Chapter II

India’s Foreign Trade: Perspectives and Prospects
Backdrop

Interdependence is an overwhelming phenomenon in international trade among all nations of the world. Today, all countries accept the fact that they are a part of the world economy. The revolutionary advances in communications and informatics have intensified the process of inter-dependence among nations in areas of production, distribution, resource management, technology and services. Thus, no country can escape its role in the system of interdependent trading nations. Although, the nation-state, still a dominant entity at the beginning of the new millennium, yet increasing inter-dependence among countries has resulted in the loss of some degree of sovereignty. A number of nations have willingly surrendered a good portion of their sovereignty to reap the benefits of interdependent trade regimes. To cite an example, the members of European Union have diluted their sovereignty to a large extent only to bring in advantage to their populace and these nations are aware of the losses they would otherwise incur in isolation without integrating themselves with the world economy.

Theoretical Support

The two basic questions that the theory of the international trade has to answer are: what determines the pattern of trade and who gains from trade? Both these two questions are well addressed by Economics one that goes back more than 180 years in the theories of absolute advantage and comparative advantage. These theories came up around 1815 and are connected with the names of Adam Smith and David Ricardo.
The Theory of Absolute Advantage by Adam Smith clearly states that a country could gain by trading with another country. "A tailor does not make his own shoes; he exchanges a suit for a pair of shoes." He further elucidates the concept of absolute advantage by the an example: If it takes 10 labour Units to manufacture 1 Unit of Commodity ‘A’ in Country ‘X’ but 20 labour units in Country ‘Y’; and if it takes 20 Units of labour to manufacture 1 unit of Commodity ‘B’ in country ‘X’ but only 10 labour Units in country ‘Y’, then both countries can gain by trading.

This was a simple but powerful illustration of the benefits of trade and on it Adam Smith rested his argument of non-interference by governments. He stressed that free trade was the best policy for trade between nations. Though sound but Adam Smith’s model was not so deep. The theory was refined by David Ricardo.

The Theory of Comparative Advantage: In 1817, Ricardo published his main work, "Principles of Political Economy and Taxation", which embodies the first rigorous exposition of the classical theory of value and distribution. In chapter 7, on Foreign Trade, Ricardo unravels the theory of comparative advantage. The theory of comparative advantage or, as is sometimes called, 'the theory of comparative costs,' is one of the oldest but still unchallenged theories of economics. Ricardo presented a more subtle argument of the benefits of trade in his theory of Comparative Advantage. Ricardo did not negate Smith’s theory. It is conspicuous that if one country has an absolute advantage over the other country in one line of production, the other country may have the same advantage in other line of production. Thus both countries could gain from trading. But what if one country is more productive in all lines of production than the other country, can the other country (whose all lines of production are non-productive) still benefit by trading? Ricardo’s answer was yes. So long as the country in question is not equally less productive in all lines of production, it still pays both countries to trade (Bhalla and Ramu, 2004)

Ricardo used England and Portugal (Countries) and Wine and Cloth (Commodities) in his demonstration. Table-A shows how Ricardo summed up the cost conditions in the two countries.
Table – 2A
Cost Comparisons

<table>
<thead>
<tr>
<th>Labour cost of production (in hours)</th>
<th>1 Unit of Wine</th>
<th>1 Unit of cloth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>England</td>
<td>120</td>
<td>100</td>
</tr>
</tbody>
</table>

According to this model Portugal has an absolute advantage in the production of wine as well as in the production of cloth because the labour cost for each unit of the two commodities is less in Portugal than in England. As we observe, England though being a non-productive country so far as the productivity of these two commodities is concerned, the trade between Portugal and England will still be beneficial to both of these countries. This is possible when we insert the concept of “opportunity costs”. The opportunity costs with regard to the above example have been constructed and are presented in table-B

Table-2B
Opportunity Cost Comparisons

<table>
<thead>
<tr>
<th>Labour cost of production (in hours)</th>
<th>1 Unit of Wine</th>
<th>1 Unit of cloth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>80 = 8/9</td>
<td>90 = 9/8</td>
</tr>
<tr>
<td>England</td>
<td>120 = 12/10</td>
<td>100 = 10/12</td>
</tr>
</tbody>
</table>

A Country has a comparative advantage in producing a good if the opportunity cost for producing the good is lower at home than in the other country. Table –B shows that Portugal has a lower opportunity cost of the two countries in producing wine, while England has the lower opportunity cost in producing cloth. Thus Portugal has a comparative advantage in the production of wine and England has comparative advantage in the production of cloth.

Heckscher-Ohline Theory

Ricardo’s theory stresses that comparative advantage arises from differences in labour productivity. Swedish economists Eli Heckscher and Bertil Ohline argue
that the pattern of international trade is determined by the differences in factor endowments rather than differences in productivity. The Heckscher-Ohline or factor endowment approach to trade theory proceeds from two suppositions:

- **Products differ in factor requirements** – cars require more machine-time (Capital) per worker than, say, cotton cloth or furniture, and aircraft require more machine-time than either cars or cotton cloth.

- **Countries differ in factor endowments** – some have large amounts of capital per worker (the capital-abundant countries) and some have very little (the labour-abundant countries).

Thus countries like UK and USA abundant with capital resources export capital goods and import labour-intensive goods like textiles etc., from the developing countries.

**The National Competitive Advantage**

In 1990, Professor Michael E. Porter of Harvard Business School came up with an outstanding work “The Competitive Advantage of Nations”. The book revealed a research laden work of 100 industries in 10 countries. The book has made an important contribution to the modern theory of trade. Porter’s work was driven by a belief that the existing theories of International trade told only part of the story. Porter’s theory is based on four broad attributes of nation that shape the environment in which local firms compete and the attributes promote or impede the competitive advantage. These attributes are:

1. **Factor Endowments:**
   - Basic Factors
   - Advanced Factors
2. **Demand Conditions**
3. **Related and Supporting Industries**
4. **Firm Strategy, Structure, and Rivalry**

“Nations are most likely to succeed in industries or industry segments where the national ‘diamond’, a term I will use to refer to the determinants as a
system, is the most favourable” (Porter, 1990). The above determinants are elaborated as hereunder:

**Factor Endowments**

The orbit around which the Heckscher-Ohline theory revolves is the *factor endowment*. Without contention Michael E Porter upheld the validity of factor endowment concept in H-O theory. However, he categorises the endowments into two. The basic factor endowment (e.g., the natural resources, climate, location, demographics etc.) and the advanced factors (e.g., communications, infrastructure, sophisticated and skilled labour, research facilities, and technological know-how). He vehemently argues that advanced factors derive a competitive advantage. Unlike basic factors which are naturally endowed, advanced factors can be developed. However, they require a massive investment by companies and governments. If government invests in higher education, infrastructure and research which results in the improved knowledge level of the population, we can say that it has upgraded a nation’s advanced factors. The relationship between basic factors and advance factors is a complex one. Basic factors can provide an initial advantage that is subsequently reinforced and extended by advanced factors (Bhalla & Ramu, 2004).

**Demand Conditions**

“Home demand for products or services is an important thing for providing stimulus to competitive advantage”, argues Porter. He further points out that if the closest customers of the company are highly sophisticated then the company is compelled to go for innovation, improved product design etc., which ultimately makes the product highly competitive in the homeland and when the company goes global, it becomes relatively easy for it to acclimatize and out win the competitors. The sophisticated customers of cameras in Japan compelled the camera companies to innovate and presently we have the best cameras from Japanese companies. Similarly, Nokia of Finland and Ericsson of Sweden developed and innovated in cellular phones way ahead of the most developed countries because of the pressure exerted by sophisticated customers within Finland and Sweden. And, today Nokia and Ericsson are the world leaders in the cellular phone equipments (Ibid, 2004).
Related and Supporting Industries

The third attribute as ascribed by Michael Porter, which is nonetheless as important as the other attributes, is that competitive advantage of companies is helped by the supplier industry and the related or auxiliary industrial set up. The benefits of advance factors in related industries can be yielding to the main line industries and hence can be stimulants in developing global competitive advantage. While citing examples in support of his argument, Porter says that the semi-conductor and software industries are areas that have helped the mainstream industries in the area of personal computers and presently US is the leader in PC industry. Successful industries tend to form clusters of a group of related industries (Porter, 1990)

Firm Strategy, Structure and Rivalry

The fourth attribute of Michael Porter’s theory is that a national competitive advantage can be achieved through firm’s strategy, its structure and rivalry. Porter makes two important points here. First, he advocates that nations are characterised by different management ideologies which either help them or do not help them in building a national competitive advantage. Putting forth his argument with the help examples he says that German and Japanese companies have been mostly headed by engineering background management people and that is why the companies in these countries have been successful in improving manufacturing processes and product design. In contrast, most American companies, during 1970s and 1980s, were headed by finance professionals and this has resulted in the losing of competitiveness of US firms particularly in the area of automobiles. Porter’s second point is that there is a strong association between vigorous domestic rivalry and the creation and persistence of competitive advantage in an industry. Domestic rivalry creates pressures to innovate, to improve quality, to reduce costs and to invest in upgrading advanced factors.

The degree to which the nation is likely to achieve international success in certain industry is the function of the combined impact of factor endowments, domestic demand conditions, relating and supporting industries and domestic rivalry (Porter, 1990). If Porter is correct, we would expect this model to predict
the pattern of international trade. Countries should export products from those industries where all four components of the ‘diamond’ are favourable and should be importing in all those areas where the components are not favourable.

**International Trade-A Historical Background**

The question of gains from foreign trade is very old. In ancient Roman, Greek and Indian classical works it has been observed that the differences in natural resources and factor endowments enabled international trade profitable. However, after the middle ages and renaissance, the question of identifying the role of international trade in economic development came to the fore and has occupied the minds of mercantilism, psychiatrists, classical, neo-classical and modern economists of various shades and opinions.

The doctrine of mercantilism prevailed during the first two centuries during the course of development of modern nation-state (the seventeenth and eighteenth centuries). The doctrine of mercantilism envisaged high nationalism, viewing the well being of the home nation as of prime importance. It favoured the planning of economic activity as an efficient means of fostering the goals of the nation and it generally viewed foreign trade with suspicion.

Classical economists taught the blessings of free trade. During the later part of eighteenth century and at the beginning of the nineteenth century, tariffs were used primarily to raise government revenue. The taxing of imports is probably the easiest means by which government can acquire income. Towards the second half of the nineteenth century, the teachings of the classical economists started to bear fruits in their home country, England. Protection of agriculture was abolished and the famous Corn Laws were repealed in 1846. Capitalists and workers joined forces against the land owning class and the tariffs which helped English agriculture were abolished. England continued its march towards free trade and was, from 1850, to First World War, by all practical means a free-trading nation. (Verma, 2001)

The other European countries particularly France and Germany also followed the path of England and made way for free trade by lowering tariffs. However, United States, across the Atlantic stood for a protectionist regime. World
trade grew at a faster rate during this period (Sodersfen and Reed, 1994). However, soon demand for more protectionist policies was heard. The two specific factors, which helped protectionism to come up, were the invasion of cheap grain from United States and Russia, made possible by railways, steamship and innovation in agriculture. The other factor was the depression of 1875-1879, the longest and deepest period of stagnant trade the world has ever known. Distressed and destitute farmers in Germany and France started to ask for protection. After initial negation, Germany allowed protection to their farmers and France also revised her trade policy in 1890s and increased tariffs.

After the World War II the industrialized nations began to shed down tariffs to pave way for free trade regime. Many impediments to trade had been abolished and the average level of trade had fallen. Protectionism is not, however, gone. The majority of the post war tariff cuts have been concentrated on trade between developed countries and largely in manufactured goods. The abolishing of tariff barriers has given way to non-tariff barriers and is mostly resorted to by the developed world.

**International Trade and Economic Development**

There are evidences to suggest that there is a positive relationship between economic growth and foreign trade. Five studies were undertaken in the 1960s and 1970s (Little, 1970; Balasaa, 1997; Donges, 1976; Bhagwati, 1978, Krueger, 1978) which provide ample evidence that the countries which adopted 'outward oriented' policies (Export Promotion) in foreign trade did much better in terms of growth rates than those which followed an 'inward looking' or import substitution policy. During the first 25 years after the World War II, world economic growth averaged about 5% per year, a high rate that was partly the result of lower trade barriers. World trade grew even faster, averaging about 8% in the last three decades (Understanding WTO, 2007). The data show a definite statistical link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that
we can benefit when these goods and services are traded. Simply put, the principle of “comparative advantage” says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best. In other words, liberal trade policies — policies that allow the unrestricted flow of goods and services — sharpen competition, motivate innovation and breed success. They multiply the rewards that result from producing the best products, with the best design, at the best price. According to Nurkse, ‘foreign trade is an engine of growth’. The first three economies of the world viz., USA, Japan and Germany have the highest share in global trade with more than 15% in favour of USA, 13% and 11% in favour of Japan and Germany respectively (World Development Report, 2007). They are not only the highest exporters but also the highest importers. In fact, USA has it on record that its imports have surpassed exports for the past many years. Similarly, the other major economies like Great Britain, France, Italy, South Korea, Canada, Australia, New Zealand etc., have a sizeable share in world trade. Therefore, it can be safely deduced that there is a strong positive relationship between economic growth and growth in foreign trade. These countries have understood the logic of comparative advantage and as such are yielding its benefits to their people’s advantage.

International trade is an activity of strategic importance in the development process of a developing economy. The importance of foreign trade differs from country to country. Normally, external trade is less important for a country with huge geographical area and possessing a great variety of natural resources. On the other hand, foreign trade has a significant role to play in countries with less endowment of natural resources and less geographical area.

Theoretically, the relationship between international trade and economic growth can be a positive, a negative, and an elective one. The positive view has been upheld by classical and neo-classical economists. According to them, ‘Foreign trade is an engine of growth’. On the other hand, structuralists believe that foreign trade has worked to the detriment of poor countries causing damage to their terms of trade. In between the two extreme opinions lies the elective viewpoint. According to this viewpoint exports can work as stimulus for growth of
an economy but at times can be a lagging factor. Nurkse believes that growth in underdeveloped economies should come from internal/domestic industrialisation because there is little chance of reliance on export-led growth. Nurkse further substantiates that agricultural productivity must increase, otherwise increase from industrial goods will be partly spent on foodstuffs and thus create pressure on imports or cause inflation (Bagchi, 1979).

Lewis (1980), holds the view that the engine of growth is trade only, we have to change source of fuel for the working of the engine. In the past, it was fuelled by industrial growth in developed countries. But since the 1970s the industrially developed countries are experiencing saturation in their growth graph and a secular decline is witnessed from that decade. This necessitates the change to alternative source of fuel, which according to Lewis lies in the trade among the developing nations. However, the views of Lewis cannot be carried as authentic because the recent studies by World Bank shows that trade can be an effective source for growth only in a multi-lateral framework involving ‘North-South’ and not only ‘North-North’ countries. Most of the studies have proved that exports and economic growth have a strong and positive correlation. Many developing countries followed the export-oriented strategy for development in order to seep the economies of scale for their industries (Verma, 2001).

