CHAPTER VIII
TRADE POLICY OF INDIA WITH SPECIAL REFERENCE TO COMPETITIVENESS

The objective of this chapter is to discuss the trade policy of Govt. of India since 1950-51 to enhance competitiveness of India’s manufactured exports.

- **Pre-reform period (i.e. the period prior to 1991)**
- **Post-reform period (i.e. the period after 1991)**

**Pre-reform period (i.e. the period prior to 1991)**

The trade policy of the Government of India during the pre-reform period can be divided in four phases: Phase I (1952-53 to 1956-57), Phase II (1956-57 to June 1966), Phase III (1966-67 to 1975-76- Devaluation of rupee and after) and phase IV (after 1975-76 to 1990-91). During the first phase of the trade policy, liberalization measures were taken both for import and exports. As a result, imports increased remarkably but export failed to pace with imports.

During the second phase (1956-57 to 1966), trade policy of the country was redesigned for meeting the requirements of planning. Import controls and import substitution measures were incorporated and vigorous export promotion drive was launched through the diversification of exports.

During the third phase, when the Government failed to achieve good results in export promotion, the Government resorted to devaluation in June, 1966 in order to control imports and to boost its exports. Although the policy was not successful initially but started showing results after the Fourth Plan. This type of situation continued till 1975-76.

During the fourth and final phase (1975-76 and after), the Government adopted the policy of import liberalization for encouraging export promotion. (Dhar, 2003)

Major changes in trade policy during pre-reform period have been given below:
I. Import Substitution: Cornerstone of Trade Policy

India adopted an inward-looking development strategy after independence wherein import substitution constituted a major element of both trade and industrial policies. Import substitution was the prime objective of India’s trade policy till the mid-1970s. This policy was largely based on the Imports and Exports (controls) Act of 1947 and the Import Trade Control Order of 1955. Liberal incentives were granted to firms if they were undertaking production of an imported item that was not domestically produced (Mathur, 2006).

II. Export Promotion Strategy:

During sixties, the existing special export promotion schemes providing import entitlements against exports and the scheme for tax credit certificates were abolished. Moreover, in order to protect the unit values of exports in terms of foreign exchange, export duties were levied on a number of commodities, mostly covering agricultural commodities and agriculture-based manufactures. A variety of additional measures were taken to promote exports. A liberal import policy was announced for 59 priority industries, including a number of export-oriented industries. A new import replenishment scheme enabled registered exporters to obtain raw materials, components and spares against export of specified products. It was decided to provide cash assistance for exports of selected products with a good export potential. A scheme for the supply of steel at international prices of exporters of engineering goods was announced. The need to correct the “anti-export” bias was gradually recognized and, in the 1970s, several export promotion measures were put in place in the form of export incentives and export services to generate higher exports on a sustained basis. The policies relating to foreign trade became subject of intense discussions in the early 1980s with export competitiveness receiving maximum attention. It became increasingly clear that production for exports cannot be isolated from production for the home market and that trade policy would have to be integrated with the policy for domestic industrialization. The licensing and highly regulated trade
policy slowly started giving way to a more open regime from the early 1980s, gathering further momentum during the second half of the decade. A three-year Export-Import policy was introduced in 1985 to provide a definite focus to the trade sector. A major ingredient of this policy was the provision of easy access to essential capital goods, raw materials and components in undertaking technological upgradation for reducing costs and improving quality. The trade regime in the 1980s continued to be characterized by the overwhelming presence of the licensing mechanism and a high level of tariffs isolating the economy from external competition, constrained further by restrictive industrial and foreign investment policies (Mathur, 2006).

III. Duty Drawback Scheme (DDS) (1954):
DDS was introduced in 1954. The object of the duty drawback system is to reimburse exporters for tariff paid on the imported materials and intermediates and central excise duties paid on domestically produced inputs which enter into export production. Efforts were made in 1975-76 to ensure speedy provision of assistance. For this purpose, performa for the fixation of provisional rate of drawback was simplified. In 1980-81, efforts were made to streamline this scheme on the recommendation of ‘Duty Drawback Committee’. In 1986, this scheme was made more effective through introduction of quick payment procedure under which sanctions were to be given within 24 hours and actual payment effected within 15 days. In June 1988, special provision in the schedule of drawback rate was made for exporters availing of advance licenses or passbook scheme benefits. A simplified brand rate fixation scheme for duty drawback was introduced in October 1988 for manufacturer-exporters of Engineering goods, Electronic goods and Chemicals. Importance of duty drawback has declined since 1981 due to introduction of advance licensing system which enables exporters to import duty-free inputs.
IV. Replenishment Licenses (1957):
In 1957, the Government introduced the Import Entitlement Scheme (IES) to help the exporters in procuring imported raw materials and other components necessary for export production. In 1965, change was introduced in this scheme and exporters were allowed IES license on the production of bank certificates showing the actual realization of export proceeds. IES was withdrawn after devaluation of the Indian rupee in 1966 but was soon reintroduced in another garb in a revised form. The new name of the scheme was import Replenishment Scheme (IRS). An IRS license makes it possible for exporters to obtain items that are either canalized or restricted in the import policy, subject to the limits and conditions specified. IRS involved premium and these licenses were also transferable.

