repayment of capital, sale and purchase of securities and other assets to and from foreigners-individuals and governments. When both current and capital accounts are taken it is called over-all balance of payments. It is the overall balance of payments which must balance.

**Items included in the Balance of Payments**

The various items in the balance of payments current account are:

The chief item in the international trade is commodities Export of Commodities to foreign Countries adds to our foreign receipts. While imports add to the payments that India have to make to the foreigners. The difference
between the value of commodity exports and imports is known as the balance of trade.

The commodity exports and imports entering the balance of trade are also called visible items because they are recorded at the customs barriers of the country. In addition to the import and export of goods we also import and export certain services. Such services may be of various kinds for which payments have to be made or received e.g., transport charges shipping freight, passenger fares, harbour and canal dues, commercial services, financial services and services connected with the tourist traffic and payment of interest on external debt. As against commodity or merchandise transactions which are visible, these services are called invisible items of the balance of payments as they are not recorded at the customs barriers. If India renders more invisible service to the foreigners India shall have a surplus on invisible account. In recent years India is having a surplus on invisible account. This is because now India renders more services to the foreigners and also because of official donations and private remittance from the foreign countries sent to India. If the value of India's visible and invisible receipts is greater than the value of visible and invisible payments then India shall have a surplus balance of payments on current account and vice versa. In recent years India has been suffering from huge deficits in balance of payments on current account despite sizeable remittance from abroad by Indians residing there.
In addition to current transactions there are also capital movements between the countries. For example capital may move from one country to another. The country which receives capital will add to its foreign receipts at the time when such capital is received, but at the time of repayment of debt it will increase our payments to the foreigners. Capital between the two countries may move at the inter governmental plan - i.e., loan from one government to another. It may also be more on private account for example when American investors invest their capital in Indian Industry. Capital movements may be short-term or long-term. Short-term capital inflow carries with it the risk of early out flow and is liable to add an element of uncertainty to the country's international transactions. In recent years India has been getting lot of foreign loans. By summing up the balance on the current account and the balance of capital account, will give a country's overall balance of payments. If there is a deficit on overall account and a country is not able to find sufficient capital inflow to neutralise the effect of a deficit on the current account, it will have to draw upon its reserves of foreign exchange. If on the other hand, the current account surplus is greater than the capital out flow from the country its foreign exchange reserves will increase. In recent years the inflow of foreign capital being insufficient to finance fully India's deficit on current account, India was forced to draw down the foreign exchange reserves which have been drastically cut down.

A graph showing India's exports and imports during 1989-90 to 1993-94 is given in Fig.3.1.
Fig. 3.1
Graph showing balance of trade

Balance of trade
Imports
Exports

1989-90
1990-91
1991-92
1992-93
1993-94
BALANCE OF PAYMENTS AND BALANCE OF TRADE

For the country's overall international economic position what really matters is its balance of payments and not the balance of trade alone. A country may have a surplus in the balance of payments on current account. England for a long time used to have a deficit on trade account and this deficit was more than made up by the surplus on invisible account so that the balance of payments position remained favourable. As against this India under the British rule used to have a favourable trade balance, but the surplus on balance of payments considerably reduced because of a host of invisible payments like the 'home charges' that India had to make to England.

HOW DOES THE BALANCE OF PAYMENTS BALANCE?

The balance of payments on current account is said to balance when total of the credit items is exactly equal to the total of debit items. But it is seldom so. Hence there is either a deficit or a surplus in the current account of the balance of payments. The deficit or surplus is met by transfers in the capital account. In other words the balance of payments is made to balance through the capital account. Suppose there is a deficit in the current account of balance of payments, this deficit will be covered by

- drawing upon the country's foreign exchange reserve.
- by borrowing from abroad and
- exporting gold.
Now IMF grants temporary accommodation to bridge the gap.

**BALANCE OF PAYMENTS IN DEVELOPING ECONOMY**

It is the usual experience of all developing economies to have serious difficulties in their balance of payments. This will be clear if we analyse the requirements of development and some of its consequences.

The balance of payments has two aspects viz. the import aspect and export aspect. On the imports side we can easily find that in the initial stages of development, the import bill must rapidly mount up from year to year. The country which has chosen the road to rapid economic development must be prepared to force heavy imports. What is being attempted is the conversion of a predominantly agrarian economy into highly industrialised economy within a reasonable span of time. For this purpose, the country needs machinery, equipment and industrial raw materials. It must also import technical know-how. An under developed country lacks all these things and for them it must rely on foreign countries. An under developed country also lacks capital. It has therefore to borrow capital from abroad. The loan has to be repaid and it has to meet yearly liabilities arising out of interest payments. All these developments till the balance of payments against the developing economy.

Now let us consider the export side. A developing country must build up an export surplus to pay for constantly pouring imports. But in the early stages of development it is unable to export much. It has yet to build up export
industries. Most of the domestically produced materials are absorbed in the home manufactures. Nor can it spare capital for investment abroad, because under developed countries suffer from serious capital deficiency. The country is not developed enough to export service of any type. Most of the goods and services produced at home are absorbed at home in a raising tempo of economic development.

The rising tempo of development expenditure fed by deficit financing unleashes the inflationary forces so that the country is good for selling to and not a good country to buy from. Therefore inflation adversely affects the balance of payments position.

Rising imports and lagging behind or stagnant exports lead to the widening of the deficit on current account and there is widening gap on capital account too. The balance of payments becomes increasingly unfavourable from year to year as development programme proceeds apace.

How is this situation met? It is the generosity of foreign friendly countries which comes to the rescue. In addition foreign exchange reserves are drawn upon. International financial institutions like the IMF also come forward to help the country out of the balance of payments difficulties.