**Foreign Trade and Economic Development in India**

At the dawn of independence, India inherited an inward-oriented policy of trade and in the early 1950s an import-substitution regime as a safeguard to domestic industries, was put in place. There was an implicit anti-export bias which was considered necessary for a developing country like India. The thrust of import-substitution policy was to become independent of imports in respect of machinery and to contain imports to only raw materials and intermediate goods. The erstwhile import substitution policy was compiled with high import tariffs, surely to protect budding domestic industries. As pointed out by Bhagwati and Srinivasan (1998), “The planners clearly assumed that a policy of autarky was not only possible but also desirable.” The embedded doctrine of the policy necessitated strict bureaucratic
control and that the significance of exports for the growth of the economy as a whole was underestimated (Bagwati & Srinivasan, 1975). Imports were restricted only in case of those goods, which were indigenously not available. Thus, the system provided a high degree of protection to the domestic industries.

Amidst inward-looking trade policy some export incentives were introduced in the mid-sixties. But the policy of export incentives was far overshadowed by continued prohibition on imports and the import-substituting policy continued till the oil shock of 1973 (Balassa, 1981). The seventies saw introduction of more incentives for exports and export-obligation was put on many industries which had reached the stage of maturity. However, this did not help the cause of export promotion (Sood, 1989). The eighties again witnessed attempts towards export promotion and trade liberalization under sixth and seventh plans. Quantitative restrictions were replaced by tariffs; producers got easy access to imported inputs and many items were placed on Open General License (OGL) list and all this marked a move towards further liberalization of the trade regime. The long-term Fiscal Policy of 1985 suggested that quantitative restrictions should be continued for some more time only in the case of industries which are just establishing themselves and that all capital goods, intermediate goods, raw materials and components should be subject to tariffs and that the import duty structure be simplified. However, these steps were not enough to dismantle the strong edifice of controls and therefore this could be best described as a period characterized by slow and hesitant move towards trade liberalization.

Taking a clue from newly industrializing countries and at a time when India was facing economic crises, an urgent need was felt by all economic elites across the country to integrate Indian economy with the rest of the world as an antidote to poor performance of the economy. Consequently some drastic measures were initiated in July 1991 as a reform package to revitalize the economy.

The economic models of several developed countries which had made trade as an important economic activity for several decades could not become a benchmark for India in the by-gone decades as Indian economy had a modest beginning after shedding the clutches of British rule in 1947. Starting its journey
with the humble beginnings of agriculture, India had to import lot of capital goods machinery for laying a base for industrialisation in the country and in the course its exports mainly comprised of primary goods of agriculture. However, as decades passed on and with a sustained focus on industrialisation through several planning periods, India could place itself on the Industrial map of the world. Notwithstanding its towering population graph, today, we observe India as country with a lot of economic promise. India has developed certain core competencies in areas like heavy engineering goods, textiles manufacturing, finishing of gems and jewellery and has built on an enormous comparative advantage in Information and Communication Technology (ICT).

India is a country of highest credentials in the sense that it has been nourishing democracy for the last fifty years for a population now beyond one billion, and for a population characterised with multi-cultural, multi-lingual and multi-religion diversities. The social value system is not only intact but has always been strengthening. But amidst these, the economic advancements have not been proportional to the advancements on the sociological and democratic front. Indian economy has not failed but the graph of growth has been far flatter than steep as compared with several other countries like China, Japan, South Korea (in Asia), Brazil and Mexico in South and North America and several other economies in the Western Europe which have made a indelible mark of economic success in a shorter period of time, even after being devastated during world war 2\textsuperscript{nd} (e.g., Japan and Western Europe). Many reasons are ascribed for this like late liberalisation, lack of mechanized farming coupled with fragmented land holdings, late industrialisation. But of all, India’s minuscule share in foreign trade is considered as an important reason for poor economic growth particularly during the first three decades after Independence. Again the poor show down can be safely ascribed to India’s ‘inward looking foreign trade policies’. The thrust was on that of import substitution and export promotion programmes never clicked until as late as 1991 when overall macro-economic reforms were spurred to rein in the advantages of liberalisation in full.

The Reforms

If we track down the economic performance of India in periodicy, we categorise the periods as 1950-1975, 1976-1991 and 1992-1999. The first phase of economic
development started from 1950s till 1975, which marked a 3.5 percent growth rate in National Income. The second period registered an average growth rate of 5 percent and this growth rate is not attributable to any policy shifts but to the sharp rise in savings from early 1970s. The last phase is characterised as a period where a paradigm shift took place from the erstwhile policy of import substitution to the present prevailing export-oriented trade policy with huge trade liberalization.

The foreign exchange crises of 1991 forced Govt. of India on to the path of major and encompassing economic reforms. Dr. Manmohan Singh, the then Finance Minister, unfolded the reforms process in his budget-speech of 1991. The liberalization programme as unveiled by him had more to do with the dismantling of controls. The reforms envisaged a new Industrial Policy Resolution whereby all industrial activities were thrown open for private participation except a few reserved for Govt. control. There were reforms in the capital market as well. The erstwhile Capital Issues Control Act was repealed and in its place SEBI Act of 1992 was introduced. During this period Monopoly Restrictive Trade Practices Act has been replaced by Competition Act 2000. FERA by FEMA Act. Banking reforms also took place. The second generation reforms were initiated during BJP rule and Yashwant Sinha, the then Finance Minister addressed the core problems of India, which were more politically sensitive and were areas of strong opposition by the opposition groups. The second phase of reforms also included reduction and re-direction of food and fertilizer subsidies, granting greater flexibilities to the labour market by amending the sections of the archaic labour laws including Industrial Disputes Act. Without these measures, the globalisation of Indian economy would not have taken shape. All these steps were essential for securing growth rate of 6 to 7 percent in the late 1990s and presently for the last few years, the Indian economy growth rate is hovering around 7.5 to 8.0 percent which is by all means an impressive one (India Today, Jan. 31, 2000).

**Trade Policy Reforms under WTO**

WTO membership requires institutional reforms that are not only demanding but also of a particular nature. According to an estimate an amount of $ 150 million is required to bring in structural changes in developing countries to implement requirements under WTO agreements with respect to sanitary and phyto-sanitary measures (SPS), and
Intellectual Property Rights (IPRs). The amount required to bring in structural adjustment in a developing country is far too big for many least-developing countries. Therefore, one can ask the question of fit between the reforms requirements and the needs of a developing country, particularly of the least developed among them. Although, these countries would benefit in the long run but for the present a huge involvement of cost to bring in structural adjustment is unbearable to them. Further, there is an apprehension that if developing countries and least developed countries are pressured in critical areas of negotiations like environment and labour laws in any round of trade negotiations under WTO, the leash around these countries will further shorten, putting them in all sorts of discomfort. Thus there is strong criticism against the WTO regime from the standpoint of developing and least developed countries of the globe.

The other side of the coin, however, presents an attractive picture. Freeing up of trade in goods, services, currencies, and capital not only improves the efficiency of national resources use and consumer welfare at a point in time but also contributes to economic growth. The mechanisms by which openness contributes to economic growth are gradually becoming better understood. They include the scale of market when knowledge is embodied in the products traded, the effect of knowledge spillovers, and the degree to which redundant knowledge is avoided through openness.

Composition of India’s Foreign Trade

Many developing countries, in the 1960s, adopted programmes of import liberalization and export promotion and achieved remarkable success. These included Japan, Singapore, Hong Kong, South Korea, Malaysia and Taiwan (Singh, 2001). The success stories put up by these economies prompted many economists and international agencies like IMF and World Bank to advocate import liberalization and export promotion as a panacea for many economic ills which developing counties like India face today. Observing over a pretty long time and measured by the brilliant success show put up by the above mentioned developing countries, Indian government has opted for a policy of trade liberalization and initiated the programme from the early 1990s.

By composition of foreign trade of any country, we mean the composition of export and imports. By probing into the composition of imports and exports of a
country, one can understand the progress of that country and the rate and speed of structural changes operating in it. For example, if, on scrutiny, we find that the country in question imports food grains and raw materials but exports finished goods, machinery, capital equipments, we can safely conclude that it has reached a high level of economic development. On the other hand, if it exports primary goods like jute, tea, cotton, sugar etc., but imports capital goods and machinery, finished goods etc. we can conclude that the country is an underdeveloped one. We may test this important theoretical tool to gauge the economic progress of India. Traditionally Indian exports would comprise of primary commodities like Jute, Tea, Cotton, Sugar, Hides, Skins, Manganese ore, Mica, etc. and the manufactured items constituted the bulk of imports alongside there has been heavy imports of capital goods. However, with the starting of planning era from 1950s onwards, the process of industrialisation, the development phases of the Indian economy as indicated by the development index has induced a number of changes in the composition of foreign trade as would be clear from the discussion through the following pages:

Composition of Imports

At the dawn of independence i.e. 1947, the major items of imports in order of their importance were: capital equipments of all types; oils (vegetable, minerals and animals); pulses and flour, cotton raw and waste (vehicles excluding locomotives); cutlery, hardware implements and instruments; chemicals, drugs and medicines; dyes and colours; other yarns and textile fabrics; paper, paper board, stationery and metals other than iron and steel metals. Together, these imports constituted 70 percent of all imports (Ibid, 2001)

With the launching of the planning era in 1951, and more specifically, the beginning of the second five-year plan in 1956-57 brought about a considerable change in the composition of imports. The second plan (based on the Mahalanohis Model) introduced a programme of industrialisation with heavy emphasis on the development of capital goods based industries. As a result it became necessary to import capital equipment in large quantities. After some years spare parts, materials and machinery had to be imported to keep the equipment in working order. Thus ‘maintenance imports’ entered the import structure of the country in a big way.
### Table 2C

**Composition of Indian Imports**

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<tr>
<td></td>
<td>$Million</td>
<td>%age of total</td>
<td>$Million</td>
<td>%age of total</td>
<td>$Million</td>
<td>%age of total</td>
<td>$Million</td>
<td>%age of total</td>
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<tr>
<td>1. Food and live animals chiefly for food of which:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cereals and cereals preparation</td>
<td>449</td>
<td>19.08</td>
<td>321</td>
<td>14.80</td>
<td>481</td>
<td>3.00</td>
<td>N.A</td>
<td>N.A</td>
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<tr>
<td>2. Raw materials &amp; intermediate manufacturers of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Edible oils</td>
<td>1105</td>
<td>47.00</td>
<td>1176</td>
<td>54.40</td>
<td>12341</td>
<td>77.80</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td>b) Petroleum oil and lubricants</td>
<td>145</td>
<td>6.10</td>
<td>180</td>
<td>8.30</td>
<td>6656</td>
<td>41.90</td>
<td>10036</td>
<td>25.60</td>
</tr>
<tr>
<td>c) Fertilizers</td>
<td>27</td>
<td>1.10</td>
<td>113</td>
<td>5.30</td>
<td>1034</td>
<td>6.50</td>
<td>911</td>
<td>2.30</td>
</tr>
<tr>
<td>d) Iron &amp; Steel</td>
<td>258</td>
<td>11.00</td>
<td>194</td>
<td>9.00</td>
<td>1078</td>
<td>6.80</td>
<td>1834</td>
<td>4.90</td>
</tr>
<tr>
<td>e) Chemical elements &amp; components</td>
<td>82</td>
<td>3.50</td>
<td>90</td>
<td>4.20</td>
<td>453</td>
<td>2.80</td>
<td>2925</td>
<td>7.50</td>
</tr>
<tr>
<td>f) Pearls and precious stones</td>
<td>2</td>
<td>0.10</td>
<td>33</td>
<td>1.50</td>
<td>527</td>
<td>3.30</td>
<td>2925</td>
<td>7.50</td>
</tr>
<tr>
<td>3. Capital goods of which:</td>
<td>747</td>
<td>31.70</td>
<td>534</td>
<td>24.70</td>
<td>2416</td>
<td>15.20</td>
<td>8414</td>
<td>21.50</td>
</tr>
<tr>
<td>a) Non-electrical machinery*</td>
<td>426</td>
<td>18.10</td>
<td>341</td>
<td>15.80</td>
<td>1377</td>
<td>8.70</td>
<td>4166</td>
<td>10.70</td>
</tr>
<tr>
<td>b) Electrical machinery</td>
<td>120</td>
<td>5.10</td>
<td>93</td>
<td>4.30</td>
<td>328</td>
<td>2.10</td>
<td>326</td>
<td>0.80</td>
</tr>
<tr>
<td>c) Transport equipment</td>
<td>52</td>
<td>2.20</td>
<td>88</td>
<td>4.10</td>
<td>577</td>
<td>3.80</td>
<td>1484</td>
<td>3.80</td>
</tr>
<tr>
<td>4. Others (unclassified)</td>
<td>52</td>
<td>2.20</td>
<td>131</td>
<td>6.10</td>
<td>631</td>
<td>4.00</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td>Total</td>
<td>2353</td>
<td>100.00</td>
<td>2162</td>
<td>100.00</td>
<td>15869</td>
<td>100.00</td>
<td>39133</td>
<td>100.00</td>
</tr>
</tbody>
</table>

* From the year 1991-92 onwards, non-electrical machinery and electrical machinery exclude electrical goods.