V. Policy for Export/Trading Houses (1960):
Exporters who fulfill certain minimum export requirements for a specified period of time are granted the status of Export Houses, Trading Houses, Star Trading Houses or Super Star Trading Houses. The concept of recognition of Export Houses was evolved in 1960. The criteria for recognition of Export Houses has been changing since 1960. In July 1968, those companies, co-operative societies and federations having minimum annual export performance of Rs. 24 lakh in case of non-traditional products and Rs. 2 crore in case of traditional were to be recognized as Export Houses. In 1974, criteria for renewal of Export Houses eligibility certificate was that Export House has to show an annual growth rate of 10 percent in export upto Rs. 3 crore and 5 percent for exports beyond Rs. 3 crore. Moreover, 60 percent of exports of Export Houses should consist of goods manufactured by those manufacturing units to whom imported raw materials are supplied. In 1975, criteria for recognition of Export House was that it has to show export performance of Rs. 50 lakh in case of select list of export products and Rs. 2 Crore in case of other products. In case of small scale manufacturing
exporters, the minimum export performance has been fixed at Rs. 25 lakh or 5 percent of total exports, whichever is less.

In 1981-82, a new concept of ‘Trading House’ was introduced. Accordingly, Trading House was one which was in the export field for 3 years with average annual exports of select products of at least Rs. 10 crore during 3 years. These houses should have annual average growth in exports of at least 15 percent. In 1982-83, provision for penal action has been built into the scheme. In 1984-85, the minimum level of qualifying exports of select products for recognition as Export House was retained at Rs. 50 lakh and Rs. 2 crore but the threshold of exports has been increased to Rs. 3 crore for units exporting ‘Select’ and Rs. 7 crore in case of ‘Non-select’ products and Rs. 15 crore in case of ‘Trading House’. The 1988-90 policy had fixed the eligibility limit for recognition as Export Houses and Trading Houses at 2 crore and Rs. 10 crore of net foreign exchange earning respectively. This was raised to Rs. 5 crore for Export Houses and Rs. 20 crore for Trading Houses by the 1990-92 policy. The latter policy also introduced a new category of Star Trading Houses. These included those Trading Houses that had net foreign exchange export earning at Rs. 75 crore or above annually in the preceding three years. In view of their special position in the field of exports, Export/Trading Houses were provided with a number of import benefits. These houses were entitled to the benefits available under the Registered Exporters policy. The 1985-88 policy introduced flexibility in the grant of renewals of export/trading houses was increased. The 1988-90 policy brought in further relaxations as additional licenses issued to these houses were made freely transferable. The 1990-92 import policy increased the flexibility on additional licenses so as to allow import of limited permissible items of raw material and canalised items.

VI. Free Trade Zones (1965):

With a view to giving impetus to export drive, the government has set up Free Trade Zones (FTZs) which provide almost free trade environment for
export production so as to make Indian export products competitive in the world market. The first FTZs was set up at Kandla in 1965 and others FTZs were Santacura, Falta, Noida, Cochin and Madras. The seventh FTZs located at Visakhapatnam was approved and notified on March 15, 1989. The FTZ Santacruz is mainly devoted to production of electronic goods for export with a recently established facility for gem and jewellery complex. Other FTZs are multi product in character.

VI. **Devaluation of the Rupee (June 1966)**
A major task of policy in the 1960s was to conserve scarce foreign exchange resources and to secure progressive increase in export earnings. In order to bring domestic prices in line with external prices, to restore and enhance the competitive power of exports, and to provide a solution to the country’s trade and payments problems, the par value of the rupee was reduced by 36.5 per cent on June 6, 1966, involving a rise of 57.5 per cent in the price of foreign exchange in terms of Indian rupees.

VII. **Cash Compensatory Support (C.C.S) (1966):**
This was introduced in 1966. It was designed to provide compensation for unrebated indirect taxes paid by exporters on inputs, higher freight rates, and market development costs. The rates varied from product to product and often from exporter to exporter. The scope of CCS was steadily extended over the years and the proportion of total exports eligible for CCS rose from a level of about 20 percent in the early 1970s to a little more than 40 percent in the early 1980s. The CCS involved the largest single budgetary outlay for exports. A new scheme of CCS was introduced w.e.f July 1986. Under the new scheme the cascaded structure of taxation has been taken into account for fixing CCS rate of industrial products. Under the new CCS regimes, multiplicity of rates has been reduced from 17 to 7. Under this scheme, compensation for market/product development has been given in highly selective manner. For agricultural products, special compensation for high
cost of transportation has been provided. For handicrafts, the value added by labour was taken into account for fixing CCS rates. Export products have been categorized into major product groups viz. (a) Engineering goods, (b) Chemicals and allied products, (c) Plastic goods, (d) Agricultural products, (e) Leather goods, (f) Sports goods, (g) Textiles and (h) Handicrafts and carpets. Compensation for incidence of higher export credit rates-no longer enters the computation of CCS rates. By 1990-91 approximately 283 items were given grants through CCS in above eight product groups. After the devaluation of the rupee in the July 1991 and substantial trade liberalization, it was felt that CCS had become redundant. It was, accordingly, abolished in July 1991.