But no country can go on borrowing from abroad indefinitely, if it is to retain its credit worthiness in international financial circles. Foreign reserves are not a bottomless pool. Ultimately, the country must stand on its own legs
and move to a stage called self-sustained growth. At this stage it must find out of its own resources all the means for economic development. It should be able to do without foreign aid. The export earnings should be sufficient to cover not only development imports but also maintenance imports. It is neither desirable nor feasible to cut down imports without hampering economic development. The development target must be achieved and essential imports must continue to flow. Hence vigorous and determined drive in the direction of export promotion is essential.

Economic development in India illustrates the effect of economic development on balance of payments position. India has been facing serious difficulties in regard to balance of payments since the inception of five year plans.

**EXPORTS AND IMPORTS UNDER PLANS**

India initiated her planned development in 1951 and since then there had been a considerable change in the exports and imports position. India's trade deficit during the planning era has been shown in table 3.3.
### Table 3.3

**INDIA'S TRADE DEFICIT DURING PLANNING ERA.**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Imports CIF (Rs. in crores)</th>
<th>Exports FOB (Rs. in crores)</th>
<th>Trade Balance (Rs. in crores)</th>
<th>Exports percentage to Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>3650.5</td>
<td>3108.5</td>
<td>541.9</td>
<td>85.11</td>
</tr>
<tr>
<td>II</td>
<td>5399.3</td>
<td>3138.0</td>
<td>2261.3</td>
<td>58.12</td>
</tr>
<tr>
<td>III</td>
<td>6136.5</td>
<td>3736.2</td>
<td>2400.3</td>
<td>60.89</td>
</tr>
<tr>
<td>A</td>
<td>5787.3</td>
<td>3711.8</td>
<td>2075.5</td>
<td>64.14</td>
</tr>
<tr>
<td>IV</td>
<td>10172.1</td>
<td>8608.0.02</td>
<td>1563.9</td>
<td>84.63</td>
</tr>
<tr>
<td>V</td>
<td>26656.4</td>
<td>23479.0</td>
<td>3177.4</td>
<td>88.08</td>
</tr>
<tr>
<td>VI</td>
<td>76026.9</td>
<td>45606.7</td>
<td>30456.2</td>
<td>59.96</td>
</tr>
<tr>
<td>VII</td>
<td>145537.6</td>
<td>89799.6</td>
<td>55738.0</td>
<td>61.70</td>
</tr>
</tbody>
</table>

Source: RBI Bulletins.

During the First Plan Period, major influence on the external sectors were the Korean war in 1951-52 recession in America in 1953 and favourable monsoons which boosted agricultural and industrial production. Both exports and imports increased but imports were greater than exports, 85-16 percent of imports were financed by exports value during this period. The average value of trade deficit recorded Rs.108.38 crores per annum during First Five Year Plan.

Industrialisation was the main aim of the Second Five Year Plan. the public sector investment in infrastructure and in basic industries like steel, coal, power, and heavy electrical machinery was greatly developed. So that the
imports of capital goods mainly raised while exports were stagnant. The trade deficit was high compared with First Five Year Plan.

Several difficulties seriously disturbed the Indian Economy during the Third Plan period. The aggression by China in 1962 and hostilities with Pakistan in 1965 resulted in heavy commitment on defence. This was coupled with the drought of 1965-66 which necessitated heavy import of foodgrains to meet the threat of the famine in the country. As a result of all these factors the average trade deficit recorded Rs.480.06 crores in the plan period. Exports value is supported to imports by only 60.89 percent and this accounted for more than 2 percent greater than that of the Second Plan and by 24.27 percent greater than that of the First Plan. Even during the annual plans period imports were higher than exports by 35.86 percent. The average trade deficit recorded Rs.691.83 crores per annum during the annual plans.

During the Fourth Five Year Plan the average trade deficit accounted for Rs.312.78 crores which was much less as compared to previous plans except the First Plan. Here merchandise imports showed smaller rise than exports, the value of imports increased from Rs.1582.3 crores in 1969-70 to Rs.2729.3 crores in 1973-74 that is by 9.4 percent per annum. The quantum of imports increased at 2.7 percent per annum while the unit value of index rose by 6.7 percent per annum. During 1972-73 and 1973-74 general inflationary conditions prevailed all over the world. As a result the terms of trade for India were affected. A note worthy point of this plan was that for the first time India enjoyed the favourable trade balance in 1972-73 with export surplus.
During the Fifth Plan period trade deficit was affected by two important factors (1) the value of imports was rapidly mounting due to the like in oil prices and (2) the value of exports was rising under the impact of promotional measures. Because of these two factors the trade deficit has increased as doubled to Rs.635.48 crores per annum from Rs.312.78 crores in previous plan period. About 90 percent of imports were paid by exports. It is the only period that helped to imports by a lot amount of exports. During 1976-77 there was a surplus in trade balance by Rs.316.4 crores. But the continuous rise in imports and the inadequate increase in exports due to the relative decline in export prices were responsible for the revival of deficit trade balance in the last two years of the fifth plan period.

The pressures on the balance of payments intensified in the early 1980's with sharp escalation of crude oil prices by the second oil stock in 1979. The trade deficit sharply increased little more than average to Rs.6,000 crores per annum in the sixth plan period while it was only Rs.635 crores in the fifth plan period. Volume of growth of exports was restricted to 3.3 percent partly reflecting the severe international recession of 1980-83 and the accompanying stagnation of world trade. The trade gap was tremendous and it was Rs.5967 crores in 1980-81, Rs.6121 crores in 1981-82, Rs.5776 crores in 1982-83 and Rs.6721 crores in 1984-85. The disquieting situation was due to the tremendous rate of growth of imports on the one side and a much lower rate of growth of exports since 1979-80 on the other the sluggishness in export growth was due to a combination of adverse external and internal developments.
There was large current account deficit of BOP during seventh plan period as a result of large trade deficit, averaged to Rs.11,148 crores per annum. During eighties about 60 percent of imports were financed by exports which was above 80 percent in the seventies. The trade deficit of seventh plan is at the highest level among the plans period. Exports increased from Rs.11577.6 crores in 1985-86 to Rs.20,511 crores in 1988-89 while imports were increased from Rs.21,163 crores to Rs.34,513 crores during the same period. The data for the last year of the seventh plan period was partially revised and the accounted exports were of the order of Rs.28,000 crores while imports were Rs.41,500 crores. High amount for bunching of import payment high international prices for some imports like metals, edible oils and increased imports of bulk commodities necessitated by the unprecedented droughts were the main causes for high deficit in India's foreign trade during seventh plan period.