### Table 2D
Composition of Indian Exports

<table>
<thead>
<tr>
<th>COMMODITIES</th>
<th>1960-61 $Million</th>
<th>%age of total</th>
<th>1970-71 $Million</th>
<th>%age of total</th>
<th>1980-81 $Million</th>
<th>%age of total</th>
<th>1996-97 $Million</th>
<th>%age of total</th>
<th>1997-98 $Million</th>
<th>%age of total</th>
<th>2000-01 $Million</th>
<th>%age of total</th>
<th>2002-03 $Million</th>
<th>%age of total</th>
<th>2003-04 $Million</th>
<th>%age of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural &amp; Allied products of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Tea and Mate</td>
<td>596</td>
<td>44.20</td>
<td>644</td>
<td>31.70</td>
<td>2601</td>
<td>30.6</td>
<td>6628</td>
<td>20.40</td>
<td>6375</td>
<td>18.8</td>
<td>6256</td>
<td>14.03</td>
<td>6962</td>
<td>13.20</td>
<td>7888</td>
<td>12.35</td>
</tr>
<tr>
<td>b) Cashew Kernels</td>
<td>40</td>
<td>3.0</td>
<td>76</td>
<td>3.70</td>
<td>177</td>
<td>2.10</td>
<td>363</td>
<td>1.10</td>
<td>372</td>
<td>1.10</td>
<td>412</td>
<td>0.92</td>
<td>424</td>
<td>0.80</td>
<td>370</td>
<td>0.57</td>
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<tr>
<td>c) Raw Cotton</td>
<td>25</td>
<td>1.90</td>
<td>19</td>
<td>0.90</td>
<td>209</td>
<td>2.50</td>
<td>444</td>
<td>1.30</td>
<td>226</td>
<td>0.70</td>
<td>49</td>
<td>0.10</td>
<td>10</td>
<td>0.01</td>
<td>205</td>
<td>0.32</td>
</tr>
<tr>
<td>d) Fish &amp; Fish preparations</td>
<td>10</td>
<td>0.80</td>
<td>40</td>
<td>2.00</td>
<td>274</td>
<td>3.20</td>
<td>1129</td>
<td>3.40</td>
<td>1160</td>
<td>3.40</td>
<td>1394</td>
<td>3.12</td>
<td>1432</td>
<td>2.71</td>
<td>1329</td>
<td>2.08</td>
</tr>
<tr>
<td>2. Ores and Minerals (excluding coal) of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Iron Ore</td>
<td>109</td>
<td>8.10</td>
<td>217</td>
<td>10.70</td>
<td>523</td>
<td>6.20</td>
<td>397</td>
<td>2.70</td>
<td>812</td>
<td>2.40</td>
<td>906</td>
<td>2.03</td>
<td>1568</td>
<td>2.97</td>
<td>1932</td>
<td>3.02</td>
</tr>
<tr>
<td>3. Manufactured goods of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Readymade garments</td>
<td>283</td>
<td>21.00</td>
<td>252</td>
<td>12.40</td>
<td>417</td>
<td>4.90</td>
<td>155</td>
<td>0.50</td>
<td>98</td>
<td>0.30</td>
<td>204</td>
<td>0.45</td>
<td>187</td>
<td>0.35</td>
<td>242</td>
<td>0.37</td>
</tr>
<tr>
<td>b) Jute manufacturers</td>
<td>128</td>
<td>10.0</td>
<td>106</td>
<td>5.20</td>
<td>483</td>
<td>5.80</td>
<td>1580</td>
<td>4.70</td>
<td>1469</td>
<td>4.30</td>
<td>1951</td>
<td>4.37</td>
<td>1848</td>
<td>4.35</td>
<td>2163</td>
<td>3.38</td>
</tr>
<tr>
<td>c) Leather &amp; Leather manufacturers</td>
<td>23</td>
<td>1.70</td>
<td>90</td>
<td>4.70</td>
<td>1204</td>
<td>14.20</td>
<td>5665</td>
<td>16.90</td>
<td>6040</td>
<td>17.80</td>
<td>1116</td>
<td>2.50</td>
<td>1186</td>
<td>2.44</td>
<td>1059</td>
<td>1.65</td>
</tr>
<tr>
<td>d) Handicrafts of which</td>
<td>2</td>
<td>0.20</td>
<td>59</td>
<td>2.90</td>
<td>782</td>
<td>9.20</td>
<td>4753</td>
<td>14.20</td>
<td>5116</td>
<td>15.10</td>
<td>7384</td>
<td>18.57</td>
<td>9052</td>
<td>17.17</td>
<td>10573</td>
<td>16.56</td>
</tr>
<tr>
<td>e) Gems &amp; Jewellery</td>
<td>15</td>
<td>1.10</td>
<td>39</td>
<td>1.90</td>
<td>284</td>
<td>3.30</td>
<td>3229</td>
<td>9.60</td>
<td>3632</td>
<td>10.70</td>
<td>5002</td>
<td>11.22</td>
<td>5890</td>
<td>11.15</td>
<td>7598</td>
<td>11.90</td>
</tr>
<tr>
<td>f) Chemicals &amp; allied products</td>
<td>46</td>
<td>3.40</td>
<td>261</td>
<td>12.90</td>
<td>1045</td>
<td>12.30</td>
<td>4910</td>
<td>14.70</td>
<td>4987</td>
<td>14.80</td>
<td>6966</td>
<td>15.83</td>
<td>8983</td>
<td>17.03</td>
<td>12321</td>
<td>19.29</td>
</tr>
<tr>
<td>g) Engineering Goods</td>
<td>31</td>
<td>2.00</td>
<td>149</td>
<td>7.30</td>
<td>624</td>
<td>7.40</td>
<td>807</td>
<td>2.40</td>
<td>748</td>
<td>2.20</td>
<td>2217</td>
<td>4.97</td>
<td>3119</td>
<td>5.91</td>
<td>4352</td>
<td>6.81</td>
</tr>
<tr>
<td>t. Others</td>
<td>1348</td>
<td>100.00</td>
<td>2031</td>
<td>100.00</td>
<td>8486</td>
<td>100.00</td>
<td>35470</td>
<td>100.00</td>
<td>33980</td>
<td>100.00</td>
<td>44560</td>
<td>100.00</td>
<td>52719</td>
<td>100.00</td>
<td>63843</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Composition of India's Imports: A View of Rising POL and Falling Capital Goods, Rising pearls and Falling Cereals

Years

Percent (%)

POL
Pearls
Capital Goods
Cereals
Composition of Indian Exports(%): A scene of falling Agriculture Exports & Rising Exports of manufactured goods
Further, the imports, for the purpose of convenience, have been divided in four groups: (I) Food and Live animals chiefly for food, (II) Raw materials and Intermediate manufactures, (III) capital goods and (IV) other goods. The table shows that the total imports in 1960-61 were $2353 million of which the shares of the above groups were 19.08, 47.0, 31.70 and 2.2 percent respectively. As is evident from the table, there have been significant changes in the relative importance of the goods over a period of time. The most significant change is that the imports on account of food and live animals have declined quite hugely. This is purely because of the decline in the imports of cereals and cereals preparations. For example from 16.1 percent in 1960-61, the share of cereals and its preparations have fell down to 0.7 percent in 1997-98 and it was negligible 0.02 percent in 2003-04. On the other hand, the share of raw materials and intermediate manufactures has increased considerably primarily due to sharp rise in the import of petroleum oil and lubricants, fertilizers and pearls and precious stones. So far as capital goods are concerned they have accounted for about one-third of import expenditure in 1960-61 which fell to a little more than one-fifth in 1996-61. In 1997-98, the share of capital goods in total imports was 17.5 percent. The import of capital goods further fell to 12.05 per cent in 2002-03 with absolute import value of $7405 million. However, there was a marginal rise to the import of capital goods in the year 2003-04 when its share was 13.29 per cent with absolute value of $10389 million. The following are the important facts regarding the composition of different import items:

1. Over the years, there has been a substantial increase in the import expenditure on POL (Petroleum, Oil and Lubricants) imports. For instance POL imports accounted for 6.1 percent in 1970-71. This increased dramatically to 41.9 percent in 1980-81. This phenomenal increase is attributed to two oil price hikes in 1970s—one in 1973-74, when the OPEC countries (oil producing and exporting countries) raised the price of oil from around $3.00 to $3.50 per barrel to $11.65 per barrel in 1973-74. This is popularly known as the first oil shock in world economy. This was followed by another phenomenal increase of oil prices in 1978-79, when the price per barrel was hiked to $35.00 per
barrel by OPEC. The first oil price hike raises the import expenditure of India to Rs. 597 crores in a single year from 1973-74 to 1974-75. As a consequence of the second oil price hike in 1978-79, POL imports rose by Rs. 1589 crores in a single year 1978-79 to 1979-80 accounting for 68 per cent increase in the import expenditure in this year. The decade of eighties is characterised with substantial increase in domestic oil production on the one hand and softening of the international oil prices on the other hand. As a result, the share of POL imports in total import expenditure dropped to 27.0 per cent in 1992-93 and 25.6 per cent (i.e. one fourth) of imports expenditure in 1996-97. It further dropped to 20.2 per cent in 1997-98 with absolute value of expenditure coming to $ 8217 million of total import expenditure (Table 2.1). Thus the total import bill on POL coming down to one-fifth of total expenditure on imports. However, import bill on POL rose again to $ 15650 million, which was 30.96 per cent of total imports in year 2000-01 (Table 2.1). Proportionately the import bill on POL again dropped in the two subsequent years. It was of the value of $ 17640 million, which was 28.72 per cent of total imports and further decreased to 26.32 per cent in the year 2003-04 with absolute value of POL imports surging to $ 20570 million which was 26.32 per cent of the total import bill.

2. The next most important item, as observed through table 2.1 is non-electrical machinery, apparatus and appliances. Expenditure on this item increased from $ 341 million in 1970-71 to $ 3960 million in 1997-98. In percentage terms, its share was 15.8 per cent in 1970-71 while as in the decades of eighties and nineties it varied between 8 to 12 percent. The share of non-electrical machinery dropped to 9.57 per cent in 2000-01, which went down to 6.20 per cent in 2002-03, while as it rose a little bit in 2003-04 when it was 6.65 per cent of total exports in that year. However, in absolute terms, the import of this commodity has been rising.

3. The third spot is occupied by chemical elements and compounds. Import expenditure on chemical elements and compounds was $ 1538 million in 1993-94 and this jumped abruptly to $ 2339 million in 1994-
95 and to $2811 million in 1995-96. In percentage terms, the share of this item rose to 7.7 per cent in 1995-96 and its position in total imports is third. In 1997-98, the imports of chemical elements and compounds stood at $3263 million, which was 8.0 per cent of total expenditure. In 2000-01, there was abrupt drop in the imports of chemicals and compounds to 0.66 percent of the total imports bill (absolute value of imports in this year was $338 million). However, the import expenditure on the category further rose to $4668 million in 2003-04 which was 5.97 % of total imports.

4. Due to recent spurt in the demand of gems and Jewellery items from abroad, this commodity group has occupied an important position in import export business. India usually imports gems and jewellery from Belgium. After working on the imported rough pearls, precious and semi-precious stones India export the cut and finished gems and Jewellery. In fact, the imports of this commodity group accounted for 11.3 per cent of import expenditure in 1993-94 and occupied the second place. However, in 1994-95 and 1995-96, imports of this item accounted for only 5.7 per cent of total expenditure. In 1996-97, imports of ‘pearls, precious and semi-precious stones’ rose to $2925 million. This was 7.5 per cent of the total imports in that year (Table 2.1). In 1997-98, however, import of ‘pearls, precious and semi-precious stones’ at $3143 million occupied fourth position (representing 7.70 percent of import). Imports increased in $4838 million in 2000-01, raising the percentage share of gems and jewellery to 9.57 percent in the total imports of India. In 2000-01, the absolute value of imports of gems and jewellery was $6063 million (9.87 percent of total imports) which rose to $7120 million in 2003-04, accounting 9.12% (Table 2.1).

5. Even though there is substantial domestic production of Iron and Steel, huge quantities continue to be imported, as indigenous does not suffice the rising demand. With the share of 11 percent in the total import bill in 1960-61, the share of Iron and steel in the import basket continues to
fall in percentage terms, while in absolute terms, the imports of iron and steel rose from $ 194 million in 1970-71 to $ 1934 million in 1996-97. In percentage terms, however, they have more or less consistently fallen (from 9.0 per cent in 1970-71 to 3.5 per cent in 1992-93). Nevertheless, the share increased to 4.9 per cent in 1996-97, which again fell to 3.7 per cent in 1997-98 (Table 2.1). There was fall in the Imports of Iron and steel in subsequent years as well. For example, the absolute value of Iron and steel Import in 2000-01 was only $ 781 million which was just 1.54 percent of total imports in that year. The percentage share further dropped to 1.44 percent in 2002-03 and in 2003-04 though the absolute imports increased marginally, yet the percentage share continues to be looming large. Thus, it can be inferred here that with sprawling steel plants both in public sector as well in private sector like SAIL., TISCO etc., India has been sufficing the domestic requirements of Iron and steel quite substantially.

6. Import expenditure on fertilizer and fertilizer materials increased considerably from $ 113 million in 1970-71 to $ 1683 million in 1995-96. This is due to the increasing prices of fertilizers in the international market. As can be seen from the table 2.1, in percentage terms, the share of fertilizers in total imports has varied between 3.5 to 6 per cent over the period of 1970-71 to 1995-96. However, in 1996-97 and 1997-98, imports of fertilizers accounted for only 2.3 percent and 2.5 percent of import expenditure respectively. The subsequent years also witnessed a steep fall in the imports of fertilizers. For example, in 200-01, the percentage share of fertilizers dropped to 1.31 percent and to 0.88 percent in 2002-03. In 2003-04, the absolute figure was $ 636 million which was 0.08 percent of the total imports.

7. At the dawn of independence, agricultural production was insufficient to feed the huge populace and as a result India was compelled to import foodstuff from other countries for a number of years. The share of foodstuff in India’s import bill was as high as 16 per cent in 1960-61. Despite Green Revolution and consequent increases in food grains
production and improved productivity, imports of food grains constituted 13 per cent of total imports in 1970-71 and as much as 25.5 per cent in 1975-76 (i.e. about one-fifth). However, due to mechanized farming in most of the area coupled with increased and efficient doses of fertilizers, and by bringing more and more land under cultivation the production of food grains increased considerably. Thanks to these and a host of other steps presently India is almost self-sufficient in food grains. The food grains imported were of the value of $ 20 million, $ 25 million and $ 19 million in 2000-01, 2002-03, and 2003-04 respectively representing 0.03 percent, 0.04 percent and 0.08 per cent of the total import bill of India in that order.

**Composition of Exports**

There has been a drastic change in the composition of exports over the last many years. Table 2.2 reveals that traditionally India's export basket mainly comprised of agriculture and allied products. However, their export share has significantly reduced over the years. As we observe from Table 2.2 we find that the percentage share of agriculture and allied products was 44.2 per cent in 1960-61, which reduced to 18.8 per cent in 1997-98 while as the share of manufactured products in the export basket rose from 45.3 per cent to 76.6 per cent over the same period. This clearly depicts the changing production structure of the economy and the shift from an inward-looking under developed, primary goods export economy to a more vibrant industrial economy.

At the time of independence, the three most important manufactured commodities in India’s export basket were Jute, tea and cotton textiles. Jute and cotton textiles belong to the manufactured commodity group while as, tea is an agriculture commodity group. Together, they contributed to more than 50 per cent of the export earnings. However, as the industrial structure of the economy got broad-based and diversified, new export opportunities opened up and the combined share of Jute, Tea and cotton textiles fell to 31 per cent in 1970-71 and further stooped to around 11 per cent in 1997-98, correspondingly, during the same period i.e., from 1960-61 to 1997-98, compared to this the share of engineering goods in India’s export basket rose from a meager 3.4 per cent (1960-61) to a huge
14.8 per cent (1997-98). The other important observations from the table 2.2 are as follows:

1. The most important export item in 1960-61 was Jute, which contributed to 21 per cent of total export earnings. However, its share in total exports has continuously been dwindling. In 2000-01, its share in India’s export basket decreased to 0.45 per cent, which further plunged to 0.37 per cent in 2003-04.