VIII. Subsidies on Domestic Raw Materials (1967):

The most important scheme in this category was the International Price Reimbursement Scheme (IPRS) for steel, which equalized the difference between international and domestic prices of steel obtained from domestic sources. Initially in 1967, a fund known as ‘The Engineering Goods Export Assistance Fund’ was constituted to reimburse the excess of domestic prices over international price to steel. Later on, the scheme was extended from basic steel products, plastic, oil, alloy steel and all types of raw materials which were used by exporters. In August 1989, Simplified Payment System was introduced under which specified exporters were to be disbursed 75 per cent of their claims within 7 working days.

IX. Advance Licenses (1968):

In 1968, system of ‘Advance Licenses’ was introduced under which exporters could import specified materials duty free on the basis of letters of credit and/or export orders. In 1969-70 system of ‘On Account’ and ‘Import License’ was introduced with a view to grant ‘Advance License’. In 1975-76, new system of ‘Automatic Licensing’ was introduced. Under this scheme, manufactures-exporter or an eligible Export House who obtained import-
replenishment license on exports during 1974-75 was allowed to get ‘Import License’ for 1975-76. In 1980-81, the scheme of Advance License was made more comprehensive and numbers of procedural simplifications were introduced in this scheme so as to make it more responsive to export production. Advance License scheme was further simplified permitting exporters to apply for license on the basis of predetermined input-output norms. Established manufacturer-exporters who have been exporting for at least three years are permitted to obtain bulk of Advance License with single duty exemption entitlement certificate. In 1983-84, the facility of ‘Repeat Operation’ of Automatic License was extended to EOU. In 1986-87, the scheme was liberalized to include all imported inputs as against imports of only about 145 items.

X. Duty Exemption Scheme (1976):
Duty Exemption Scheme was introduced on Feb, 1976. This scheme grants custom duty exemption to registered exporters for import of specified raw materials against an advance licenses for the manufactures of specified export products and imposes an export obligation in return. In 1980-81, efforts were made to decentralize duty exemption entitlement certificates which were to be issued by regional authorities.

XI. Gold Jewellery Export Replenishment Scheme (1978):
This scheme was initially introduced on August 17, 1978 but was suspended on Aug. 17, 1980 and reintroduced in 1984. This scheme provided for exports of gold ornaments and articles against gold supplied free of charge in advance by foreign buyers.

XII. 100 per cent Export Oriented Unit Scheme (1980):
The EOU scheme was introduced on 31st December 1980. The purpose of the scheme was basically to boost exports by creating additional production capacity. It was introduced as a complementary scheme to the Free Trade
Zones/ Export Processing Zone (EPZ) Scheme introduced in the sixties which had not attracted many units due to locational restrictions. Their production is bonded for exports for period of 10 years in normal cases and 5 years in case of high technology products. Various facilities are being extended to these units viz. duty free capital equipment, raw materials, interest free warehousing facilities, exemption from FERA Act, permission to repatriate dividends, royalties, know-how fee etc. for foreign collaborators, locational freedom etc. Besides, these are allowed to market 25 per cent of their production in domestic tariff area (DTA) against valid import licenses and subject to payment of customs duty. Upto 1989-90 there were 143 EOUs. In 1989-90 Government decided to supply natural gas to EOUs.

XIII. Blanket Exchange Permit Scheme (1987):
A Blanket Exchange Permit Scheme was introduced by Government in June, 1987. The scheme aims to give a major thrust to the country’s export promotion drive. Under the scheme exporters were allowed, barring a few products, to utilize 5-10 per cent of their foreign exchange earnings for undertaking export promotion activities.

XIV. Silver Export Replenishment Scheme (1986):
Silver Export Replenishment scheme was introduced in December 1986. Under this scheme, replenishment of silver was to be arranged by State Bank of India at a price, at which SBI purchases silver from the international market on behalf of concerned exporter plus some service charges, provided that silver is used for export.

Trade Policy of Government of India in Post-Reform Period (i.e. after 1991)
In the 1990s, a liberalized trade regime was put in place, which marked a significant turnaround from the earlier controlled regime. The challenge of restoring the macro-economic balance initially was combined with a long-term new trade policy which formed a major ingredient of the economic reforms programme. It was recognized that trade policies, exchange rate policies and industrial policies should
form part of an integrated policy framework if the aim was to improve the overall productivity and efficiency of the economic system. The trade policy reforms also encompassed significant changes in the system of export incentives, moving away from direct subsidies export promotional measures.

Prior to mid-1991, foreign trade of India suffered from strict bureaucratic and discretionary controls. To reduce controls, simplify procedures and to create a congenial environment for trade, the Government made a Statement on Trade Policy in Parliament on **August 13, 1991, that instead of controls and regulations, the focus would be shifted to promotion and development of foreign trade with the objective of improving overall productivity, competitiveness and efficiency of the economy in order to attain a higher growth profile.** Concomitantly, industrial, financial and external sector reforms were initiated with a view to creating an environment conducive for the expansion of trade (Basin, 2005). As a result, growth in trade accelerated in the early part of the 1990s. In order to create a far more open and competitive environment, some of the changes are listed to demonstrate the significant changes in the environment for competition.