The Balance of payments key indicators are given in table 3.4.
Table 3.4

EXPORTS AND IMPORTS AS PERCENTAGE OF GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Net Visibles</th>
<th>Trade Balance</th>
<th>Current account balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>4.8</td>
<td>9.2</td>
<td>3.2</td>
<td>-4.4</td>
<td>-1.2</td>
</tr>
<tr>
<td>1981-82</td>
<td>4.9</td>
<td>8.7</td>
<td>2.4</td>
<td>-3.8</td>
<td>-1.5</td>
</tr>
<tr>
<td>1982-83</td>
<td>5.1</td>
<td>8.4</td>
<td>2.0</td>
<td>-3.2</td>
<td>-1.3</td>
</tr>
<tr>
<td>1983-84</td>
<td>4.9</td>
<td>7.7</td>
<td>1.7</td>
<td>-2.8</td>
<td>-1.1</td>
</tr>
<tr>
<td>1984-85</td>
<td>5.2</td>
<td>8.1</td>
<td>1.7</td>
<td>-2.9</td>
<td>-1.2</td>
</tr>
<tr>
<td>1985-86</td>
<td>4.4</td>
<td>8.1</td>
<td>1.4</td>
<td>-3.7</td>
<td>-2.3</td>
</tr>
<tr>
<td>1986-87</td>
<td>4.5</td>
<td>7.7</td>
<td>1.2</td>
<td>-3.2</td>
<td>-2.0</td>
</tr>
<tr>
<td>1987-88</td>
<td>4.9</td>
<td>7.7</td>
<td>0.9</td>
<td>-2.8</td>
<td>-1.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>5.3</td>
<td>8.9</td>
<td>0.8</td>
<td>-3.5</td>
<td>-2.7</td>
</tr>
<tr>
<td>1989-90</td>
<td>6.4</td>
<td>9.3</td>
<td>0.6</td>
<td>-2.9</td>
<td>-23.0</td>
</tr>
</tbody>
</table>


‘NINETIES OUTWARD ORIENTATION

The positive trends in the eighties could not be sustained, let alone consolidated. The fiscal deficits, budgetary deficits, and trade deficits increased. India’s share in world exports also declined further from 0.6% in 1970 to 0.48% in 1990-91. The Gulf war in August 1990, erosion in India’s credit worthiness net outflow of NRI deposits and reduction in commercial borrowings, all had their effect on the balance of payments position. The foreign exchange reserves dipped to record low in January 1991. Inflation accelerated. The Country was at the brink of default in external payment obligations. This prompted RBI to resort to severe import compression
measures in the second half of 1990-91. But it proved to be counter productive. Gross domestic product at constant prices grow by only 2.5% in 1991-92. Industrial production declined by nearly 1%. The collapse of Soviet Union affected our exports. The exports to rupee payment areas declined by nearly 50% in 1991-92. Overall exports in dollar terms declined by 1.5% in 1991-92. It was accompanied by a reduction in the trade deficit also. The export to GDP ratio at 8.2% was a break from the past trends but it was more due to stagnant GDP base than a quantum jump in exports.

The major 13 point trade policy package announced in July 1991 was accompanied by relaxation in import curbs. The reform package had a dual strategy of macro economic stabilisation through fiscal adjustments and economic restructuring encompassing changes in industrial, trade and financial sector policy framework. A conscious effort was done to bring about a move away from protectionism to a more competitive environment and from a command economy to a market friendly economy. The trade policy package consisted of a 22% devaluation of rupee which was followed by dismantling of quantitative controls and replacing them with price controls. Exim scrips were introduced as the import controlling device which was replaced later by partial convertibility of rupee. But later union budget 1993-94 replaces partial convertibility by introducing full convertibility of the rupee. The liberalisation in the trade region effected in July 1991 was not new but what made it different from the earlier strategy was the speed and unhesitant approach towards making economy more competitive so as to integrate it with world economy.
The eighth plan (1992-97) had targeted an export growth rate of 13.6\% p.a. which was higher than the 8.1\% growth rate achieved during the seventh plan period, while the import growth rate was to be reduced to 8.49\% p.a. The two fold strategy in the eighth plan consists of further pruning of the negative list of imports and exports and dispersion of tariff rates. On the other hand the Commerce Ministry set an export target of $20 billion for 1992-93, a 12.8\% increase over $17.8 billion in 1991-92 while in rupee terms, it targeted an increase of 31.5\%. As against these targets the total exports at $13075 million during 1992-93 registered a rise of 3.41\% over $12463 million during 1991-92.

**DIRECTION OF TRADE**

The direction of trade has been changing in recent years. This is shown in table 3.5

The direction of trade has been changing in recent years. Table 3.6 shows that OECD countries are the main partners to India in both exports and imports of EEC countries recorded the first place. But the share had decreased from 32 percent of exports in 1960-61 to 22 percent in 1989-90. The share of our imports from EEC declined to 21 percent in the seventies and early eighties, afterwards increased to 33 percent in 1989-90. Above 50 percent of Indian exports were made to three major countries UK, USA, and Japan in 1960-61, but it declined to 38 percent in 1970-71 and 26 percent in 1980-81 and further there was a marginal increase to 32 percent in 1989-90. 53 percent of the imports came from these three countries only in 1960-61. It had also declined to 28 percent in 1989-90. The percentage of India's exports to
developing countries was the same both in 1960-61 and in 1989-90, i.e., 15 percent, but 20 percent in 1970-71 and 1980-81. The share of imports from developing countries has increased marginally from 12 percent in 1960-61 to 17 percent in 1989-90.