2. The next most important export item in 1960-61 was Tea and it contributed 19.3 per cent (i.e., almost one fifth of total export earnings). Its share also declined consistently thereafter. It declined to 9.6 per cent in 1970-71 and steeply fell to 1.3 per cent in 1997-98. Again, the downslide trend continued in the following years. For example, the value of tea exports in 2000-01 was $ 433 million, which was just 0.97 per cent of total export trade, it further decreased to $ 344 million (0.65 per cent of total exports) in 2002-03. In 2003-04, the share of tea exports was only 0.55 per cent with absolute value of $ 356 million. This important item in the agriculture commodity group faced severe competition from other Asian countries like Sri Lanka, Pakistan etc. in the International market.

3. Handicrafts as an item of export have recorded a spectacular increase over the years. The export earnings on this item have been $ 96 million in 1970-71 representing 17.8 per cent of the total export trade in that year. However, after 1997-98, we observe decreasing trend in the exports of handicrafts in percentage share. From a share of 17.85 with absolute value of $ 6040 million in 1997-98, it has decreased both value wise as well as percentage wise. It decreased to $ 1116 million with a percentage share of just 2.50 in 2000-01. And, again, in 2003-04, it has further decreased to $ 1059 million with percentage share of 1.65 per cent. The reasons for drastic decrease of Indian handicraft exports in foreign market could be ascribed to several NTB measures adopted by
developed countries. For example, Germany has stopped having Indian carpets for the reason that child labour is involved in their manufacture.

4. Engineering goods have been recording a substantial increase in exports over the years. This is purely because of the programmes of industrialisation initiated during the planning periods. From $ 46 million in 1960-61, exports of engineering goods rose to $ 261 million in 1970-71 and which shot up to $ 4987 million in 1997-98. As a result, their share in India’s export earnings rose from 3.4 per cent in 1960-61 to 14.8 per cent in 1997-98. During recent years, engineering goods have occupied either second or third place in India’s export earnings. For example, they occupied third place next to handicrafts and readymade garments in 1990-91. Thereafter, they have occupied second place only next to handicrafts. In 2002-03, engineering goods exported were of the value of $ 8983 million which was 17.03 per cent of the total export trade. In 2003-04, it occupied first place with absolute value of exports at $ 12321 million registering a share of 19.29 per cent of total exports in that year (table 2.2)

Direction of India’s International Trade

Before independence, the direction of India’s foreign trade was not determined by the comparative cost advantages but by the colonial relations between India and Great Britain. It was Britain that would determine what India should export and what it should import. As a matter of fact, the major portion of India’s foreign trade was with Great Britain. History repletes that Indian goods exported to Britain were then re-exported to other parts of the Europe. This pattern of India’s foreign trade continued for some time even after independence because India was yet to explore new destinations and develop formal trading relations with other countries. For example, India’s export earnings with UK and USA were 42 per cent in 1950-51. In the same year the share of UK and USA in India’s imports was 39.1 per cent. Comparatively, the trade with other industrialized countries like Germany, France, Italy, Japan was quite insignificant. As political and economic relations with other countries evolved the direction of India’s foreign trade became broad
based and highly diversified. At the same time the inception of economic planning in India gave a boost to the efforts of forming trade relations with other countries across the globe. This broad based diversification proved a hedge against economic vulnerabilities of other countries. The directional changes of India’s trade are studied in the following pages.

**Direction of India’s Imports**

For the purpose of studying direction of India’s imports, importing countries have been grouped in five categories, namely OECD, OPEC, Eastern Europe, Developing Nations and others (Table 4.60). Perusing the table 4.60 we find that over the years the importance of OECD group has declined considerably. In the year 1960-61 the imports from OECD group represented 78 per cent of import trade, which decreased to 39.9 per cent in 2000-01, and to 37.8 per cent. In this group the major decreases of imports happened in case of USA and UK. The imports, which were 29.2 per cent from USA and 19.4 per cent with UK, decreased to abysmal low of 6.4 per cent and 4.1 per cent respectively in 2003 and 2004. The second group of countries called OPEC (Oil Producing and Export Countries) has registered a growth in the imports to India over the years from a share of 4.6 per cent in 1960-61. It has gone up to 7.2 per cent in 2003-04. However, in between this period there was a huge surge in the share of India’s imports from OPEC countries. For example, the OPEC share in India’s imports was 27.8 per cent in 1980-81 and 16.3 per cent in 1990-91. The third group categorised as Easter Europe has seen a major fall in the share of India’s imports over the years. For instance, with a share of 13.5 per cent in 1970-71, it has gone down to just 1.3 per cent in 2003-04.

The LCD’s group, which comprise of Asia, Africa, Latin America and Caribbean have also seen a surge in the share of India’s import. Their share was 11.8 per cent in 1960-61, which over the years has risen to 20.1 per cent in 2003-04. Browsing deep into this group, it is observed that imports from Asian countries have considerably risen over the years. With a share of 5.7 per cent in India’s imports, the share of Asian countries have risen to 17.2 per cent in 2003-04.

The group called ‘Others’ has seen a phenomenal increase in the import trade of India. From a miniscule share of 2.2 per cent in 1960-61 it has steadily
grown over the years and finally reached a figure of 33.3 per cent in 2003-04 (i.e., one-third India’s total import trade). This substantiates our earlier observation that India’s foreign trade has become diversified among various countries.

**Direction of India’s Exports**

India’s exports to various destinations are again categorised in the same groups as in case of imports. As per table 4.58 India’s export destinations have been mostly in the OECD bloc. India’s 66.1 per cent of exports were sent to OECD bloc in the year 1960-61. However, the share of OECD bloc in India’s exports over the years has seen a decreasing trend. In 2000-01 the share was 52.7 per cent which decreased to 49.3 per cent in 2001-02 and finally to 46.4 per cent in 2003-04. In this group of countries the share of EU at 21.1 per cent has been major in India’s exports followed by USA with 18.0 per cent in 2003-04.

The OPEC group of countries has registered a phenomenal growth in the share of India’s exports over the years. With a meager share of 4.1 per cent in 1960-61; it has gone upto 15 per cent in 2003-04. As is observed from the table there has been an equal growth in exports to OPEC countries like Iran, Iraq, Kuwait, and Saudi Arabia.

The export trade with Eastern European countries consisted of former GDR, Romania, former USSR. Initially the trade with USSR was very huge. For example, the exports to USSR were to the tune of 13.7 per cent in 1970-71, which rose to 18.3 per cent in 1980-81 but afterwards started dropping drastically. As we know that trade with USSR was based on Rupee-Rouble exchange mechanism and there was no third currency or peg currency involved between India and USSR, therefore, India’s export trade with USSR flourished during this period. However, with the split of USSR into independent states Rupee-Rouble trade could not be continued with present day Russia. As a result there has been a steep fall in export trade with Russia particularly from the year 1990-91 onwards when Russia’s share in Indian exports was 16.11 per cent, which has gone down to 1.1 per cent in 2003-04.

The fourth group known as ‘Others’ has seen a phenomenal rise in the export share of India. This group comprises of Africa, Asia, Latin America and
Caribbean. As is obvious from the table 4.58, with a share of 14.8 per cent it has steadily gone higher and higher with each passing decade/year and finally reached to 32.6 per cent in the year 2003-04 (i.e., almost one-third of India’s total export trade). Among this group, export trade with Asian countries have seen phenomenal rise over the years. With a share of 6.9 per cent in 1960-61 in India’s exports, the share of Asian countries have gone up to 27.6 per cent in 2003-04. The increase in exports with Asian countries has corresponded with increase in imports from these Asian countries as already observed under Table 4.9. This implies that trade with Asian countries, both in imports as well as in exports has grown considerably. However, under the same group Africa has shown a decreasing trend in the export share of India. With a share of 6.3 per cent in 1960-61, it has considerably gone down 3.3 per cent in 2003-04. The ‘Others,’ category, unlike imports has shown a declining trend in the export trade of India. From a share of 8 per cent in 1960-61, it has continuously gone down except in the year 2001-02, when it was 8.3 per cent and finally reached to just 4.2 per cent in the year 2003-04.

**India’s Export Import Policy – A Paradigm Shift**

India’s Import and export policy was of a loose nature till the beginning of World War II as there was no control on India’s imports as well as exports. However, Government of India had imposed certain controls, on some items of exports as well as some items of imports, intended primarily to meet the requirements of the World War-II. Initially these control measures were supposed to be valid only till the end of the Second World War. But somehow the Government continued with these control measures till March 1947 when a full-fledged legislation, in the name of Import and Export (Control) Act was passed. Interestingly, this Act continued for a period of more than 45 years without much change.

With the process of liberalization initiated in early 1990’s whereby several new legal enactments came up in India repealing the old ones to give way to liberalization process, which had already gathered momentum, the external trade sector was also revamped. The Import and Export Control Act was superseded by Foreign Trade (Development and Regulation Act), 1992. The main thrust of this Act has been to liberalize both imports as well as exports. Usually foreign trade
policy of any country has been of much importance and that is why every country has a foreign trade regulator in the form of an Act. A trade policy involves regulation of imports and exports of a country. Such a regulation is generally value-wise, composition-wise and direction-wise. It involves, *inter alia*, the following:

- complete ban on imports or exports of some items
- partial quantity ban on imports or exports of some items
- ensuring normal imports and exports

**Instruments of a trade policy**

The major instruments in a trade policy which a regulator must have in its kitty are:

- Tariff Measures
- Quantitative Restrictions
- Non-tariff Measures
- Para-tariff Measures
- Subsidies
- Miscellaneous Administrative Measures

The tariff measures are used with twin objectives of ensuring revenue gain on imports and at the same time to protect the domestic industry against the low price of imported commodities. In this regard certain products which have been dumped in the country at a price lower than the prevailing price in the country of its origin tend to create disparities in the price structure and hurts the domestic industry. Quantitative restrictions are usually resorted to by a country with respect to its imports. This is a step towards discouraging imports with the objective to save the country from parting with much valuable foreign exchange. The non-tariff measures are again a means to restrict undesirable imports to provide a safeguard to the domestic industries. Para-tariff measures are again limited to collect additional revenue to the government. Subsidies are also provided to certain sectors, particularly to farm sector to enable them to export.

To adapt with the changes made towards liberalization the trade policies of India were directed to fall in line with major liberalization programmes. After 1992 there has been a fundamental shift in the basic policy framework. The anti-import bias featuring in erstwhile trade policies has been replaced by ‘export promotion thrust’. Policies followed after 1992 have witnessed a gradual withdrawal of quantitative restrictions (QRs) in case of imports, reduction and rationalization of tariffs; easement towards trade and payments; and improved access to export incentives. The focus of the trade policy reforms henceforth has been on openness, liberalization, transparency, export promotion and improving competitiveness of Indian industry to meet global market requirements. The Medium Term Export Strategy (MTES) for 2002-07, provides broad-based sector-wise targets for achieving one percent share of global trade by 2007. This target of one percent implies a compounded annual growth rate (CAGR) of 11.9% over the 10th five year plan. In absolute terms, it would mean a rise in exports to the tune of $80.48 billion by 2006-07 from a base figure of $44.56 billion on 2002-2001 (The Economic Survey of India, 2006). The priority areas of target as envisioned and enlisted by ministry of Commerce and Industry are engineering goods, gems and jewellery, chemical and allied products (DGFT, 2002-03).

Medium Term Exports Strategy seeks to combine and analyse both demand and supply positions in products, sectors and industries for undertaking a comprehensive approach. The identified products, sectors and industries will be put for exports development based on potential, capability, world trends in demand and competitiveness. The new export policy of 2002-07 is viewed as the one characterized with no restrictions and controls, lot of liberalism. Optimism prevails as synergy is expected between trade policies and strategies to realize India as a strong export potential market. Let us discuss some of the trade policies to analyse how there has been a paradigm shift in the Indian foreign trade policy over the years particularly post 1991.
India's Recent Exim Policies – An Overview

The operational periodicity of India's Exim policy used to be of one year duration till 1985. However, from 1985 to 1988 we used to have three-year policies and even after 1988, the Exim policies of India used to be of three year duration but on each occasion all three-year policies used to be cut short to one year. In 1992, for the first time in the history of India's foreign trade policy India announced a five-year period policy commencing 1992. The new EXIM policy 1992-97 coincided with the launching of India's 8th five year plan. The Exim policy of 1997-02 is co-terminous with the 9th five year plan.

Export Import Policy of 1997-2002

The EXIM policy of 1997-02 was designed to consolidate the gains as achieved by the previous policy and further carry forward the process of liberalisation by deregulating and simplifying procedures and removing quantitative restrictions in a phased manner. The policy envisaged on export target of US $ 90-100 billion by the year 2002 and thereby registering one percent share in world trade.

Export Import Policy of 2002-2007

The EXIM policy of 2002-07 was unveiled on March 31, 2002. The policy is a compendium of several institutional, infrastructural and fiscal measures intended to promote exports which are conducive to the economic development of country. The following are the salient features of the policy:

- **Special Economic Zones (SEZs):** The SEZs is a new concept in India's trade policy which have been emulated from Chinese Shenzhen success model. It was through this EXIM policy that the erstwhile EPZs (Export Processing Zones) have been converted into SEZs. These special economic zones will have greater autonomy in terms of attracting foreign investment. The units in the SEZs will be allowed to sell in the domestic market after paying off full customs duty. As such the SEZs are treated as foreign territory within the country. Overseas Banking Units will be allowed to be set up in the SEZs. These OBUs are exempted from maintaining SLR and CRR mandatory margins with
RBI. For all practical purposes these OBUs of Indian Banks located in SEZs will be treated as foreign branches of Indian Banks.

- **Employment oriented**: Export restrictions like registration and packaging requirements are being removed on butter, wheat and wheat products, coarse grains, ground nut oil and cashew nuts. Quantitative and packaging restrictions on wheat and its products, butter, pulses, grain and floor of barley, Maize, Bajra, Ragi and Jawar have already been removed from March 2002 (DGFT, 2002).

- **Restrictions on export of all cultivated (other than wild) variety of seed, except jute and onion removed.** To promote export of agro and agro based products, 20 agri export zones have been notified.