---

The period after 1991 has been marked by a substantial liberalisation of the trade policy. The elimination of most quotas, along with sharp tariff cuts, over a five-year period from a peak of 350 per cent to 150, 110, 85, 50 and presently 40 per cent, in order to reach a peak of 20 per cent by the end of this century, resulted in a significant opening up of the economy to global competition. Duties on capital goods also came down dramatically. The import weighted tariff rate dropped from 87 per cent in 1990-91 to 20.3 per cent in 1996-97. Government undertook various liberalisation measures to make exports competitive in the international market.

1. 

---

256
To provide credit to exporters, EXIM Bank introduced new scheme for ‘post-shipment export credit’ denominated in foreign currency to enable exporters to get credit in 1991-92. In 1993, the pre-shipment credit facility in foreign currency was greatly liberalised, thus providing Indian exporters credit at internationally competitive rates of interest. In 1998, interest rates on pre-shipment and post-shipment export credit were reduced from 11 per cent to 9 per cent. In 1999-00, the scheme of export credit in foreign currency has been revamped to revitalize exports and to make available pre-shipment and post-shipment credit at internationally competitive rates and to bring about a major simplification of procedures. In 2004-2009 Policy, the concessional rate of interest on post-shipment rupee export credit applicable upto 90 days could be extended for a maximum period upto 365 days.

II. Under this scheme import of capital goods is permitted at concessional import duty of 15 per cent subject to export obligation. In 1990, import of second hand goods of all kinds have been restricted and import of second hand capital goods under the EPCG scheme disallowed with the objective to provide level playing field to the domestic capital goods industry in light of the recent slowdown. In 1992-93 third party exports were also given benefits under Export Promotion Capital Good Scheme. In 1994-95, EPCG scheme was extended to service sector. In 1997-2002 policy, duty on capital goods has been reduced to 10 per cent. Under the zero duty EPCG scheme, the threshold limit for zero duty imports has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied sectors. In 2000-01, import of second hand capital goods have been permitted which are less than 10 years old without obtaining any licence on surrender of SIL. In 2004-2009 policy, additional flexibility has been introduced for fulfillment of export obligation under EPCG scheme in order to reduce difficulties of exporters of goods and services. Technological upgradation under EPCG scheme has been facilitated.
and incentivised. Transfer of capital goods to group companies and managed hotels is now permitted under EPCG. In case of movable capital goods in the service sector, the requirement of installation certificate from Central Excise has been done away with. Import of second-hand capital goods have been permitted without any age restrictions. Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crore to Rs.25 crore.

III.

In 1992-97 policy, the Government had decided to continue the Duty drawback facility for exporters who had imported certain inputs under the Duty Exemption Scheme under the earlier Exim policy. Fresh Duty drawback rates were announced w.e.f. 1 June, 1999. The new rates, which incorporate changes in customs duty and inclusion of surcharge, imply a rate hike for 155 items, rationalisation of rates for 489 items and maintenance of existing rates on 193 items. In 2000-01, the drawback rates in respect of 141 entries have been increased, 406 entries have been maintained and for 270 entries revised rates have been introduced. Duty drawback rates were rationalized in consonance with changes in customs duties announced in the Union Budget 2001-02. All industry rates were reduced in respect of 726 items, left unchanged for 26 items and increased for 14 items with 30 obsolete entries deleted. Other features included introduction of new & specific entries for selected products by splitting up the generic entries and further harmonization of the drawback sub-serial numbers with customs tariff schedule.

IV.
In 1991-92 policy, Advance Licences system had been strengthened by simplifying and speeding up the process of issuing these licenses. A new scheme of Transferable Advance Licenses was also introduced. Under this scheme exporters could undertake exports based on duty paid inputs obtained from the market and subsequently obtained Advance licenses for replenishment of these inputs. In 1992-97 policy, duty exemption scheme has been strengthened under which imports were provided at two concessional rates of 15 per cent and 25 per cent subject to appropriate export obligations. The exporters have been given a choice to opt for advance import licenses under duty exemption scheme either under quantity or value based norms. In 1994-95, third party exports were given benefits under the scheme. In EXIM Policy 1997-2002, Duty Exemption Scheme has been made flexible. A provision for annual advance license has been made to reduce the avoidable interface between the exporter and the DGFT. In EXIM Policy 2002-2007, Duty Exemption Entitlement Certificate (DEEC) book was abolished. Redemption based on shipping bills and bank realization certificates was allowed. In March 31, 1995, the concept of back to back inland letter of credit had been introduced to enable an advance license holder to source his inputs from domestic suppliers. In EXIM Policy 1997-2002, the successful Replenishment Licensing Scheme based on value for Gold has been extended to Silver and Platinum jewelry as well. Export of branded jewelry / partly processed jewelry has been allowed so as to encourage the export of branded jewelry. Such exporters were able to export branded jewelry for display for a period of 180 days. Personal carriage of jewelry in baggage by foreign buyer was also permitted and clubbing of advance licenses had been simplified. In 1999-00, Annual Advance License system introduced to take care of entire import needs of exporters. Post-export duty replenishment licence scheme has been introduced in 2000 for enabling import of inputs on the basis of input-output norms and uniform value addition of 33 per cent. In 2000-01, Advance License for Annual Requirement (AAL) had been withdrawn as problems were encountered in closure of AAL. In 2001, Annual Advance
License scheme liberalized, including measures like extension of this facility to deemed exports and intermediate supplies, enhancement of the entitlement from 125 per cent to 200 per cent of the FOB value of preceding year exports and extension of the license to other than Standard Input Output Norms exports. In 2002-2007 Policy, Concept of "Advance License for free of cost material" reintroduced. A provision of export obligation extension and revalidation of the license has been introduced. New provision of Advance Licence for Annual Requirement for Intermediate Supplies has also been introduced.