Table 3.5
DIRECTION OF INDIA'S TRADE

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>X</td>
<td>M</td>
<td>X</td>
<td>M</td>
</tr>
<tr>
<td>1. OECD of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) EEC of which</td>
<td>425</td>
<td>875</td>
<td>769</td>
<td>1,042</td>
</tr>
<tr>
<td>i. Belgium</td>
<td>232</td>
<td>417</td>
<td>282</td>
<td>320</td>
</tr>
<tr>
<td>ii. France</td>
<td>5</td>
<td>15</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>iii. F.R.G</td>
<td>9</td>
<td>21</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>iv. Netherlands</td>
<td>20</td>
<td>123</td>
<td>32</td>
<td>108</td>
</tr>
<tr>
<td>v. U.K</td>
<td>9</td>
<td>11</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>b) North America</td>
<td>172</td>
<td>217</td>
<td>170</td>
<td>127</td>
</tr>
<tr>
<td>1. U.S.A</td>
<td>120</td>
<td>347</td>
<td>235</td>
<td>570</td>
</tr>
<tr>
<td>c) Asia Oceania</td>
<td>65</td>
<td>80</td>
<td>234</td>
<td>122</td>
</tr>
<tr>
<td>1. Japan</td>
<td>35</td>
<td>51</td>
<td>204</td>
<td>83</td>
</tr>
<tr>
<td>2. OPEC</td>
<td>26</td>
<td>51</td>
<td>99</td>
<td>126</td>
</tr>
<tr>
<td>3. Eastern Europe</td>
<td>45</td>
<td>38</td>
<td>323</td>
<td>220</td>
</tr>
<tr>
<td>1. U.S.S.R</td>
<td>29</td>
<td>16</td>
<td>210</td>
<td>106</td>
</tr>
<tr>
<td>4. Developing Countries</td>
<td>95</td>
<td>132</td>
<td>305</td>
<td>239</td>
</tr>
<tr>
<td>1. Africa</td>
<td>40</td>
<td>63</td>
<td>129</td>
<td>169</td>
</tr>
<tr>
<td>2. Asia</td>
<td>45</td>
<td>64</td>
<td>166</td>
<td>54</td>
</tr>
<tr>
<td>5. Others</td>
<td>51</td>
<td>25</td>
<td>40</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>642</td>
<td>1,222</td>
<td>1,535</td>
<td>1,634</td>
</tr>
</tbody>
</table>


Note: X-Exports; M-Imports.
During 1960-61 India had a marginal deficit in balance of trade with most of the major countries except USSR, where there was a surplus of Rs.13 crores. India's trade deficit with USA which occupied the top place in India's imports and exports had widened. It was in the same position in 1970-71 also when India had a trade surplus with four countries - France, Japan, UK and USSR by Rs.8, 121, 43, and 104 crores respectively. During 1980-81 India had a trade surplus only with USSR amounting to Rs.212 crores but in 1989-90 trade with USA had surplus.

FOREIGN TRADE, ECONOMIC GROWTH AND DEVELOPMENT

The classicals and neo-classicals viewed that foreign trade was an 'Engine of Growth'.

Gustar Ranis maintains that "--- the less developed economy should treat trade not as an engine of growth but as an additional efficient machine of production at its disposal, transforming exports as inputs into imports as output" 11 He gave a scientific explanation of the role of exports in economic growth in different stages. The stages of economic development can he classified under the following heads.

Stage 1: When the economy is at a subsistence level, the export trade initiates the growth process. An increase in per capita income increases the demand for everything including imports. At this infant stage of economic

development self sustaining progress can continue only if the increase in imports is matched by an increase of exports. The trade gap may be filled by foreign aid.

**Stage 2:** Import substitution becomes prominent. The process of import substitution more often than not requires the import of capital equipment and technical know-how. These may be paid for by foreign aid in the short-run but only by increased exports in the long-run.

**Stage 3:** The essence of structural inflation is that a more rapid growth of the economy is prevented by low rate of exports and a too high propensity to import. The way out is either to reduce the propensity to import, by breaking the bottle necks or to increase the rate of growth of exports.

**Stage 4:** An economy solving its problems by elimination of bottlenecks. When this stage is completed, elasticity of supply will be fairly high, but the country will still not be able to produce everything it consumes.

**Stage 5:** In the final stage the limiting factor on the rate of growth, given the propensity to import and high propensity to invest, will again be the rate at which export can be expanded. The above analysis indicates that exports act either as an accelerator or as a promoter of the growth process, but export growth is not economic growth itself.
EXPORT AND ECONOMIC DEVELOPMENT

The development of exports affected the Indian Economy both directly and indirectly. In the first instance, growing foreign demand may involve expansion in the production process which leads to economies of scale, which in turn induce an overall expansion of the economy.

Secondly development in the export trade can influence the growth of the economy by affecting the volume and rate of expansion of import capacity. Since more than half of India's total capital equipment requirement have to be imported, the slow expansion of export proceeds and hence import capacity adversely affects the import of capital goods and consequently the rate of domestic growth. 12

HOW TO IMPROVE EXPORTS

Although Government of India followed "Inward looking" and "Outward looking" policies to improve its foreign trade. It could not achieve the desired goal. Initially India placed emphasis on inward oriented trade strategy during the First Five Year Plan. However it realised the importance at outward oriented strategy, from the beginning of the Third Five Year Plan. With a short gap it further intensified export promotion measures after devaluation in 1966. Since 1975-76 India is using import substitution to support export promotion.

While the inward looking industrialisation resulted in high rates of industrial growth between 1956 and 1966, several weaknesses of such a process of industrialisation also became evident. Several inefficiencies crept into the system and the economy became an increasingly "high cost" economy. Such a strategy had the effect of leading to poor export performance as well. Several export promotion measures were put in place since the beginning of the 1960's.