An amount of Rs. 75 crores under Market Access Initiative (MAI) has been earmarked for promoting cottage sector exports coming under the KVIC. The units in the handicraft sector can also access funds from MAI scheme for development of website for virtual exhibition of their products. Under the Export Promotion Capital Goods (EPCG) scheme, these units will not be required to maintain average level of exports while calculating the Export Obligations. These units shall be entitled to the benefit of Export House status on achieving lower average export performance of Rs. 5 crores as against Rs. 15 crores for others. Besides, the units in handicraft sector shall be entitled to duty free imports of an enlarged list of items as embellishments up to 3 percent of FOB value of their exports.

- **Gems and Jewellery**: Customs duty on import of rough diamonds is being reduced to zero percent. Quantitative restriction on import of rough diamonds has already been removed. In addition, Licensing regime for rough diamond is being abolished. This should help the country emerge as a major international center for diamonds. Export of all mechanized unstudded jewellery allowed at a value addition of only 3 percent. Since India has achieved leadership in diamonds, now efforts are on the way for achieving quantum jump on jewellery exports as well. Personal carriage on jewellery allowed on exports as well.
Personal carriage on jewellery opened through Hyderabad and Jaipur airports as well.

- **Technology oriented:** In this trade policy, the government has modified Electronic Hardware Technology Park (EHTP) scheme. To enable the sector to face the zero duty regime under ITA (Information Technology Agreement) the units shall be entitled to following facilities. a) No export obligation for units in EHTP; b) Supplies of ITA-I items having zero duty in the domestic market to be eligible for counting of export obligation; c) All pesticides formulations to have 65 percent of DEPB rate of such pesticides; and d) The export policy further provides for free export of samples without any limit.

- **Small Scale Industry:** The five year policy of 2002-07 has given a special thrust to small scale industry, with the objective to encourage further development of centers of export excellence such as Tirupur for hosiery, Panipat for woolen blankets and Ludhiana for woolen knitwear.

- The Exim Policy 2002-07 has made a thrust on certain geographical regions of the world. For instance, this policy has a thrust on Africa and ‘Focus Africa’ has been launched on the same lines as was ‘focus Latin America’ in operation during the previous policy. The first phase of the programme will cover 7 countries e.g. Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania and Ghana.

- The ASIDE (Assistance to States for Infrastructural Development for Exports) is being strengthened. Now ASIDE will provide funds to the states on the twin criteria basis of gross exports and the rate of growth of exports of each individual state. 80 percent of the total funds earmarked for the purpose would be disbursed based on these criteria, while the rest 20 percent will be utilized by the Union Govt. for infrastructural development.
The policy has made a special thrust on reducing the high incidence of transaction costs, which has been a major area of concern for the last few years. In this regard the measures to be taken includes; (a) adoption of new commodity classification for imports and exports by Central Board of Excise and Customs, Directorate General of Foreign Trade( DGFT) and Directorate of Commercial Intelligence and Statistics(DGCIS). This will eliminate the possibility of disputes arising out of classification of commodities; (b) simplification of all export commercial schemes; (c) reduction of the maximum fee limit for application under various schemes; (d) license being issued within 24 hours in all regional offices of DGFT; (e) reduction in of physical examination of export cargo; (f) fixation of drawback rate within 15 days; and (g) exporters will be allowed to negotiate export documents directly, thereby saving charges. Designated exports will now be allowed to retain 100 percent of the amount in the EEFC (Export Earner Foreign Currency) accounts. They will also be allowed to bring back to India export proceeds within a period of 360 days as against 180 days earlier.

- **Exim Policy Facilities:** The existing export promotion schemes such as export promotion capital goods scheme, duty exemption and redemption scheme, scheme for gems and jewellery exports, EHTP and SER schemes have further been strengthened and simplified (Sing, 2006). The various relaxations provided under the above schemes are given below:

- **Export promotion Capital Goods scheme:**

  1) EPCG licenses of Rs. 100 crores or more to have 12 years export obligation period with 5 years moratorium period

  2) Export obligation fulfillment period extended from 8 – 12 years in respect of units in agri-export zones and in respect of companies under the revival plan of BIFR

  3) Supplies under documented exports to be eligible for export obligation fulfillment along with deemed export benefits

  4) Re-fixation of exports obligation in respect of part cases of imports of second hand capital goods under EPGC scheme.
• **Duty Exemption and Redemption Scheme:**

1) Duty exemption entitlement certificate (DEEC) book is abolished. Redemption based on shipping bills and realization certificate allowed.

2) Annual advance license is withdrawn. The exporters can avail advance licenses for any value.

3) Mandatory spares upto 10 percent of the CIF value are allowed in the advance licenses.

4) DEPB value cap exemption granted on 429 items will continue.

5) No present market value verification except on special intelligence.

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

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

8) DEPB rates for composed items to have lowest rate

**Foreign Trade Policy, 2004-09: Assessment of Major Features**

The new Foreign Trade Policy for 2004-2009 announced by Government of India aims at doubling India’s share in global merchandise trade in five-year time frame and using trade policy as an effective instrument for economic growth and employment generation. The policy announcements include several new initiatives, significant changes in the existing schemes, measures to simplify the administrative procedures and institutional arrangements to foster the expansion of foreign trade.

Against the backdrop of robust export growth, comfortable level of foreign exchange reserves and a revived global growth climate, the Government of India announced the New Foreign Trade Policy (NFTP) on August 31, 2004*. A vigorous export led growth strategy with a focus on the sectors having prospects for export expansion and potential for employment generation constitutes the main plank of the policy. The export strategy highlights the need for building trust and

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* This policy replaces the modified EXIM policy, 2002-07 announced on March 31, 2003
transparency, neutralizing the incidence of levies and duties on inputs in export production and reduction in the transaction costs of exporters. The policy encompasses several new initiatives and institutional measures for the development of the foreign trade sector.

Objectives and Strategies

The FTP 2004 is built around two major objectives of doubling India’s share of global merchandise by 2009 and using the trade policy as an effective instrument of economic growth with a thrust on employment generation. The FTP 2004 proposes to achieve those objectives by adopting, inter alia, the following strategies:

- Unshackling controls and creating an atmosphere of trust and transparency; simplifying administrative procedures to reduce the transaction costs of exporters;
- Neutralizing incidence of all levies on imports used in export products;
- Facilitating the development of India as a global hub for manufacturing, trading and services;
- Identifying and nurturing special focus areas so as to generate additional employment opportunities, particularly, in semi-urban and rural areas;
- Facilitating technological and infrastructural upgrading of the Indian economy, especially through import of capital goods and equipment;
- Avoiding inverted duty structure and ensuring that the domestic sectors are not disadvantaged in trade agreements. Upgrading the infrastructure network related to the entire foreign trade and tune the same to international standards;
- Revitalising the Board of Trade by redefining its role, giving it due recognition and inducting experts on the Board; and
- Activating Indian Embassies as key players in the export strategy.

Special Focus Initiatives

The FTP 2004 has identified certain thrust sectors having prospects for export expansion and potential for employment generation. These thrust sectors include
agriculture, handlooms and handicrafts, gems and jewellery, and leather and
footwear. It may be noted that the earlier Exim Policy, 2002-07, announced on
March 31, 2003 focused on electronic hardware, textiles including garments, auto
components/ancillary, gems and jewellery, agriculture and service sectors. The
sector specific policy initiatives for the thrust sectors announced in FTP 2004 with
reference to the policy changes in the recent past are set out in the following
paragraphs:

a) Agriculture: Policy efforts in recent years in the form of removal of export
restrictions and rationalization in the incentive structure have been directed
towards the promotion of agricultural exports, particularly the value added and
high value products. The Agriculture Export Zones envisaged by the Government
under the earlier scheme of 2002-07 provides certain support services such as
pre/post harvest treatment and operations, plant protection, processing, packaging,
storage and related research and development, transport subsidy for select
agricultural products (fresh and processed fruits, vegetables, floriculture, poultry,
dairy products, and products of wheat and rice and inland freight subsidy for the
units located in the North East region.

The FTP 2004 has announced a new scheme called Vishesh Krish Upaj
Yojana (Special Agricultural Produce Scheme) to boost the exports of fruits,
vegetables, flowers, minor forest produce and their value added products, under
this scheme, export of these products would qualify for duty free credit entitlement
equivalent to 5 percent of free on board (fob) value of exports which would be
freely transferable and could be used for import of a variety of inputs and goods.
Other incentives for the agriculture sector include duty free import of capital goods
under Export Promotion Capital Goods (EPCG) scheme, permitting the installation
of capital goods imported under EPCG anywhere in the AEZ, earmarking funds for
the Assistance to States for Infrastructure Development of exports (ASIDE)
scheme for developing AEZs, liberalisation of imports of seeds, bulbs, tubers and
planting material and liberalization of the exports of plant portions derivatives and
extracts to promote export of medicinal plants and herbal products.
b) Handlooms and Handicrafts: The handlooms and handicrafts sector, which mostly employs rural artisans, contributes substantially to the total exports of the country. In recognition of this, the Exim Policy for 2002-07 under a programme, “Special Focus on Cottage Sector and Handicrafts”, extended certain facilities, such as eligibility of funds for the Market Access Initiative (MAI) scheme for developing substitutes for virtual exhibition, exemption from maintaining the average level of exports performance for import under EPCG scheme, entitlement to benefit of export house status on achieving a lower level of average export performance and duty free import of specified items upto 3 percent of FOB value for their exports.

However, with the coming up of FTP 2004 the scheme for handlooms and handicrafts have got further sops e.g., specific funds under the MAI and Marketing Development Assistance (MDA) schemes have been earmarked both for handlooms and handicrafts sectors for promoting their exports. Duty free import entitlement of specified trimmings and embellishments for these sectors has been increased to 5 percent of ‘fob’ value of exports. Duty free import entitlement of hand knotted carpet samples upto 1 percent ‘fob’ value of exports has also been extended to the handlooms sector. The handcraft Export Promotion Council (HEPC) has been authorized to import the trimmings, embellishments and consumables on behalf of the small manufacturers for whom direct importing may not be viable. Another major announcement, the setting up of a new Handicraft Special Economic Zone (SEZs) which would procure products form the cottage sector and undertakes the finishing for exports.

c) Gems and Jewellery: Gems and jewellery is a major constituent of India’s merchandise exports with a large employment potential. A number of measures have been undertaken in the recent past to enhance the incentives and/or reduce the transaction costs to boost these exports. The EXIM policy of 2002-07 has abolished the licensing regime for import of rough diamonds, and the import duties on the inputs used by the gems and jewellery sector have been progressively reduced in the successive budgets.
The major policy announcements under FTP 2004 for the Gems and Jewellery sector encompass: (a) import of gold of 18 carat and above has been allowed under the replenishment scheme; (b) duty free import entitlement of consumables for metals other than gold and platinum has been allowed up to 2 percent of f.o.b. value of exports; (c) duty free re-import entitlement for rejected jewellery has been allowed up to 2 percent of f.o.b. value of exports; and (d) the limit for duty free import of commercial samples of jewellery has been increased to Rs. 1 lakh.

d) Leather and Footwear: The leather industry is one of the dominant sectors in terms of export and employment potential. The FTP provides special focus on leather and footwear sectors and the policy initiatives are mainly in the form of reduction in the incidence of customs duties on the inputs and plants and machinery. The major policy announcements for this sector include, the limit for duty free imports of trimmings, embellishments and footwear components for leather industry has been increased to 3 percent of f.o.b. value of exports; import of machinery and equipment of effluent treatment plants for leather industry has been exempted from basic customs duty and re-export of unsuitable imported materials, such as, raw hides and skin leathers has been permitted.

New Schemes

Target Plus

The FTP 2004 has introduced a new scheme called ‘Target Plus’ to accelerate the growth rate of exports. Under the proposed scheme, star export houses with an export turnover above a threshold level (i.e. Rs. 10 crores), which achieve a quantum growth in exports – substantially higher than the general export target – would be entitled to duty free credit based on incremental exports. As the export growth target for 2004-05 has been fixed at 16 percent, the lower limit of performance to quality for the rewards is pegged at 20 percent for the year. A tiered approach will be adopted to reward the exports for incremental export growth of over 20 percent, 25 percent and 100 percent, the duty free credits entitlement would be 5 percent, 10 percent and 15 percent, respectively, of f.o.b. value of incremental exports.
‘Served from India’
In order to create a unique ‘Served from India’ brand, the earlier duty free export credit (DFEC) scheme for services has been revamped and recast into the ‘served from India’ scheme. Individual 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 in the preceding financial year.

Free Trade and Warehousing Zone
The FTP 2004 has introduced a new scheme called Free Trade and Warehousing Zone (FTWZs) to install trade related infrastructure to facilitate import and export of goods and services with freedom to conduct trade transactions in free currency for making India a global trading hub. FDI would be permitted upto 100 percent in the development and establishment of these zones. Each zone will have a minimum outlay of Rs. 100 crores and five lakh square meters built-up area. Units in FTWZs would qualify for all other benefits as available to Special Economic Zone (SEZ) units.

Simplification/rationalization measures
A number of steps have been taken in recent years in the form of simplification/rationalization of the rules and administrative procedures so as to reduce the transaction costs of the exporters. In continuation of the reforms process, the FTP 2004 has announced further policy measures to rationalize/simplify the rules and procedures. All the exporters with minimum turnover of Rs. 5 crores and good track record have been exempted from the requirement of furnishing bank guarantee in any of the schemes. They may furnish a legal undertaking in lieu of a bank guarantee. All goods and services exported, including those from DTA units will be exempted from service tax. The validity of all licenses/entitlements issued under various schemes has been increased uniformly to 24 months. The number of returns and forms to be filed has been reduced.

Institutional Reforms
Revamping Board of Trade
The FTP 2004 proposes to revamp and revitalize the Board of Trade. The revamped Board comprises of an eminent person or expert on trade policy as
President and 25 persons at least 10 of whom would be experts in trade policy (all to be nominated by the Government) and chairpersons of recognized Export Promotion Councils and heads of National Chambers of Commerce as ex-officio members. The terms of reference of the Board would be: to advice the government on policy measures for preparation and implementation of short term and long term plans for increasing exports in the light of emerging national and international economic scenario; review export performance of various sectors, identify constraints and suggest industry specific measures to optimize export earnings; examine the existing institutional framework for imports and exports and suggest measures for further streamlining.

**Services Export Promotion Council**

With the growing contribution of services sector to the national GDP and the sprawling presence of services industry throughout the economy, the Government has come up with the proposal of instituting an organization in the name of Services Export Promotion Council. The proposed organization would be engaged in looking into the upcoming opportunities and develop strategic market access programmes including brand building, building co-ordination with nodal bodies of the services industry.

**Common Facility Centres**

Since the service industry is growing at a meteoric speed in India, the government has come out with a programme of creating common facility centers for the home grown service providers particularly in the area of engineering and architectural design, multi-media operations, and software development. These common centers will be assembly points for IT professionals who will pick up jobs as the Government must have sought for them.