A number of items from the negative/restricted list have been permitted free for import and many others have been shifted to the list of items which can be imported under the special import license (SIL) scheme. For example, 40 items were removed from the negative list and made freely importable and 14 others shifted to SIL list on 21st August, 1996. Similarly, a notification was issued on 13th September, 1996, whereby two restricted items were made free for imports and 55 restricted items were permitted against SIL. By another notification issued on 10th February, 1997, as many as 69 items in the SIL list have been moved to the free list and another 95 items have been taken off the restricted list and placed on the SIL list. Special Import License (SIL) has been abolished from 1.4.2001.

V. Decanalisation:

A large number of exports and imports used to be canalized through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalized items and decanalised 16 export items and 20 import items. The 1992-97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilizers. However, 8 items (petroleum products, fertilizers, edible oils, cereals, etc.) were to remain canalized. The Exim policy, 2001-02 put 6 items under special list-rice, wheat, maize, petrol, diesel and urea. Imports of these items were to be allowed only through State
trading agencies. The 2004-2009, policy decanalised the of import of petroleum and petrogoods.

VI. Trading Houses:
The 1991 policy allowed export houses and trading houses to import a wide range of items. The Government also permitted the setting up of trading houses with 51 percent foreign equity for the purposes of promoting exports. Under the 1992-97 trade policy, export houses and trading houses were provided the benefits of self certification under the advance license system, which permits duty free imports for exports. The 1994-95 policy introduced a new category of trading houses called Super Star Trading Houses. To attain the status of a Super Star Trading house, an exporter must have registered an average FOB value of exports of Rs. 925 crore during the preceding three years or Rs. 1,387.50 crore during the preceding year. On the basis of NFE criterion, an exporter must have registered an average net foreign exchange (NFE) value of exports of Rs. 740 crore during the preceding three years or Rs. 1,100 crore during the preceding year. In EXIM Policy 1997-2002, threshold limit for Export House has been fixed at Rs. 12.50 crores on an average fob value of the exports made during the preceding three licensing years. Limits of Trading House / Star Trading House /Super Star Trading House have also been fixed accordingly. In 1999-00, Golden status certificate has been given for Export and Trading Houses, which means that an exporter, who has been a status holder for three terms, will acquire this status permanently.

VII. Export-Import Pass Book Scheme (1995):
On 31 March 1995, an alternative route of the Pass Book Scheme for some categories of exporters has been opened up. Basic customs duty credit was allowed to be given for exports. In 1997-2002 policy, Pass-Book Scheme had been replaced by a new scheme-Duty Entitlement Pass Book (DEPB) scheme. Greater coverage and transparency was involved in this scheme. In 1999-00, pre-export Duty Entitlement Pass Book Scheme (DEPB) credit
entitlement increased from 5 to 10 per cent of previous year’s performance. In 2004-2009 policy, to remove the uncertainty of the exporters it has been decided that the DEPB scheme, which accounts for more than 55 percent of the total exports, would be continued until replaced by a new scheme.

VIII. Scheme for Gold/Silver/Platinum Jewellery Exports (1997):
In 1997, the Government authorized three canalized agencies, viz. Minerals and Metals Trading Corporation of India Limited (MMTC), The State Trading Corporation (STC) and The Handicraft and Handloom Export Corporation (HHEC), and banks to import gold and silver for sale in the domestic market. According to Exim policy 2001-2002 exporters of Gold/Silver/Platinum jewellery and articles have been permitted to import their essential inputs such as gold, silver, platinum, mountings, findings, rough gems, precious and semi-precious stones, synthetic stones and unprocessed pearls etc, in accordance with the procedure specified in this behalf. In Jan 28, 2004, free import pf gold and silver for export purposes were being permitted. Quantitative restrictions on gold and silver imports have also been lifted. Government also announced the introduction of a gold card for creditworthy exporter to make available cheaper foreign currency debt on easier terms.

IX. New Gold Deposit Scheme (1999):
In 1999-00, a new Gold Deposit scheme has been announced, under which selected banks has been permitted to accept gold deposits and issue interest bearing certificates/bonds, which on maturity can be reclaimed in gold.

X. Diamond Dollar Account Scheme (DDAS) (2000):
In 2000-01, a Diamond Dollar Account Scheme (DDAS) to boost export of gems & jewellery has been introduced. In 2001-02, DDAS scheme has been extended to diamond studded jewelry exporters. In 31 Aug 2004, duty free import of consumables for metals other than gold and platinum had been
allowed up to 2 percent of FOB value of exports. Duty free re-import entitlement for rejected jewellery had been allowed up to 2 percent of FOB value of exports. Duty free import of commercial samples of jewellery has been increased to Rs.1 lakh. Import of gold of 18 carat and above has also been allowed under the replenishment scheme.