During the last thirty years a number of developing countries have had considerable success by using export oriented growth model. Japan, though no longer classified as developing is a prime example. The examples for fast growing exporters of manufacturers are Taiwan, Hong Kong, Singapore and Republic of Korea. Export Expansion is considered necessary as an instrument for earning needs foreign exchange. For this advice for export promotion is undertaken and several concessions were announced of late and the export policy is tilted towards export promotion. 13

EXPORT AND IMPORT POLICY 1992-97

Indian economy in general has been growing through momentous policy changes in recent years. One single area identified as an example of these changes is foreign trade. One reason for the focus on foreign trade could be the mounting problems faced by the economy in the area of BOP. The policy changes have been numerous and their avowed objective is export bias.

13 Op cit p.54
One general comment that can be made about the recent changes in trade policy is that the major thrust is on simplifying procedures and reducing controls. In this sense, the trade policy changes are to be viewed as part of the overall process of liberalisation taking place in the economy. Trade policy reforms have been pursued in conjunction with industrial reforms, fiscal policy reforms and financial sector reforms. The underlying rationale is that the trade policy reforms if pursued independently may not yield the desired results.

Now to the recently announced EXIM policy covers the period 1992-97, and is therefore coterminous with the Eighth Five Year Plan. The objective in formulating a policy for five years for the first time is to ensure stability.

HIGHLIGHTS OF NEW EXPORT - IMPORT POLICY

The following are the highlights of the new export - import policy announced in 1992.

General

Trade is free subject only to a Negative List of Imports and a Negative List of Exports.

Stable policy for five years 1992-97 with simplicity and transparency.

Negative List of Import is the smallest - ever consumer goods will continue to be under restraint.
Import of three items banned, 68 items restricted and eight items canalised.

Special import facilities for hotels and tourism industry and for special bodies.

Negative List of Export pruned, seven items banned, 62 items subject to restrictions and 10 items canalised.

Export of 46 items permitted with minimum regulation.

**Raw Materials**

Imports liberalised. Barring few items, there is no longer Negative List of Imports.

**Advance licences**

Value base advance licence introduced


All licences under duty exemption schemes are transferable.

**Diamonds, Gems and Jewellery**

Existing schemes continued with little modification.
EOUs and EPZs

- EOU (Export oriented unit) scheme and EPZ (Export Processing Zone) scheme liberalised.

- Schemes extended to agriculture, horticulture, aquaculture, poultry and animal husbandry.

Inter unit transfers allowed

- Permission to install machinery on lease. EOU/EPZ units may export through Export Houses, Trading Houses, and Star Trading Houses.

- Negative Lists to be administered as far as possible, by general schemes, case by case licensing will be minimised. Actual user condition eliminated except in a few special cases.

- Import of capital goods liberalised. No longer in Negative list of imports.

- Second hand capital goods allowed. In some sectors without licence, in others with licence.

- EPCG (Export Promotion Capital Goods) scheme liberalised. Two windows opened for concessional duty imports.
The particulars relating to rate of concessional customs duty and export obligation is shown in table 3.6.

Table 3.6

<table>
<thead>
<tr>
<th>Rate of concessional customs duty</th>
<th>Export obligation</th>
<th>Period for fulfilment of export obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>25% CIF value</td>
<td>3 times CIF value</td>
<td>4 years</td>
</tr>
<tr>
<td>15% CIF value</td>
<td>4 times CIF value</td>
<td>5 years</td>
</tr>
</tbody>
</table>

EPCG schemes extended to components of capital goods with concessional customs duty of 15 percent.

Deemed Exports

- Definition of Deemed Export streamlined. Supplies to EOU/EPZ units, supplies against Advance Licence will be deemed exports.

- Export Promotion Councils, Export Houses, Trading Houses, and Star Trading Houses:

- Crucial role of EPCs, Export Houses, Trading and Star Trading Houses recognised.

- Import - Export code number is basic requirement. Registration - Cum-Membership Certificate (RCMC) by EPCs is a basic requirement for benefits and concessions under new policy.
Three categories eligible for Special Import Licences: (1) Deemed Exports (2) Export Houses, (3) Trading Houses and Star Trading Houses. Manufacturers with ISO 9000 or BIS 14000 certification.

- National Campaign for quality awareness to be launched.
  Laboratories/Testing Houses to be upgraded and accredited.

**PROCEDURE**

- Handbook of procedures was published on 1st May 1992. Procedure is simple, transparent and easy to administer.

**Changes in New Export - Import Policy**

The following are the changes in the new Exim policy announced by the then Union Commerce Minister.

In the revised policy special attention was paid to the growth of exports in the agriculture and allied sectors. It has been decided that units engaged in agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture can avail themselves of the benefits of duty free imports under the EOU/EPZ scheme even if they export 50 percent of their production, they can sell the remaining 50 percent in the domestic market as against the limit of 25 percent permitted for the non-agricultural sector.

The definition of "capital goods" has also been widened to cover capital goods used in agriculture and allied activities so that units engaged in this
sector can avail themselves of the EPCG scheme for importing their equipment at a concessional rate of duty.

Furthermore, certain inputs and materials required by the agricultural sector, such as prawn, shrimp, and poultry feed, edible wax for waxing fresh fruits and vegetables, grape guard paper, dipping oil for treatment of grapes, wheat gluten, fish meal in powdered form and grant parent stock (poultry) are being removed from the Negative List of Imports so that they are freely importable.

In order to tap the potential of the services sector a new scheme called the "EPCG for services Sector" has been introduced. Under the scheme capital equipment at a concessional rate of duty of 15 percent may be imported by those who render professional services such as architects, artists, Chartered Accountants, consultants, doctors, economists, engineers, journalists, lawyers and scientists. The scheme is also open to other services such as hotels and restaurants, travel agents, tour operators and diagnostic centres. The export obligation to be achieved by them will be in the form of the foreign exchange earned by them, regardless of whether the services are rendered in India or abroad.