**Pragati Maidan**

The Government has decided to transform *Pragati Maidan* into a world class complex, with state-of-the-art technology, visitor friendly exhibition areas and marts. A huge convention center to accommodate 10,000 delegates with flexible hall spaces, auditoria and meeting rooms with high tech equipment, as well as
Multi level car parking for 900 vehicles will be developed within the envelope of the Pragati Maidan.

Financial Aid

On the recommendations of the Export Promotion Councils, financial assistance will be provided to those exporters who have to fight a case on trade related matters. For a trade strategy and export facilitation both these issues have to be addressed from time to time. Service sector in India is booming up. The GDP contribution from service sector has been more than 50 percent and is expected to grow further (Economic Survey, 2005-06). As such this sunrise sector has to be promoted through Exim Policies as well.

The Exim policy being announced on year to year basis in the back drop of a medium term framework will continue to hold good on account of a number of factors. Firstly, duty free schemes for exporters who need to import their inputs, intermediates, consumables and capital goods are being administered through the medium of Exim Policy, notified under the Foreign Trade (Development and Regulation) Act 1992. These schemes include Advance License Scheme, Duty Entitlement Pass Book Scheme, Export Promotion Capital Goods Scheme, etc. Further, the operation and governance of special Economic zones, Export oriented units etc., which are also promoted as growth engines and constitute part and parcel of the Exim policy document.

Trade facilitation is another important aspect which is being implemented with the help of Exim Policy. In addition to the above promotional measures the Exim policy continues several measures that are undertaken by the Government towards export promotion like Market Access Initiative scheme, Agri Export Zone scheme etc., which are being promoted as growth engines also constitute part and parcel of the Exim policy document. As long as these schemes are relevant for our exporting community, Exim policy will have its relevance.

Achieving competitiveness in exports is our continuous effort and due to the combined efforts of our export community, various bodies, representing trade and industry and various organs of the Government have given a right direction towards the development of foreign trade. The Medium Term Export Strategy
announced last year has identified 270 focus items after taking note of the price competitiveness of India vis-à-vis its competitors. There are, however, some items that warrant an aggressive marketing strategy. Briefly, to be globally competitive in terms of price, it is important to ensure that all inputs required for export production are made available to manufacturers/exporter at international prices and transaction costs are minimized. However, even though this objective is being partially achieved through various duty exemption/remission schemes and trade facilitation measures announced through Exim policy, yet more has to be done on this front. Secondly, price competitiveness of our exports is crucially dependent on the fact that the exchange rate of a rupee is not held at artificially higher levels as compared to similarly placed competitors to India's exports. Thirdly the role of the private sector entrepreneurs in achieving competitiveness in the global market is equally important. Private enterprises will have to initiate micro reforms at the firm level to affect cost cutting and enhance productivity. Appropriate micro economic reforms aimed at increasing productivity, would in the final analysis enhance the competitiveness of commercial enterprises. Finally, one cannot undermine the importance of economies of scale and a bold marketing strategy. Mass scale production in China is a stark example of the success of mass scale production. Over and above these there is a definite need of building state-of-art infra-structure in the country. Modernized sea ports, air ports, express high ways; availability of reliable and low cost power etc. can go a long way in boosting exports.

**External Sector Reforms in India**

Prior to 1991, India's foreign trade was wrought with strict bureaucratic and discretionary controls. To reduce control, abolish bureaucratic hurdles and more importantly to fall in line with the international environment of business which is characterized with free trade scenario, the Government of India came up with a new trade policy statement in Parliament 1991, ushering in a new era in the foreign trade policy of India. Now instead of controls and structures, the focus shifted to promotion and development of foreign trade.

Tracking down the historical graph of India's foreign trade, it is observed that before 1947, when India was a colony of British, the pattern of her foreign
Trade was typically colonial. India was supplier of foodstuffs and raw materials to the industrialized nations, particularly England and an importer of manufacturer goods. This dependence on foreign countries for manufactures did not permit industrialization at home (Thakur, 1997). However, in the span of last 50 years, India’s foreign trade has undergone a complete transformation both in terms of composition and direction. At the time of independence and even after for some time, the exports of India, as already narrated, consisted of agricultural products and raw materials inputs, but today India exports a large number of cross section of items comprising of traditional and non-traditional product. As of now, India does not have to foot the huge import bill on account of capital goods imports but India’s dependence on capital goods machinery has reduced considerably. Conversely, today given the huge industrialization base India exports a good quality of engineering goods. However, the import bill of India continues to be exorbitant on account of burgeoning imports of petroleum products. As a result India’s trade balance with the rest of the world continues to be unfavourable putting squeezing pressures on India’s Balance of Payments position.

The comprehensive process of reforms continues in each and every sector of Indian economy. The budget of 2003-04 of the Government had addressed the major objectives known as panch priorities of which one was enhancing manufacturing sector efficiency, including promotion of exports. The external sector reforms encompass a large number of reforms relating to tariff policy and income tax concessions bringing in new legal enactments to regulate trade, exchange rate mechanism etc.

Decreasing Customs Revenue

The Constitution of India grants exclusive powers to the Central Government to impose customs duties. Indian Customs Act of 1962 is the relevant legal enactment meant for the purpose of collection of import and export duties. The share of customs duty collections in total tax effort was estimated around 24.2 percent, in the year 2000-01. However, the share has fallen to 19.6 percent in 2003-04 marking a decline of 5 percent over the 2000-01. This drop of nearly 5 percentage points could be safely attributed to the falling import duty structure either initiated by Government of India to boost trade or India’s WTO commitments wherein
number of countries have to shed down the maximum rates of customs duties to ease foreign trade. 99 percent of India’s revenue towards customs kitty comes from import duties which are levied on a wide range of commodities. The rest one percent revenue comes from export duties which are levied on a few commodities, namely tea, coffee, mica, black pepper hides and skins and leather (Mathur, 2003).

**Shedding down of Import duties**

In the years gone by India was known for its notoriety for having the highest import tariff. The regime has crumbled. The peak rate of 300 percent prior to 1991 was reduced firstly to 150 percent in 1991. This was subsequently further reduced to 70 percent in 1992. The peak rate was then fixed at 50 percent in 1995. It was reduced to 40 percent in 1997-98 (Dave, 1997). The downward momentum was, however, reversed the next year with the imposition of a surcharge. Nevertheless, this momentum resumed with a reduction of ‘peak’ rate to 35 percent in 2001-02 and 30 percent in 2002-03 ‘peak’ rate (applicable to all manufactured and mineral products except alcoholic beverages and automobiles) was reduced to 20 percent at the end of 2003-04.

**The Impact**

An impact analysis vis-à-vis reducing import duty impact has purposely been done to see whether the reduction of import duties has been detrimental to the Indian economy with regard to loss of revenue or whether it has given a fillip for economic growth.

The simple average tariff has accordingly declined from 81.8 percent in 1990 to 32.4 percent in 1999 and 29 percent in 2002 (Virmani, 2003). For industrial products, the import weighted average tariff has declined from about 91 percent 1987-88 to 30 percent in 1997-98 (Nauroz, 2001). Again according to the estimates of Mehta (2003), the import weighted average tariff for Indian industries decline from 84 percent in 1993-94 to 30 percent in 1990-2000 and further to 27 percent in 2001-02. Thus, both studies report a substantial fall in the average tariff, for industrial goods in the post reforms period (Bishwanath, 2005).

It is evident from the above that India has drastically reduced the tariff levels in general and industrial tariffs in particular. Since 1992, however, this
reduction in tariffs should not be attributed to India’s commitment to WTO. It should rather be viewed as a voluntary initiative (induced by the benefits expected from such reforms). Moreover in a number of empirical studies, the impact of India’s trade reforms particularly tariff reforms on domestic industry have been examined. Highlighting findings of some of the studies, Das (2003) finds that on an average, the import penetration ratio in Indian industry did not increase in the period 1991-95 as compared to the period 1986-90, and the studies further revealed that despite marked reduction in the tariffs there was only a marginal increase in the import penetration ratio in the period 1996-2000. Golden and Kumari (2003) and Topalova (2003) find a significant favourable effect of tariff reforms on industrial productivity. Virmani et al (2003-04) find that tariff reduction has a significant favourable effect on exports. As such it appears that tariff reforms did not lead to a general surge of imports of industrial goods affecting domestic industry adversely while as on the other hand there are evidences to prove that tariff reforms contributed to higher industrial productivity and better export performance.

**Scheme of Reforms in Import Tariff**

Having observed the high tariff regime and complicated tariff system over the years, the Government of India came up with the scheme of import tariff rationalization which was underlined in the Long Term Fiscal Policy (LTFP) statement of the Government in 1985. The statement necessitated the need to reduce the rates and simplify the system. For carrying out the scheme, LTFP distinguished between the following categories of imports:

- capital goods
- raw material
- other intermediate goods and components
- essential consumer goods like food grains, edible oils and life saving drugs; and
- Non-essential consumer goods.

Obviously, essential goods were either supposed to bear low rates of import duties or exempted from any duty while as non-essential items were either banned
or would be subjected to high import tariffs. As regarding the first three categories of products, the LTFP observed, "ideally, in the long run, there is a strong case for subjecting all capital goods, raw materials, components and other intermediate products to the same rate of nominal tariff. This system would in effect remove the differential import tariff structure and would create a uniform structure for all the three categories and the single rate would substantially contribute to simplification to both trade and industry and the customs administration. This scheme of single rate import duty would also be detrimental to the unscrupulous importers who tend to misclassify imported products to evade higher import duties. The third advantage of the single nominal rate of import duty would assure uniform rate of effective protection (i.e. protection of value added) at different stages of production of intermediate and capital goods. This would encourage the economy to specialize in the activities that have competitive strength (Govt. of India, 1985).

However, the LTFP warned that a sudden and major deviation from the existing pattern of import duties was not immediately feasible. This is purely because of the fact that the indigenous industries have grown under different levels of protection and were at different stages of maturity. As such it was felt that the rationalization of import tariff has to be phased over a long period providing some differential in import tariff short of a uniform system of duties.

**Export Tariff Policy**

If a country enjoys monopoly or near monopoly in certain products line, export tariffs form a maximum chunk of its revenue. India, as a matter of fact, used to enjoy almost absolute comparative advantage in certain products in the early 1950s. These products used to be coffee, tea, black pepper, jute and textiles and therefore, Govt. of India used to levy heavy export duties and earn a sizeable amount of revenue. There is a statistical evidence to prove that share of export duties in customs revenue was 29.9 percent in 1950-51. By 1960-61 it had fallen to just 8.2 percent of the total customs revenue. However, there was an upswing in the percentage share of export duties as registered in 1970-71 (12 percent of customs revenue). Since then duties have considerably fallen and became almost negligible at present. Today due to sheer competition in the international markets both price-wise as well as quality-wise India does not enjoy any comparative
advantage in any product/s even in those commodities wherein they used to enjoy. Today the revenue generated through export duties is barely 0.5 percent of the total customs revenue (Mathur, 2005).

Despite the fact that export duties have lost their relevance as a revenue generator, it surely does not mean that they should not be levied. Export duties can be levied when any price disparities are found in the international market vis-à-vis any product where it is felt that our products do enjoy certain amount of comparative advantage over other countries. It is up to the approval of the parliament for imposing or raising export duty and Parliament does not usually impose or raise duty as long as such duties do not inflict upon Indian consumers.

**Exchange Rate**

Prior to 1991 India used to have a strict fixed exchange rate mechanism. However, with the onset of liberalisation, the controls on all foreign exchange transactions have been progressively removed to a great extent. The foreign exchange market in India comprises of Reserve Bank of India, Authorized Dealers and Customers. India switched over to a market determined exchange rate system on March 1, 1993. By and large, a floating exchange rate regime has been introduced with Government intervention at times to soften excessive fluctuations in currency rates. Although Indian rupee has declined in value, time and again vis-à-vis major currencies of the world, the same has hardened particularly against dollar due to heavy defense spending by US Government during and after the two wars in Iraq. This is a good for importers but certainly a worrying factor for exporters. Of late, due to surge in exports Indian rupee has strengthened vis-à-vis American dollar. Consequently, there has been a lot of pressure from exporters on government to devalue its currency and the Govt. has not yielded. Veteran economists like Swami Nathan Aiyer has hailed the Govt. decision for not bowing before the export community on the ground that exporters contribution to the Indian GDP is quite meagre as compared to Chinese exporters who are contributing enormously to Chinese GDP. It has rather advised exporters to invoice their products in Euros instead of dollars.
Current and Capital Account Convertibility

In 1993 rupee was made fully convertible on trade account (i.e. current account). This drastic measure contributed hugely towards boosting India’s exports. However, rupee convertibility on capital account has remained a controversial issue for a pretty long time. The committee on capital account convertibility under the chairmanship of S. S. Tarapora submitted its report in 1997 wherein the benefit of a more open capital account had been highlighted. At the same time the committee cautioned that Capital Account convertibility could put tremendous pressures on the countries financial system. As a matter of fact Government of India has been over-cautious in this regard particularly after the disaster experience of some East Asian Countries. Although globalisation has contributed to the financial integration in world markets and presently large amount of capital moves freely across countries yet, the volatility of these flows must be properly understood before taking decisions regarding convertibility on capital account and India has successfully avoided the trap so far. Policy makers must remain cautious as regards capital account convertibility. It is noteworthy that East Asian Crisis was not the result of the liberalized foreign policies and foreign direct investments rather attributable to unbridled short term capital inflows.

Gradually, capital account has been liberalized for certain purposes. For example, in the 2001-02 budgets, the finance minister allowed Indian companies to invest abroad upto $50 million on an annual basis through the automatic route without being subject to three year profitability condition (Mathur, 2005). The gradual liberalization of restrictions on various external transactions has resulted in widening and deepening of foreign exchange market.

Foreign Exchange Reserves

The foreign exchange resource of India consists of foreign currency assets held by the RBI, gold holdings of the RBI and SDRs. India experienced a crunchy situation in July 1991 when the foreign exchange resources had reached to an abysmal low of $ 1.1 billion. However, with the macro economic reforms in 1991 the foreign exchange reserves soared to US $ 38.36 billion in 2001 thus providing a cushion for 8 months imports (Economic Survey of India 2002-3003). As per the latest data pertaining to ending March 2007, India has now a whooping forex reserves of over $ 200 billion.
Accumulation of foreign exchange reserves is a positive sign of reforms. However, this accumulation is not the result of export earnings only. But behind the building of these reserves lies borrowings in State Bank of India. Through its schemes (a) India Millennium Deposit in October-Nov. 2002 to the extent of $ 5.5 billion; and (b) India Resurgent Bonds 2002.