XI. Freer Imports and Exports:
In the pre-reforms period, India’s trade policy was complex and cumbersome. There were different categories of importers, different types of import licenses, alternate ways of importing etc. Substantial simplification and liberalization in all these respects has been carried out in the reform period. The tariff-line wise import policy was first announced on March 31, 1996 and at that time itself 6,161 tariff lines were made free. Till March 2000, this total had gone up to 8,066. Quantitative restrictions in respect of 1,429 tariff lines remained till the date. The EXIM Policy 2000-01 removed quantitative restrictions on 714 items (agricultural products and consumer durables) and the EXIM Policy 2001-02 removed quantitative restrictions on the balance 715 items. Out of these 715 items, 342 were textiles products, 147 were agricultural products and 226 were other manufactured products. On 31.8.2004, several items were made free from restrictions, which included planting material in the form of seeds and bulbs, abrasives such as emery, corundum etc., muzzle loading firearms, shotgun barrels etc. Thirty-two items of seed varieties were made free in order to make available better quality seeds at international prices for the farmers. This would help to increase productivity and benefit the nation through higher yields.

XII. Export Oriented Unit Scheme:
Under new industrial policy 1991, EOUs with investment upto Rs. 75 crore have been delicensed. In 1997-2002, EOU status was given to the units in exports of agriculture and allied sectors, which exported at least 50 per cent of their produce. Depreciation limit has been enhanced from 70% to 90%
over a period of 5 years in electronic goods and over a period of 8 years in other goods. In 31 Aug 2004, EOUs have been exempted from Service Tax in proportion to the exported goods and services. EOUs have been permitted to retain 100 percent of export earnings in EEFC accounts. For EOUs engaged in Textile & Garments manufacture, left-over materials and fabrics upto 2 percent of CIF value or quantity of import have been allowed to be disposed of on payment of duty on transaction value only. Exports by EOUs during 2004-05 were of Rs. 28,896 crore.

XIII. Convertibility of Rupee on Current Account and Capital Account:
The Government devalued the rupee in two stages by about 18 percent against the basket of five currencies in early July 1991. The Finance Minister announced the liberalized exchange rate mechanism system (LERMS) in the Budget for 1992-93. This system introduced a dual exchange rate under which 40 percent of foreign exchange earnings were to be surrendered at the official exchange rate while the remaining 60 percent were to be covered at a market determined rate. The foreign exchange surrendered at official rate was to be used for the import of essential items (like crude oil, petroleum products, fertilizers, life savings drugs etc.) and the foreign exchange converted at the market rate was to be used to finance all other imports. Thus LERMS introduced partial convertibility of the rupee. The 1993-94 Budget has introduced full convertibility of the rupee on trade account. Under the new provisions, the dual exchange rate system has been dispensed with and a unified rate mechanism introduced. This allowed all exporters and other foreign exchange earners such as workers abroad to convert 100 percent of their earnings at the market rate. After the announcement of full convertibility on trade account announced in the Union Budget for 1993-94, and full convertibility on the current account in August 1994, the rupee exhibited good strength on the first few days fluctuating within a narrow band of Rs. 31 and Rs. 32 per dollar. Substantial capital account liberalization measures have also been announced in recent Years. The objective of
exchange rate management has been to ensure that the external value of the rupee is realistic and credible as evidenced by a sustainable current account deficit and manageable foreign exchange situation.
XIV. Duty Exemption Scheme Enlarged:
In 1992-97 policy, duty exemption scheme has been strengthened under which imports were provided at two concessional rates of 15 per cent and 25 per cent subject to appropriate export obligations. The exporters have been given a choice to opt for advance import licenses under duty exemption scheme either under quantity or value based norms. In 1994-95, third party exports were given benefits under the scheme. In EXIM Policy 1997-2002, Duty Exemption Scheme has been made flexible. A provision for annual advance license has been made to reduce the avoidable interface between the exporter and the DGFT. In EXIM Policy 2002-2007, Duty Exemption Entitlement Certificate (DEEC) book was abolished. Redemption based on shipping bills and bank realization certificates allowed.

XV. Deemed Exports:
1992-1997 policy gave a number of benefits in the case of deemed exports. The benefits included duty exemption schemes, duty drawback schemes, exemption from terminal excise duty and special import licenses, for such value or bearing such proportion to the value of the deemed exports. In 1997-2002 EXIM Policy, fixation of brand rate of draw back under deemed exports, the provisional payment to the extent of 75% of claimed amount in case of private companies, and 90% in the case of public sector undertakings was given instantly pending fixation of brand rate. Domestic manufacturer supplying against EPCG license was entitled for deemed export draw back. In case of supply to zero duty license holders, the supplier was allowed to import raw materials duty free under Special Import License. In 2001, deemed exports procedures have been simplified with the suppliers being given the option to file application either project-wise or covering supplies to all projects during a month/quarter or half yearly while claiming Terminal Excise duty/Drawback facility. In 2002-2007 EXIM Policy, Supplies under Deemed Exports were eligible for export obligation fulfillment along with deemed export benefit.
XVI. Duty Free Replenishment Certificate (DFRC) Scheme (2000):

DFRC Scheme was announced on 1.4.2000 under the EXIM Policy 1997-2002. It is an export promotion scheme under which DFRC licences are issued permitting duty free import of inputs which were used in the manufacture of export product on post-export basis as replenishment. In 2001, Duty Free Replenishment Certificate (DFRC) Scheme was being simplified. Important simplifications included extension of validity of DFRC from 12 months to 18 months, dispensing with the need of technical characteristics for inputs (except for items in a small negative list), automatic calculation of CIF value under the scheme without reference to international price on individual inputs and coverage of additional ports under the scheme. In 2003, Duty Free Replenishment Certificate scheme extended to deemed exports to provide a boost to domestic manufacturer and value addition under DFRC scheme reduced from 33 percent to 25 percent. The 2004-2009 Policy has allowed transfer of the import entitlement under Duty Free Replenishment Certificate (DFRC) scheme in respect of fuel to marketing agencies authorized by the Ministry of Petroleum and Natural Gas to facilitate sourcing of such imports by individual exporters.