In the case of the existing EPCG scheme applicable to the other sectors, the window of import of capital goods at the concessional rate of customs duty of 15 percent is only being kept open and the other window of import at 25 percent duty is being deleted in view of the general lowering of customs duties
in the Budget 1993-94. There was representation from the trade and industry that the advantage of the EPCG scheme has been eroded with the reduction in the normal customs duties on capital goods.

In order to provide certain flexibility in the scheme, in the case of capital intensive projects or projects involving sophisticated technology, alternatives are being worked out. Further the requirements relating to the provision of bank guarantee by the importer have been liberalised and the procedures simplified in order to reduce the cost to the importer in furnishing bank guarantee.

A total of 144 items have been removed from the Negative List of Exports. In respect of those items which have been excluded from the Negative List, but in respect of which it is necessary to attach certain terms, and conditions on the exports like the minimum export price and the like, a separate public notice is being issued specifying those terms and conditions, but no export licence will be required for their exports.

The criterion for recognition of export houses trading houses, star trading houses, will hence forth be based on their FOB "value of physical export" instead of net foreign exchange earnings. The quantum of FOB value of exports has been adjusted suitably. As a consequence, the scheme for special import licences for these houses as well as for the electronic sector has also been based on the FOB value of physical exports.
Under the EOU/EPZ scheme the export obligation to be achieved by the units is subject to the prescribed value addition. In order to encourage the use of indigenous inputs by such units the formula of value addition has been revised so as to exclude the value of indigenous inputs from the computation of value addition. The new formula also provides a special dispensation for capital intensive units.

Under duty exemption scheme both the quantity based advance licences and the value based advance licences are being continued. In order to expedite the grant of licences under the scheme, standard input-output and value addition norms have now been published for over 2200 items efforts would continue to be made during the course of the year to increase substantially the number of items covered by standard input-output norms. In the light of the experience gained in the operation of the value based advance licensing scheme, it has been decided that both the quantity and FOB value of the exports specified in the licence shall have to be achieved by the licence holder in order to minimise the possibility of the misuse of such licences. The mechanism for monitoring the achievement of the export obligation by duty free licence holders is also being strengthened.

Exporters who have completed their exports and have realised the export proceeds before the introduction of the full convertibility are in a disadvantageous position in case they have not completed their imports under the duty free licences before March 1, 1993. In order to remove this disadvantage it has been decided that they will be given a cash amount
equivalent to 8 percent of their unutilised import licences. In the case of exporters who have completed their exports before March 1, 1992 and who have not exchanged their REP/Exim scrips before February 27, 1993, they will be given a further opportunity to surrender the Exim scrips and to receive the premium of 20 percent on them. The details in respect of both these measures are being worked out in consultation with the RBI.

In order to involve the state government in the export effort, a centrally sponsored scheme for assisting them in the establishment of industrial parks, with high standards of infrastructural facilities has been formulated.

100 PERCENT EXPORT - ORIENTED UNITS

The 100 percent export oriented unit is defined as "an industrial unit offering for exports its entire production excluding permitted levels of rejects". An agreed time phasing for achieving 100 percent export will be permissible on merits of each case. Such a unit would belong to an industry in respect of which the export potential and export targets have been considered by the relevant Export Promotion Council. The product concerned should not be subject to export control quota ceilings which can be reached by existing units in the industry. The intention is that a capacity should be created which should result in additional exports and not mere substitution.

100 percent export units are given the following facilities viz.:

• Duty free imports of capital goods, raw materials, and components, concessions in central excise and other central levies.
• More liberal foreign collaboration terms on the lines of facilities available in free trade zones.
• These units are kept outside the purview of MRTP Act and FERA,
• Exempted from the licensed capacity constraints. 15

The 100 percent export-oriented units are subject to the following regulations:

• They should give a minimum value i.e., 20 percent.
• Raw materials procured domestically will be treated as imports.
• The export obligations on these units will be for a period of 10 years which may be reduced to 5 years in case of products with high obsolescence.
• The gestation period for generating exports is 2 years from the date of approval after which export obligation will commence.
• The benefits of cash assistance and replenishment licences will not be applicable to these units.
• Rejects up to 5 percent or such percentage as may be fixed by the concerned authorities may be allowed to be sold in the domestic tariff area on payment of customs duty on imported inputs and central excise duty on the indigenous inputs.
• The units approved as 100 percent export units for special facilities will have to execute bond/legal undertaking with the Chief Controller of

Imports and Exports (CCIE). They would be liable for penalty in case of failure to fulfil their obligations under Import Trade Control Regulations.

The application for setting up 100 percent export-oriented units have to be submitted to the Secretariat of Industrial Approval, Ministry of Industrial Development, Udyog Bhavan, New Delhi. Government has opened a single-point clearance window to clear expeditiously the proposal for setting up 100 percent oriented units.

FREE TRADE ZONES/EXPORT PROCESSING ZONES

These are specified areas where export units are set up and they are given facilities for export production. Supplies for further production are obtained in these zones without payment of excise duty or import duty. It is however obligatory on the exporting units to export 100 percent of their production.

A free trade zone is a demarcated area. It is cordoned off by the national government from the domestic tariff area. Raw materials can be imported from abroad or purchased from the domestic tariff area (DTA) without payment of duty by the processing units situated in the zone. The processed goods can thereafter be exported. Processing units can be set up by the entrepreneurs of host companies. The government of host country generally allows duty-free import of technology to enable the processing units to manufacture high quality export products. The host country gains by way of foreign exchange earned.
through conversion costs of value added. The country also earns licence and other fees by way of employment generated through these zones.

The promotion of such free trade zones for export growth needs to be accompanied with certain incentives i.e.,

- Sound and efficient infrastructure.
- Freedom to procure and purchase quality goods.
- Freedom to process the goods and export.
- Freedom from trade and exchange control regulations.
- Exemption of levies and taxes.