Harmonised Classification

The trade reform process also includes the classification of all commodities according to the International Convention on Harmonised System of Commodity Description and Coding System (ITC-HS Code). India has aligned its commodity classification with the harmonized system used worldwide with effect from 1\textsuperscript{st} January, 1996.

From FERA to FEMA

Due to the first oil sock in 1973, the coffers of Indian foreign exchange had run empty because of the huge import bill on account of POL. This oil shock was responsible for forcing Government of India to enact foreign exchange regulation legislation in the name of Foreign Exchange Regulation Act (FERA) in 1973. The provisions of FERA were so harsh that violators which included big industrialists were treated as criminals and over a period FERA had become notorious from authorized dealers and industrialists perspective. In commensuration with the liberalization process initiated in early 1990s, the Government of India repealed and promulgated a new legal enactment in the FEMA. Under FEMA, unlike FERA, foreign exchange law violators are treated as civil offenders. Moreover, FEMA provides for a number of appellate authorities who can be approached by the aggrieved party.

Income Tax Concessions

To boost foreign trade particularly to give a fillip to exports various schemes of tax concessions have been floated:

\textit{Tax Holiday}

Tax holiday scheme, which provides for exemption from payment of tax on certain specified firms, have been extended to various categories of activities involved in the export process as mentioned:\textsuperscript{lo x}
i) Tax holiday for new established industrial undertakings in Free Trade Zones, Electronic Hardware Technology Parks or Software Technology Parks or Special economic Zones. This scheme provides for complete tax exemption in respect of the profits and gains of industrial undertaking setup in any free trade zone, electronic hardware technology park, or software technology park, special economic zone as specified by the Central Government for the purpose of section 10A. As per the section 10A, complete tax exemption can be claimed in respect of any five consecutive assessment years falling within the time frame of 8 years beginning from the year in which the industrial undertaking commences production. However, assessees availing this tax holiday scheme are not entitled to other various benefits such as set off and carry forward of losses, and reductions under various sections (e.g. 80HH, 801A etc.) of the Act.

ii) Tax holiday for newly established 100 percent export oriented undertakings under provisions of section 10B. Any profits and gains made by an assessee from 100 percent export oriented undertaking are not included in the total income of the assessee. This benefit is available to the assessees in respect of any five consecutive assessment years referred to as tax holiday period falling within a period of 8 years beginning with initial assessment year in which undertaking commences production.

Other Concessions

These are as follows:

a) Deduction in respect of profits and gains from projects outside India (section 80 HIB)

b) Deduction in respect of export turnover (section 80HHC)

c) Deduction in respect of earning in convertible foreign exchange (section 80 HHD)

d) Deduction in respect of royalties from certain foreign enterprises (section 80-O)
e) Deduction in respect of remuneration from certain foreign sources in the case of professors, teachers etc. (section 80R)

f) Deduction in respect of professional income from foreign sources (section 80 RR)

g) Deduction in respect of remuneration received from services rendered outside India (section 80 RRA).

**Measures of Openness**

The openness of economy with respect to foreign trade is gauged from flexibility and permissibility by the Government towards exports and imports. It is also determined by the quantum of tariff and non-tariff barriers imposed on the flow of foreign trade. Empirically openness of an economy is measured by the trade–GDP ratio of a country over the years. As per the Table 2.3, the openness of Indian economy has significantly increased particularly after the onset of liberalisation process in 1991. For instance, in case of import duty, the peak rate of 150 percent in 1991-92 steadily came down to 20 percent in 2004-05. Alongside the reduction in tariff, India has also reduced a fair amount of non-tariff restrictions. From April 1, 2001 all quantities restrictions on imports have been lifted.

**Table 2E**

**Openness of the Indian Economy**

<table>
<thead>
<tr>
<th>Year</th>
<th>Export–GDP Ratio</th>
<th>Import–GDP Ratio</th>
<th>Export–Import Ratio*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>8.4</td>
<td>9.9</td>
<td>85.5</td>
</tr>
<tr>
<td>1997-98</td>
<td>8.3</td>
<td>9.9</td>
<td>84.4</td>
</tr>
<tr>
<td>1990-91</td>
<td>8.1</td>
<td>10.0</td>
<td>80.4</td>
</tr>
</tbody>
</table>

*It indicates the proportion of imports that can be financed from export earnings.

Source: Reserve Bank of India report on currency and finance 1988-99, p. IX.

As we observe from the table that Export-GDP ratio in 1996-97 was 8.4 percent while as the import GDP ratio was 9.9 percent in the same years. We, further observe that 85.5 percent of the imports have been financed from export earnings. Similarly, Export-GDP ratio was 8.3 percent whereas Import-GDP ratio was the same as in the year 1996-97 i.e., 9.9 percent. Also Imports financed by...
exports was 84.4 percent in the year 1997-98. In 1990-91, the Export GDP ratio had fallen from 8.3 percent in 1990-91. The Imports had risen and Import GDP ratio was 10.0 percent whereas Export-Import Ratio was 80.4 percent in 1990-91.

**Assessment of External Sector Reforms**

Till the beginning of 1990s capital goods along with defense equipment, products and raw materials had outdone exports. Right from the dawn of independence India was compelled to import capital goods machinery because up to the early 1990 Indian industry had not matured. However, from the mid 1990s onwards the quantum of imports of capital goods decreased considerably and India is presently exporting good amount of engineering goods. However, exports have remained relatively sluggish owing to the lack of exportable surplus, competition in the international market, inflation at home, and increasing protectionist policies of the developed countries.

The global outlook remains uncertain and unpredictable. The growth impulses in major advanced countries have stagnated, the crises in the Middle East, Iraq, Afghanistan, and the world terrorism coupled with huge hikes in international crude oil prices – all these have contributed to the pessimistic trade scenario and a low profile sentiment is observed among investing public. However amidst these huge uncertainties, India’s external position continues to grow stronger. The foreign exchange reserves have been burgeoning with every passing week. Today these reserves have touched $150 billion, capable of providing cushion against any major shocks. This has also paved way for relaxation in capital controls and partial convertibility of rupee on capital account has been made possible because of healthy reserves of foreign exchange.

The rationalization of customs tariff as is evident in the annual budgets presented in the last couple of years has been encouraging and further liberalization of tariffs has been chalked out by the Ministry of Finance. Faster implementation of such tariff reforms would surely stimulate imports which will in due course of time give a push to exports. The creation of special economic zones (SEZ) has been in itself landmark towards boosting foreign trade. The industrialists establishing units in SEZs are entitled for duty free purchase of
equipment, raw materials, components etc. and do enjoy tax holiday schemes. The de-control and de-regulation of agriculture sector to encourage higher exports of farm products, de-reservation of a number of items from the SSI sector to invite higher investment and technology upgradation are intended to provide boost to foreign trade.

After five decades of economic planning for industrialization, our industry has, in fact, come of age. Presently we have reached a stage where our industry has to be exposed to the open ocean of competition and the era of swimming in protected waters is gone. The international scenario is changing. Free trade regime is a universal slogan and WTO as a multi-lateral trading system emerging stronger every day. Free trade blocks are coming up at a good pace and India and other countries are shedding off fair amount of sovereignty in trade affairs. The decisions we take and do not take will surely form a basis for what is in store for us for a pretty long time in future. Foreign investment is a boon rather a bane. Gone are the days when foreign investment was perceived as shrouded foreign dominance. If foreign investment is diverted to the core infrastructure sector and falls in line with the host country's developmental programme, this would bring in a plethora of benefits including technology transfer, employment generation, competitive prices, consumers delight etc. (shaft, 2004). Thus we do not have to shun foreign investment but rather welcome it whole-heartedly if we resolve to give economically sound India to our posterity.

**Institutional Support System for Indian Exports**

The foreign trade for any country has been regarded as an engine of economic growth. To foster economic growth it is imperative to develop each and every sector particularly the external trade sector. India has been doing a lot towards improving this external sector including making lot of reforms. The reforms encompass a variety of activities ranging from tariff reduction and rationalization by bringing in new laws and repealing the older ones like (FERA was replaced by FEMA), changing the classification of commodities into international trade code (ITC) which is known as Harmonized System (HS), tax concessions to exporters of different types etc. However, over and above these reforms, Government of India
has always tried its level best to create a supportive system with the help of timely schemes and proper institutional support. Presently there is a host of institutions which form an edifice for carrying out international trade. Infact, some of the export promotion schemes are introduced time and again to carry out the Schemes efficiently with tangible results; institutional support is ensured either by the existing institutions or by creating fresh ones to fructify the schemes. Thus institutional support, in whatever form, is indispensable. A brief account of the institutional framework which provides a base for executing foreign trade transactions and also stimulating promotion of foreign trade is discussed as hereunder.

Export Houses, Trading Houses and Star Trading Houses

The Government of India, with the objective to boost exports and encourage exporters introduced a scheme in the name as captioned above. The scheme provides recognition to the established and successful exporters. Under the scheme, the registered exporters having a track record of export performance over a number of years are granted the status of export houses/trading houses/ star trading houses/ super star trading houses, subject to the fulfillment of minimum annual average export performance in terms of FOB value or net foreign exchange earnings on physical exports prescribed in the Exim policy. Entitlement to the above classes is based on the export performance. The high class status category gives entitlement to the better benefits thereof. Each Exim policy elucidates the entitlement norms for each category of status.

Quality Recognition

Quality is the *sine quo non* of every product and service delivered. The price consciousness has taken a back seat and quality is now on the front. The companies, the public and the Government, have recognized the quality awareness. The Directorate General of Foreign Trade has introduced a scheme that exporters who have obtained the quality status ISO/IS 9000(series); or ISO 14000 (series) or WHO – GMP Certification have been made eligible for grant of special import licenses at the rate of 5 percent of the f.o.b value of export of goods and services with aforesaid quality certification.
**Directorate General of Foreign Trade (DGFT)**

The Directorate of Imports and Exports has been replaced by Directorate General of Foreign Trade. The DGFT is one of the important institutions which has come into existence after the liberalisation process initiated in 1991. The institution with its headquarters at Delhi has 32 administrative offices in different parts of India like Mumbai, Kolkatta, Chennai, etc.

The main function of the institution is to assist and advise the Government in the formulation of Exim Policy and implement the provisions of the Exim Policy through the mechanism of licensing. The next important function of the DGFT at present is the promotion of exports and facilitation of imports to promote export trade. The new Act, namely, “Foreign Trade and Development and Regulation Act” has been in place from 7th August 1992. Keeping in view the special thrust in exports and the resolution of the Government to address exporters problems in a coordinated manner and on an immediate basis, all the field offices of DGFT also act as export facilitation centers, in addition to being Nodal agencies to attend to the problems and grievances of the exporters. They also lease and coordinate the field functionaries of other departments, i.e. Department of Revenue, Banking, Railways, Shipping and Power, etc. to solve all the trade and export related problems facing exporters vis-à-vis export trading.

**Director General of Commercial Intelligence & Statistics (DGCI&S)**

Of late, the Directorate General of Foreign Trade has been compiling the data on imports and exports. The data is available even on their website (www.dgft.in.co). The data available pertains to imports and exports of commodities and country wise, as well as region-wise information is available on the website. Actually special efforts were taken in the early 1990s towards streamlining the data dissemination of foreign trade and it was ensured that aggregate data on imports, exports and balance of trade are released within one month after the reference month.

One the formidable institution in the collection and dissemination of foreign trade data is Directorate General of Commercial Intelligence and Statistics (DGCT&S). This prestigious institution is Kolkatta based and is in the service of
the nation for the last many decades. It is worth mentioning here that the data disseminated by DGFT, Delhi is actually acquired from DGCI&S, Kolkatta. Apart from data collection and dissemination, the DGFT also provides lot of facilities to importers and exporters. They provide the information about various countries requiring various products and have developed a country commodity matrix of 95 countries. The institutions gives facilitation with regard to obtaining Importers and Exporter Code (IE Code). For over one hundred and forty years, this directorate is serving the nation relentlessly as the principal authority in trade related information in India. The quality of information both in terms of authenticity and timeliness has made this organisation a veritable trade intelligence warehouse not only in India but also across the globe.

**Directorate General of Anti-dumping and Allied Duties**

On 13\(^{th}\) April, 1998, the Government of India established an institution in the name of Directorate General of Anti-Dumping and Allied Duties. The institution would investigate allegations of dumping and subsidies given by country of origin and would recommend suitable countervailing duties to the Central Government. After the reduction of tariffs and non-tariffs barriers under instructions from WTO to usher in an era of free trade, the number of dumping cases in the whole world has increased and India is no exception to it. The counter-veiling duties are imposed when there is sufficient evidence to prove that the dumped imports are causing or threatening to cause material injury to the Indian industry producing like articles or are materially retarding the establishment of industry. The influx of a number of Chinese goods particularly in the segment of consumer durables have been subject to Anti-dumping measures and countervailing duties have been imposed by the Directorate. ITPO during its existence of nearly three decades in the form of Trade Fair Authority and Trade Development Authority had played a proactive role in Trade, Investment and Technology Transfer processes.

**Indian Trade Promotion Orgaisation (ITPO)**

One of the premier organisations for the development of foreign trade is Indian Trade Promotion Orgaisation. The basic objective of this organisation is to organize trade fairs/exhibitions in India and abroad. The organisation also arranges
buyer seller meets, conducts trade promotion and product development programmes. The organization is also engaged in the dissemination of information regarding products and markets.

ITPO has the privilege of organizing prestigious trade fairs at Pragati Maidan and in other parts of the country. Mega events that have over the years developed re-occurred and institutionised include International Shoe Fair, Indian International Trade Fair and Delhi Book Fair. These events are the regular features of ITPO. Under Market Development Assistance scheme which is operated by ministry of Commerce, Govt. of India , the participation in International Fairs, Study Tours abroad are being conducted to enable industry groups and individuals to participate with a view to broaden their horizon of knowledge regarding customer tastes and preferences, competition etc.

**Indian Institute of Foreign Trade**

Set up in 1962, the Indian Institute of Foreign Trade (IIFT) is an autonomous organization to help professionalise the country’s foreign trade management and increase exports by developing human resources; generating, analyzing and disseminating data; and conducting research. The institute is engaged in activities pertaining to imparting of training to junior, middle and senior level executives in different areas of foreign trade management, for undertaking policy-oriented research, market surveys, commodity and country studies, disseminating foreign trade information through its publications and research reports, and offering consultancy services.

**Exim Bank**

In extension of institutional support to foreign trade, the role of the Exim Bank is paramount and indispensable. Established in 1981 the Exim Bank of India has assumed a centric role in the export processes of India. The objective of Exim Bank is to provide financial assistance to exporters and importers, and to function as the principal financial institution for co-ordinating the working of institutions engaged in financing export and import of goods and services. With a view to promoting the country’s international trade, the bank has a physical presence in major cities of India like Mumbai, Kolkata, Bangalore, Ahmadabad, Chennai.
Hyderabad, Guwahati, Delhi, and Pune. The overseas offices of the bank are situated in Washington DC, Singapore, Johannes Burg, London and Budapest.