XVII. 

The EXIM Policy has introduced a new scheme from 1.4.2000 for establishment of Special Economic Zones (SEZs) in different parts of the country, with a view to providing an internationally competitive and hassle free environment for export production. Government has since converted all the eight existing Export Processing Zones located at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Noida (U.P), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh) into Special Economic Zones. In 2001-2002, the scheme of Special Economic Zones (SEZs) has been liberalized further by granting permission
to SEZ developers for duty free import/procurement from DTA, to sell goods in the DTA in accordance with the import duty in force, for subcontracting a part of production abroad, to bring back their export proceeds in 365 days (as against normal period of 180 days) and to retain 100 per cent of the proceeds in the EEFC account and introducing measures such as no requirement of licence for setting up units in these zones for items reserved for SSI and granting of infrastructure status, under the Income Tax Act, to SEZ developer. In 2002-2007 policy, The Special Economic Zones (SEZ) Scheme has been strengthened by permitting the setting up of offshore Banking Units, hedging of commodity price risks and sources of short term external commercial borrowings. At present there are 15 functional SEZs, and in principle gave approval to 62 others. Exports by SEZ units during 2004-2005 were of Rs. 18,309 crore.

XVIII. EXIM Scrips:

In 1991, the import replenishment system was enlarged and restructured and renamed as Eximscrip. Eximscrips were made freely tradeable and the premium on the scrips, set by the market, was to represent a further incentive for exporters and a means of allocating imports according to market forces. All export products were to have a uniform Eximscrip rate of 30 per cent of f.o.b (as against 5 to 20 per cent earlier) except for metal based handicrafts, newspapers/journals/periodicals, exposed cinematographic films and gems/jewellery sector which were to enjoy the higher benefits of replenishment. The system of supplementary licenses was discontinued and the category of unlisted OGL abolished (except for small scale industries and all these import requirements were now to be met through Eximscrips). The system of Eximscrips was abolished on March 1, 1992 and replaced by LERMS.
XIX. Special Financial Package (2001):

In 2001, a special financial package has been introduced for large value of exports (annual exports of over Rs 100 crore) of selected products - pharmaceuticals, agro chemicals, transport equipment, cement, iron & steel, electrical machinery, leather & leather goods and textiles- Which are internationally competitive and have high value addition. Exporters under this package are to receive concessional rate of interest for period upto 365 days.

XX. Agriculture Export Zones (2001):

The EXIM Policy 2001 introduced the concept of Agriculture Export Zones (AEZs) to give primacy to promotion of agricultural exports and on the basis of specific products and specific geographical areas. The scheme is centred around the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market.

XXI. Market Access Initiative Scheme (2001):

Market Access initiative scheme was launched in 2001-02 for undertaking marketing promotion efforts abroad. The key features of the scheme are in-depth market studies for select products in chosen countries to generate data for promotion of exports from India, assist in promotion, Indian products and Indian brands in the international market by displaying through showrooms and warehouses set up in rental premises by identified exporters, displaying in identified leading department stores/total exhibitions/trade fairs, etc.

In March 2003, a new scheme ‘Duty Free Entitlement Certificate’ was launched, enabling service exporters to import consumables, office and professional equipment, spares and furniture equivalent to 10 per cent of the average foreign exchange export earnings in the previous three years. For hotels and restaurants, the entitlement has been fixed at 5 per cent. In 2004-2009 policy, to accelerate growth in export of services and to create a powerful and unique ‘Served from India’ brand instantly recognized and respected the world over, the earlier DFEC scheme for services has been revamped and re-cast into the ‘Served from India’ scheme. Individual service providers who earn foreign exchange of at least Rs.5 lakhs, and other service providers who earn foreign exchange of at least Rs.10 lakhs will be eligible for a duty credit entitlement of 10 percent of total foreign exchange earned by them. However, in the case of stand-alone restaurants, the entitlement shall be 20 percent, whereas in the case of hotels, it shall be 5 percent. The entitlements and the goods imported under the Scheme shall be non-transferable. Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages also.