The benefits accruing from these zones are

- Capital and financial inflows.
- Availability of high technology and advanced skills.
- Employment of domestic labour.
- Earnings of foreign exchange and
- Diversification of exports.

Export Processing Zones/Free Trade Zones have been set-up at the following places in our country.

- KAETZ (Kandla)
- SEEPZ (Santacruz)
- NEPZ (Noida)
- MEPZ (Madras)
The contribution of export processing zones (EPZ) to the economic advancement of the host of developing countries has been 'disappointing' according to a UNCTAD study. The study has cautioned the developing nations on the adverse effect of EPZs on their industrial and technological base.

The transnational corporations which set up production units in EPZs are generally adverse to introducing sophisticated processes. The pre-assembly stages of production which require advanced technology continue to be located in the industrialised countries. The main reason for foreign investors to locate or relocate their production activities in EPZs in developing countries is the availability of low-cost, hard working, easily trained man power.

Export processing zones are industrial estates which form enclaves within national customs territory of a country. The entire production of such zones is normally intended for export, and they are usually situated near an international seaport or airport. Enterprises in the zones can import raw materials and other inputs required for the production of export goods duty-free and without time-consuming customs procedures.

The Performance of Export Processing Zones since 1989 is given in table 3.7.
Table 3.7

EXPORT PROCESSING ZONES

<table>
<thead>
<tr>
<th>Name of Zones</th>
<th>No of units in operation on 31, march 1992</th>
<th>Employment</th>
<th>Exports (Rs.Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KAEPZ (Kandla)</td>
<td>107</td>
<td>11000</td>
<td>338.20</td>
</tr>
<tr>
<td>SEEPZ (Santacruz)</td>
<td>115</td>
<td>10500</td>
<td>290.50</td>
</tr>
<tr>
<td>NEPZ (Noida)</td>
<td>71</td>
<td>4500</td>
<td>51.90</td>
</tr>
<tr>
<td>MEPZ (Madras)</td>
<td>107</td>
<td>6616</td>
<td>29.60</td>
</tr>
<tr>
<td>CEPZ (Cochin)</td>
<td>23</td>
<td>2170</td>
<td>11.00</td>
</tr>
<tr>
<td>FEPZ (Falra)</td>
<td>12</td>
<td>400</td>
<td>16.90</td>
</tr>
<tr>
<td>Total</td>
<td>435</td>
<td>35186</td>
<td>738.10</td>
</tr>
</tbody>
</table>


Impact on the Economy

Data shown in Table 3.7 are in terms of gross exports. And if the foreign exchange outgo on account of imported inputs, like raw-materials, intermediate components, consumables, parts and packing materials. Imported capital goods and the value of all payments made in foreign exchange by way of commission, royalty, fees, dividends, interest on external borrowings is deducted, the 'net external earnings' will be only 25 to 30 percent of gross exports.
The working of the zones is expected to improve in the coming years. EPZ production is exclusively geared for sale to foreign markets and the entry of its products in the domestic tariff area (DTA) is prohibited with very few exemptions.

This aspect of EPZs is meant to ensure total commitment to exports in return for which they are given far greater concessions than EOUS. More over to the extent that EPZs supplement rather than duplicate EOU exports, it is argued that they have their own specific reasons for existence. But doubts about the efficiency and effectiveness of these enclaves in promoting employment fostering technological capabilities diffusing these in the domestic economy and more importantly earning foreign exchange still linger on. In particular the new directions of imports and export of EPZs has resulted in hard currency outflows, and the perceived mortality of units has thwarted not only exports but also employment growth.

According to industry observers the incentives offered by the Government are not enough to attract investment. At present government offers full convertibility of foreign exchange and relaxed entry rules for foreign investors in EPZs and EOUS.

The marketing strategy for selling space in the EPZs hinges on phrases like 100 percent repatriation of profit, super fast automatic clearance strategic location, economical labour, five year corporate tax holiday, total exemption
from customs and central excise duties, duty free import of items including capital goods and international price reimbursement scheme for iron and steel.

**EXPORT EFFORT OF INDIA**

The effort of India's exports is given in Chart 3.1.

**COMPOSITION OF INDIA'S EXPORT TRADE:**

The select list of export products as applicable to Export Houses

- **Engineering goods**
  - Engineering goods (excluding prime and non ferrous metals)
  - Ferro alloys.
- **Chemicals, plastic and allied products**
  - Chemicals and allied products namely
    - Inorganic chemicals, organic chemicals and miscellaneous chemicals.
    - Drugs and drug intermediaries including crude drugs.
    - Dyes and dye intermediaries.
    - Toiletries and perfumeries (excluding processes tale)
    - Paints and allied products.
    - Safety matches, fireworks, explosives and detonators.
    - Ceramic products.
    - Glass and glass ware.
    - Asbestos, cement including clinkers and cement products.
    - Wood products and processed woods.
Export effort of India
Chart 3.1