The Exim Bank caters to a host of activities across all stages of business cycle. The bank provides financial services and value based services. These include pre-shipment, post-shipment, investment abroad, advisory Services, Import Finance, Export Product Development, export Production and Export Marketing.

International Agreements for Promoting Foreign Trade

These are several organizations at the international level which have worked relentlessly towards creating a free trade regime in the world. The following few deserve the worth while mention.

UNCTAD

On the sidelines of the talks regarding the coming up of GATT, another organization known as United Nations Organizations for Trade and Development (UNCTAD) came up in 1964 to look into the trading affairs of the countries. Since UNCTAD was a timely arrangement in place of GATT the emergence of which looked doubtful because the developing countries had mounting apprehensions about its discriminatory role and dominance by developed countries. The export and import trade between countries got a boost and India being a member of UNCTAD also benefited because of its regulatory mechanism towards foreign trade facilitation.

Functions of UNCTAD

The principal functions of UNCTAD are as follows:

1. to promote international trade with a view to accelerate economic development
2. for formulate principles of and policies on international trade; and
3. To negotiate multinational trade agreements.

The conference, which is a preliminary body of a large number of countries, meets normally at intervals of 4 years. Till now eight conferences have been held so far under the auspices of UNCTAD.
World Trade Organisation

WTO is the outcome of eighth round (Uruguay Round) of multilateral trade negotiations held under GATT for seven years (1986-1993). The 'Seven-Year Round' resulted in new legal agreement for trade and strengthening settlement system. This was followed by a Ministerial Conference in Marrakech, Morocco in April 1994 which was attended by 125 countries across the world to sign for the establishment of a new successor institution of GATT, namely WTO. WTO came into force on Jan 1, 1995 with all assets and liabilities of GATT transferred to WTO, with its headquarters at Geneva. As a result of WTO replacing GATT, all committees of GATT were superseded by WTO committees.

WTO assumed broad terms of reference for continuing negotiations and brought agreements in the following areas:

1. Basic Telecommunications
2. Maritime Transport
3. Movement of Natural Persons
4. Financial services
5. General Agreement on Trade in Services (GATS)
6. A reaffirmation of the rule of law in Trade and economic relations.
7. A reversal of long standing protectionist practices in agriculture, textiles and clothing.
8. An extension of multilateral rules in services and intellectual property rights

WTO's creation in 1995 marked the biggest reform of International Trade since 1948. During those 47 years, international commerce had come under GATT which helped establish a prosperous multi-lateral trading system. However, by the end of 1980s an overhaul was due (John and Kevin, 2000). The Uruguay Round brought about that overhaul. It were the largest trade negotiations ever. AT times, the talks seemed doomed to fail, but in the end the Uruguay round was successful. Today WTO is more than GATT. GATT (the institution) was small and provisional and not recognized in law as international. A number of simple, fundamental principles run throughout all the WTO agreements. They are the foundation of the multilateral
trading system. They include: non-discrimination, freer trade, predictable policies, encouragement to competition and provision for less developed countries.

WTO is run by its member governments, all the decisions are made by the membership as a whole, either by ministers (who meet every two years) or by officials (who meet regularly in Geneva). Decisions are normally taken by consensus. The highest authority is Ministerial Conference, which meets at least every two years. More routine work is supervised by the General Council. Numerous other councils, committees, working parties and negotiating groups cover the wide range of WTO issues.

With the coming up of WTO as a multilateral trading system though certain agreements on key issues are yet be reached between the member countries particularly relating to Agriculture subsidies and non Agriculture Market Access (NAMA), yet it is gaining a foot hold on every passing day. Although the Institution, as is before us presently, seems to be doomed to rough patches but then all us know, for sure, that it shall come up as a strong multi-lateral system in future. The recent failure of WTO talks at Hong Kong ministerial conference followed by Geneva Talks should not pessimise us to the extent that the organization would not survive, it must be remembered that this organization had come up amidst numerous odds it faced through out a period of 37 years of its evolution. At times during eight year round negotiations in Punta del Este Uruguay, it was felt that GATT, the predecessor of WTO will not survive due to the sharp differences between developing and developed countries. And then history testifies it today as a successful organisation. And this made was responsible for transforming the GATT, provisional body, as a legal entity in the Marrakkash Round in Dec.1994 in the name of WTO.

Thus, it can be inferred that WTO's main objective is to facilitate trade among countries, create a free trade regime. The institutional support for carrying out foreign trade in India is now large and effective. The apex institution is Directorate General of Foreign Trade. It is a well established organization. Along side DGFT the role of Exim Bank is paramount. Similarly institutions like Indian Trade Promotion Organization, Indian Institute of Foreign Trade, States cells are other auxiliary institutions for the promotion and development of foreign trade. At
the international level the free trade regime was fostered by UNCTAD followed by WTO. Though WTO is still in its evolutionary stage but is expected to evolve as formidable organization in the coming years. And India’s foreign trade is expected to glow and groom under the auspices of domestic foreign trade institutional framework. Alongside, the benefits of WTO provisions to developing countries including India will continue to percolate. Moreover, Government of India has created a large number of product boards particularly in the area of agriculture products to enhance the exports of each product category. For example, we have Coffee Board, Tea Board, Textile Board etc., and each board has a governing body of its own which looks into the various difficulties and prospects of the commodity vis-à-vis its exports. Besides, there is plethora of export promotion schemes in vogue.

**Export Promotion Schemes**

The Government of India, in addition to a galaxy of institutional support for furthering foreign trade, has plethora of schemes in place as an incentive base to exporters as well as importers. These schemes have proved stimulating for exporters and importers because the incentives tagged with the schemes are exciting and rewarding as well. However, the government has been rolling over the schemes quite often to fall in line with the objectives set out in foreign trade policies. Some of the prominent schemes which have continuity prospect for a pretty long time are discussed in the following paragraphs.

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

The scheme has been in vogue for last many years. The EPCG scheme has undergone many changes commensurate to the requirements of the export promotion policies. The EPCG scheme allows import of capital goods for pre-production and post-production and at a 5 percent of customs duty subject to an obligation equivalent to 8 times of duty saved over a period of 8 years from the date of issuance of license. The period of fulfillment of export obligations is 12 years with a duty saved to Rs. 100 crores or more. The FTP 2004 has introduced the following major changes in the EPCG scheme. Import of second hand capital goods without any restrictions on age, while as, the erstwhile Exim policy of 2002-
07 allowed import of second hand capital goods upto 10 years old only. Importers of capital goods for exports of agriculture products and there value added variants have been allowed at zero percent duty. In case of movable capital goods in the service sector, the requirement of installation certification from Central Excise has been done away with.

**Duty Neutralization Scheme**

Three variants of duty neutralization schemes are: (a) Duty Free Replenishment Certificate (DFRC), Duty Entitlement Passbook (DEPB) and Advance Licenses. The DFRC allows duty free replacement of inputs used in export production.

**Duty Entitlement Pass Book Scheme**

Meant to neutralize the incidence of basic and special customs duty on the import content of the export products, the duty Entitlement Passbook Scheme (DEPB), has become very popular over the years. The neutralization shall be provided by way of grant of duty credit against the export product. Exporters are eligible for benefits under the scheme on both pre-export and post-export basis. DEPB on post-export basis is granted against exports already made and items imported against it are freely transferable upon realization of export proceeds. Under the DEPB on pre-export basis, exporters tied with supporting manufacturers and having export performance in the preceding three licensing years are eligible.

**Advance License Scheme**

Advance license for annual requirements scheme has been re-introduced as some problems were encountered in closure of AAL (Annual Advance License) and the significance of scheme considerably reduced due to dispensation of Duty Exemption Entitlement Certificate (DEEC). The exporters can avail Advance License for any value of mandatory spares to be allowed in the Advance License upto 10 percent of CIF value.

The total value of export obligation under all forms of import-linked export promotion schemes as a promotion of India’s total exports increased from 75 percent to 93 percent over the same period (DGC, 2006). Besides, there are other
promotional schemes that have been in vogue to promote exports from the country. These are discussed as follows:

**Market Development Assistance Scheme (MDA)**

The scheme is currently operated by the Ministry of Commerce, Government of India, with a view to encourage exporters to access and develop overseas markets. The scheme offers funding for participation in International Fairs, Foreign Study Tours, Trade Delegations, and publicity etc. Direct Assistance under MDA for small scale units is given for individual sales-cum-study tours, participation in fairs etc.

As a part of the comprehensive policy package for promotion and development of SSIs announced on 30th August, 2000, it was decided that Small industries Development Orgaisation should have an MDA similar to the one operated by Ministry of Commerce.

**Critical Infrastructure Balance Scheme (CIBS)**

Availability of infrastructure at crucial locations requires urgent attention. As such, a special scheme is being implemented for providing critical infrastructure at designated pressure points. The states have been advised to identify export centers and to strengthen the infrastructure of these centers (John and Kevin, 2004). After making an overall plan they can send proposals to the Ministry of Commerce for funding under the above scheme. A sum of Rs. 30 had been earmarked for the Critical Infrastructure Balance Scheme (CIBS) during the 1998-99.

**States Cell**

The States Cell acts as a nodal agency for interacting with state government/union territories on matters concerning exports from the states/union territories and acts as a bridge between state level corporations and associations of industries and commerce and export organizations at the center. The State Cell works as a hub for information dissemination regarding trade policies from the center to the states and provides guidance to the state level export organizations and assists in the formulation of export plans of states where export possibilities remain untapped.
Summary

Increased interdependence of nations galvanized by the revolutionary advances in communications and informatics has also resulted in the dilution of a fair amount of sovereignty throughout nations. The very concept of International trade once viewed with suspicion particularly during the 17th and 18th centuries was re-established in the modern nation state with the theories of absolute and comparative advantage propounded by Adam Smith and David Ricardo. Heckscher-Ohline refined the theory of international trade based on factor endowments and is still considered a masterpiece among all theories of International trade as it takes cognizance of all factors of production (land, labour, capital etc.) in contrast to the earlier ones which only took labour differences between countries as basis responsible for foreign trade. The theory of international trade was lastly radically modified by Michael Porter in his book “The Competitive Advantage of Nations”. The economic theories of trade were overshadowed by a visionary and astute researcher who believed that it is not the nations who attain the comparative advantage but it is the firm or industry which through decades of hard work, focus and core competency has developed competitive advantage.

Foreign trade is an engine of growth. The classical and neo-classical economists believed that there is a positive relationship between foreign trade and economic growth. Indian foreign trade though eclipsed by a more restricted import control policies from the early years of independence to the early 1990s has now seen radical improvements and foreign trade is now with the thrust on ‘export promotion’ as compared with the earlier stress on ‘import substitution’. Alongside the major reforms in the macroeconomic structure of the economy in the early 1990s when almost a new regulatory system was put in place and the redundant legal framework was done away with. The Import and Export Control Act of 1947 was also repealed and replaced with Foreign Trade (Development and Regulation) Act of 1992. Thus the liberalisation spree that ushered in early nineties did make its inroads on the liberalisation of India’s foreign trade as well.

The evaluation of a country’s foreign trade is done through the parameters of ‘Pattern of foreign trade’. If a country imports finished goods and exports primary
goods including raw material inputs, we call the economy as underdeveloped and if the
country, in question, imports input material and exports finished goods we
conclude that the economy has exalted and evolved and is a developed one.
Following the same analogy, we observe through extensive analysis that India has
shown indicators of growth as it now imports input material and exports finished
goods. That means value addition is being done to the primary goods over here in
the country and sold at a premium to the rest of the world. The swelling exports of
engineering goods and reducing imports of capital goods bears testimony to our
analysis. India has also been eager to look into for newer markets. The detailed
analysis reveals that the direction of India’s exports has also gone through radical
changes. Great Britain once used to be the main importer of Indian goods upto 1973
is no more the only market. Our products have been finding diversified markets not
only throughout Europe (including Eastern Europe, Russia) but also in USA, Latin
America, Africa, Middle East, Far East and South East Asian Countries. In fact, the
‘Look East’ policy has been there for the last many years. Of late, India’s foreign
trade with USA has been to the extent of 18% and with EU it has been more than 20%.

In order to carry out the foreign trade business in a systematic manner, the
government of India has a foreign trade policy mechanism in place from the last
many decades. Abrogating the earlier policy of having a one year or three year
foreign trade policy, the government has come up with a five year policy from
1992-97 onwards. The 2002-07 policy envisaged, inter alia, the concept of Special
Economic Zone (SEZ). The idea drawing inspiration from Chinese Shenzhen
Economic Zones has, however, developed controversies over here in India. Though
the concept is very rich but creation of too many SEZs is rendering the matter in deep
difficulties. The Parliament has created a separate legislation for the implementation of
SEZ regulations but as extensive land is required for the development into a SEZ,
the farmers are not ready to part with their holdings particularly when it comes to
the acquiring of fertile double crop land. The matter has, thus, protracted.

The Exim Policy nomenclature has been replaced by Foreign Trade Policy.
This was done in the FTP of 2004-09. It has several schemes in place to augment
export trade.
Notwithstanding the fact that initially being an inward looking economy with much stress on the domestic manufacturing and domestic consumption characterised by the *swadeshi* movement, Government of India, gradually has come up with relevant institutional support for the effective implementation of provisions of the foreign Trade Act of 1992 and Foreign trade Policy. The Institutions which form the bedrock of India’s foreign trade are DGFT, IIFT, DGCI & S, Star trading houses, ITPO etc.

In spite of plethora of institutional support and policy framework in place for the last many years, India has not been in a position to credit itself with a share of 1 percent out of the global foreign trade. India’s share is still hovering around 0.91 percent. It is not only the number of the products in India’s export basket which matters but it is more important to find newer markets which shall fetch good prices for our exports. Apart from US, India has healthy trading relations with the EU and with 27 countries in its fold EU market is always an opportunity as well as a challenge. The affluent Western Europe with abundant purchasing power has always been a destination point for Indian exports but newly annexed Eastern European countries are not a mean proposition either. The ever increasing market in EU has always been tempting and Indian exporters have eagerly been eyeing on this promising continent inhabited by well-to-do societies. With 1/5th of its foreign trade transacted with the EU countries, India’s trade relations with EU are far ahead than the threshold point but much needs to be done to enhance the relationship. India and the EU have a entered into sustainable and durable economic and trading relationship through a series of agreements executed over the last many decades. These agreements form the edifice of Indo-EU trade relations. The next chapter “India-EU Trade Agreements: A Historical Background” unfolds the strong relationship bonded between the two sides with the help of the historical trade agreements.