XXIII. Star Export House Scheme (2004):

In 2004-09 Policy, a new scheme for Star Export House has been introduced:

1. A new rationalized scheme of categorization of status Holders as of categorization of status Holders as star Export Houses has been introduced as under
<table>
<thead>
<tr>
<th>Category</th>
<th>Total Performance three years (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Star Export House</td>
<td>15</td>
</tr>
<tr>
<td>2. Star Export House</td>
<td>100</td>
</tr>
<tr>
<td>3. Star Export House</td>
<td>500</td>
</tr>
<tr>
<td>4. Star Export House</td>
<td>1500</td>
</tr>
<tr>
<td>5. Star Export House</td>
<td>5000</td>
</tr>
</tbody>
</table>

Source: *Foreign Trade Policy 2004-2009, Govt. of India*

**ii.** These star Export Houses shall be eligible for a number of privileges including fast-track clearance procedures, exemption from furnishing of Bank Guarantee eligibility for consideration under Target Plus Scheme etc

**XXIV. Target Plus Scheme for Status Holders (2004):**

In 2004-2009 policy, a new scheme called ‘Target Plus’ has been introduced to accelerate the growth of exports. Status Holders who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the actual export target fixed. (Since the target fixed for 2004-05 is 16 percent, the lower limit of performance for qualifying for rewards is pegged at 20 percent for the current year). Rewards will be granted based on a tiered approach. For incremental growth of over 20 percent, 25 percent and 100 percent, the duty free credits would be 5 percent, 10 percent and 15 percent of FOB value of incremental exports.

**XXV. National Manufacturing Competitiveness Council (NMCC) (2004):**

The National Manufacturing Competitiveness Council (NMCC) has been set up in September 2004, to provide a forum for policy dialogue to energize and sustain the growth of manufacturing industries.
XXVI. **Gold Card Scheme for Exporters (2004):**

In pursuance of the announcement in the Exim Policy 2003-04, Gold Card Scheme was announced by the government on May 18, 2004. The Scheme was worked out by the RBI for creditworthy exporters with the following salient features:

(a) All creditworthy exporters, including those in small and medium sectors with good track record would be eligible for issue of Gold Card by individual banks as per the criteria laid down by the latter.

(b) Banks would clearly specify the benefits they would be offering to Gold Card holders.

(c) Requests from card holders would be processed in a time-bound manner by banks. i.e., within 25 days, 15 days and 7 days for fresh limits, renewal of limits and adhoc limits, respectively.

(d) ‘In-principle’ limits would be set for a period of 3 years with a provision for stand-by limit of 20 per cent to meet urgent credit needs.

(e) Card holders would be given preference in the matter of granting of packing credit in foreign currency.

(f) Banks would consider waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder’s creditworthiness and track record.

XXVII. **Vishesh Krishi Upaj Yojana (2005):**

In 2004-2009 Policy, a new scheme called ‘Vishesh Krishi Upaj Yojana’ (Special Agricultural Produce Scheme) has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Export of these products shall qualify for duty free credit entitlement equivalent to 5 percent of FOB value of exports. The entitlement is freely transferable and can be used for import of a variety of inputs and goods.
XXVIII. Free Trade and Warehousing Zones (FTWZ) (2005):

In 2002-2007 Policy, with the purpose of making India into a global trading hub, a new scheme to establish Free Trade and Warehousing Zones has been introduced. The Scheme seeks to create trade-related infrastructure so as to facilitate the import/export of goods and services. Such Zones will have the freedom to carry out trade transactions in free currency. Hundred percent FDI would be permitted for development and establishment of infrastructural facilities in these zones. Each zone would have minimum outlay of Rs.100 crore and five lakh sq. mts. of built up area. Units functioning from these zones would qualify for all other benefits as are applicable to SEZ units.

XXIX. Concessions and Exemptions:

A large number of tax benefits and exemptions have been granted to liberalize imports and promote exports since 1990. These policies, in turn, have been reviewed and modified on an average basis in the Exim Policies announced every year. Successive annual Union Budgets have also extended a number of tax benefits and exemptions to the exporters. These include reduction in the peak rate of customs duty to 15 per cent; significant reduction in duty rates for critical inputs for the Information Technology sector, which is an important export sector; grant of concessions for building infrastructure by way of 10-years tax holiday to the developers of SEZs; facilities and tax benefits to exporters of goods and merchandise; reduction in the customs duty on specified equipment for Ports and Airports to 10 per cent to encourage the development of world class infrastructure facilities etc.
XXX. Reduction in Transactional Costs and Simplification of Procedures:
The 2004-2009 policy announced a number of 'rationalization measures' to reduce transactional costs and to simplify procedures. These include: (a) All exporters with minimum turnover of Rs. 5 crore exempted from furnishing bank guarantee (this will help small exporters who incur high transactional costs); (b) Import of second hand capital goods permitted without any age restrictions; (c) minimum depreciated value for plant and machinery to be re-located into India reduced form Rs. 50 crore to Rs. 25 crore; (d) All goods and services exported, including those DTA units, exempted form services tax (this will further reduce costs and enable Indian exports to complete with countries in Southeast Asia and China); (e) Validity of all licenses and entitlements issued under various schemes increased to a uniform 24 months.

Trade Policy of the country certainly aimed at resolving the key issues faced by local exporters and achieving sustainable export growth. Government of India introduced various scheme to increase competitiveness of exports during pre-reform and post-reform period. Schemes like devaluation of Indian rupee, import substitution, replenishment licenses, 100 percent export oriented unit scheme during pre-reform period and export promotion capital good scheme, freer imports and exports, export oriented unit scheme, convertibility of rupee in current account and capital account, special financial package and setting up of National Manufacturing Competitiveness council during post-reform period proved to be very beneficial to increase the competitiveness of exports. As a result, India’s share in world exports increased from 0.40 percent in 1980 to 0.52 in 1990 and further to 1.5 percent in 2007.