Ministry of commerce
- Indian Institute of Foreign Trade
  - Trade Development Authority
  - Export Credit and Guarantee Corporation
  - Export Inspection Council
    - Indian Institute of Packaging
      - Directorate of Commercial Publicity
      - Directorate of Export Assistance
      - Directorate of Export Production
  - Minister of Commerce
    - Directorate General of Commercial Intelligence and Statistics
      - Chief Controller of Imports and Exports
        - Commercial Representatives Abroad
          - Government Trading Organisations
            - Other Organisations and Departments Including Khadi and Village Industries Commission
              - Indian Councils Arbitrations
                - Federation of Indian Export Organisations
                  - Indian Councils of Trade Fair and Exhibitions
• Rubber products.
• Paper, paper products and stationery.
• Pesticides and preservatives.
• Agarbatis dhoop and incense.
• Culinary oleo resins
• Refractories
• Plastics and linoleum products
• **Leather and sports goods**
  • Finished leather and leather manufacturers including footwear and paint brushes.
• Sport goods.
• **Food, agriculture and forest products**
  • Animal Casings.
  • Canned and frozen marine products.
  • Processed foods, fruits, vegetables and alcoholic and soft leverages.
• Meat and allied products.
• Packaged tea and instant tea.
• Green tea.
• Instant and packaged ground coffee.
• Ossein and gelatine.
• Tobacco manufactures.
• Flowers-dry or fresh.
• Vegetables and flower seeds.
• Raw cotton (long staple).
• Spices and carry powder and pastes.
• Treated and pulverised gear gum.
• Natural essential oil.
• Deoiled rice bran and cotton seed cakes.
• Mango kernel extraction and mango kernel oil.
• Parts of dry plants and twigs used for decorative purposes.
• Textiles
  • Carpets, druggets, namdas and rugs.
  • Woollen and mixed fabrics garments, and knitwear.
  • Rubberised coir and curled coir.
  • Cotton garments and made up articles.
• Khadi
  • Synthetic fabrics, garments and made up articles including mixed/blended fabrics garments and made up articles.
• Natural silk fabrics garments and made up articles

• Carpets
• Decorative and other specialities
• Polyethylene - lined jute bags.
• Hosiery
• Embroided fabrics
• Handloom fabrics, made up articles and garments
• Gem and Jewellery
- Cut and polished diamonds, precious and semi precious stones, polished or processed peaks and imitation and costume jewellery.

- **Handicrafts**
  - Handicrafts.
  - Cut and polished granite.

- **Miscellaneous**
  - Cinematographic films.
  - Fabricated mica including micanite insulating materials bonded with synthetic resins.
  - Shellac.
  - Briquette lignite and coal.
  - Minor minerals and ores-precessed.

**ORGANISATIONAL SET-UP IN EXPORT TRADE**

Foreign trade in India is looked by the ministry of commerce. Export being one part of foreign trade naturally it comes under the control of ministry of commerce.

Ministry of commerce decides the export policy for the country. It helps in promotion of exports through its own offices and organisations created for the benefit of exporters. There are various trade organisations which are also helping the exports.
The Ministry of Commerce has the following consultative and deliberative bodies to enable it to decide the export policy and framing future trade policy like Import Policy and Export Policy.

- Central Advisory Council on Trade.
- Zonal Export and Import Advisory Committee.
- Policy Advisory Committee.

Organisations

Export Promotion Councils are created to help the exporters in the field of a particular export products. There are different export promotion council for different products. These councils put before the Government the problems of the exporters. They organise seminars and discussions on the various aspects of export problems that an exporter generally faces.

These councils have offices abroad from where regular reports are sent to India for the benefit of the exporters. 14 Study teams and delegations are sent abroad and invited into India to help in increasing exports. Export targets are fixed and co-operation sought from the exporters to achieve target. These councils also help in resolving business disputes and supply of indigenous and imported raw materials for export production.

The export promotion councils are the registering authorities. Exporters are registered by them as members. This enables them to get benefits under government scheme of incentives for exporters. Certain councils have set up
separate panels to deal with problems of individual commodities, e.g.: 
Engineering export promotion council has panels for wire products domestic 
bUILDERS, and hardware, hand tools and small tools electric fans etc.

There are a number of export promotion councils and commodity boards 
established mainly with a view to assisting in the promotion of exports of 
specific commodities, or groups of products. Great stress is also laid on 
creating export consciousness among potential exporters. These councils are 
registered as non-profit organisations under the Companies Act of 1956. A list 
of these councils are given below:

- The Basic Chemicals, Pharmaceuticals and Soap Export promotion council, 
  Bombay - 1.
- The cashew Export promotion council. Cochin -16.
- The Chemicals and Allied Products Export Promotion Council, Calcutta - 1.
- The Engineering Export Promotion council, Calcutta-1.
- The Export promotion council of finished leather and leather manufacturers, 
  Kanpur - 1.
- The Gem & Jewellery Export promotion council, Bombay - 34.
- The Handloom Export promotion Council, Madras -6.
- The Leather Export Promotion council. Madras -3.
- The marine products export promotion council, Cochin -16.
- The plastics and linoleum export promotion council, Cochin-16.
- The Processed Foods Export Promotion Council, New Delhi-1.
• The Shellac Export Promotion Council, Calcutta -1.
• The Silk and Rayon Export promotion Council, Bombay -1.
• The Spices Export promotion Council - Cochin -16.
• The Sports Goods Export Promotion Council, New Delhi -1.
• The Tobacco Export Promotion Council, Guntur, A.P.
• The wool and woollen Export promotion council, Bombay-20.

Commodity Boards

Commodity boards have been set up to help in the development of some commodities. They also undertake the export promotion responsibility. The following are the Commodity Boards:

• Tea Board.
• Coffee Board.
• Cardamom Board.
• Rubber Board.
• Coir Board.
• Central silk Board.
• All India Handicrafts Board.
• All India Handloom Board.

THE ROLE PLAYED BY EXPORT PROMOTION COUNCILS

To assist the exporters in a proper understanding, interpretation and implementation of export policies and assistance schemes formulated by the government.
• To aid in export promotional activities such as internal and external publicity.

• To arrange in an organised manner trade obligations to be sent to foreign countries to promote the export of specific products or a group of products and to circulate the reports of such visits to exporters to help their export activities.

• To create export consciousness in the country.

• To collect and disseminate statistical information and market intelligence.

• To implement export assistance scheme etc.

• To carry on an effective liaison with industry and trade in order to identify the problems faced by them in their export activities so that they can be taken up with government and solution found.

• To assist in the development of the products which have an export market, actual or potential.

• To establish foreign offices to help exporters in consolidating the existing exports and diversifying new products.

• To settle commercial disputes.

SUMMARY

In this chapter the foreign trade scenario has been explained. Besides discussing about the balance of payments position the role of various agencies like FTZs, EOU, EPZs and EPCs has also been discussed. The progress and direction of India's exports have also been discussed.