CHAPTER - XI
CONCLUDING OBSERVATIONS
AND
SUGGESTIVE MEASURES
Concluding Observations and Suggestive Measures

The concluding section attempts to summarize and present the analysis with relevant and significant interpretations in light of the objectives set at the start. The observations are summarized below and suggestive measures appended thereto.

1. **Trends, composition and direction of Indian foreign trade:** The exports of *agricultural and allied products* have since the year 1997-98 all through out lost their share in the total exports of the country. After 1996-97 when they were having a contribution of 20.5% in the export basket of the country they lost their share to 18.93% (1997-98), 18.17% (1998-99), 15.27% (1999-2000), 13.55% (2000-2001), 13.46% (2001-2002). Very recently their share in the total exports has even gone down to 12.28% in the year 2002-2003. Basmati rice, coffee, raw cotton, marine products, oil meals, tea were the prominent losers in this segment whose contribution in the total exports declined. Over any previous year after 1996-97 if we look at the changes in the exports of agricultural and allied products we can deduce that the most significant downfall was in the year 1998-99. In the years 2000-2001 and 2002-2003 this segment of the country’s exports has shown up a positive change over the previous year. In value terms (million U.S. dollars) Agricultural and Allied products exports have gone down from 6634.2 to 5921.31 (2,001-2,002) to 6428.52 (2,002-2,003). There was a fall in the value wise exports of Basmati rice, coffee, raw cotton, spices, and tea. The commodities that were notable *gainers* during 1997-2,002 (in terms of value wise exports) are cashew, floriculture products, fresh fruits and vegetables, marine products, non-basmati rice, poultry and dairy products, processed fruits and juices, sugar and molasses, tea, and wheat.

The exports of *Ores & Minerals* have lost their percentage contribution in the total export basket from 3.03% (1997-98) to 2.88 percent (2,001-2,002). Their contribution figure of 3.64% is an all time high since the year 1997-98. Its lowest contribution was in the year 1999-2000 when it accounted for just 2.5% of the nation’s total exports. The notable gainers in this segment was coal and to some extent iron ore when the figure of 2002-2003 is also taken in the ambit. Beyond 1997-98, exports of ores and minerals kept on falling till 1999-2000 when they posted a growth of 2.69% over the previous year. After this they have kept on progressing over the previous years and in the year 2002-2003 they registered a good rise of 50.38% over the 2001-2002. In terms of value wise exports the ores and minerals have increased their value from 1062.34 million U.S. dollars (1997-98) to 1266.69 million U.S. dollars (2,001-2,002). They have further increase their export value to a level of 1904.87 million U.S. dollars (2,002-2,003). In terms of value almost all the components of this
segment (coal, iron ore, mica, and processed minerals) have gained from the year 1997-98 till the year 2,002-2,003. The highest of all was the exports of iron ore which reached a total of 861.82 million U.S. dollars in the year 2,002-2,003. The export of processed minerals was the next in line in terms of export value to in the period 1997-98 to 2,002-2,003.

The export of manufactured goods has maintained its hefty share in the total export basket of the nation during the period from 1997-98 till the period 2,002-2,003. With a big contribution of 75.83% in the year 1997-98 the exports of manufactured goods has gone up to reach a level of 80.93 percent of the total exports in the year 1999-2,000. However it dropped to 76.14 percent in the year 2,001-2,002 and still later in the year 2,002-2,003 to 73.42 percent. In terms of the growth over the previous year the manufactured goods have witnessed ups and downs. The posted a rise of around 8 percent in the year 1997-98 over the previous year. During 1999-2,001 their rate of growth over the previous year was around 15 percent. In the year 2,001-2,002 the suffered a minor fall 2.64%. However in the year 2,002-2,003 they have attained a growth rate of 14.84 percent over the previous year. In value terms (million US dollars) they have moved up from 26578.59(1997-98) to reach 38452.07(2002-2003). The segment of manufactured goods comprises of six broad categories. The export of leather and leather manufacture has throughout the period from 1997-98 to 2,001-2,002 maintained its contribution in the export basket at a level around 4% approximately. There was a small fall in its contribution in the year 2,002-2,003. In terms of growth over the previous year the leather and leather manufactures have mostly posted a negative growth between the period 1997- 2,003 with intermittent spells of the positive growth notably in the year 2,000-2,001. In value terms (million US dollars) they have gone up from 1658.69(1997-98) to reach 1791.65(2002-2003). In the second category lie the chemicals and related products. During 1997-2,002 their contribution in the exports of the country has remained at a level around 9% percent. The drugs, pharmaceuticals and fine chemicals have made a good contribution in this category. They have increased their share from 4.17% (1997-98) to 4.72% (2,002-2,003). In terms of percentage growth over the previous year the figures have seriously declined from 17.37 percent (1997-98) to 1.39 % (2001-2002). However the percentage growth has picked up in the year 2,002-2,003 to reach the level of 15.61%. In value terms (million US dollars) they grew from 3335.47(1997-98) to 4993.6(2002-2003). In the third category lie the engineering goods that make a handsome contribution of between 13 to 15 percent of the total exports during the period 1997-2,002. They have furthered their contribution to 16.01 percent of the total exports made in the year.
2,002-2,003. The notable contributors in this category were the electronic goods, machinery & instruments, manufactures of metals, and transport equipment. In 1997-98 the percentage change over the previous year in the exports of the engineering goods was 7.91 percent. After reaching a high level of growth of 32.25 percent over the previous year, the growth rate declined to a level of 2.94 percent in the year 2,001-2,002. However the growth rate gained strength in the year 2,002-2,003 and touched a level of 20.46 percent growth over the previous year. In value terms (million US dollars) they grew from 5282.87(1997-98) to 8384.44(2002-2003) The fourth major category is made up of the Textiles (excluding the RMG). Unfortunately its contribution to the total exports has declined all through out from the year 1997-98(14.78%) till the year 2001-2002(11.86%). Its contribution has further declined in the period 2002-2003 to reach a level of 10.99% of the total exports. In terms of percentage change this category has witnessed the highest positive change of 13.08% (2,000-2,001). In the next year it declined to again grow at the rate of 10.26 percent in the year 2,002-2,003 over the previous year. In value terms (million US dollars) they went up from 5180.52(1997-98) to 5752.96(2002-2003) The fifth category consists of the Readymade Garments (RMG) whose share in the total export basket of the country has hovered around 11%-12% during the period 1997-2002. Of late its contribution to the total exports has also declined to reach a level of 10.29% in the year 2002-2003. In terms of percentage growth this category has made a great stride from 3.31 percent (1997-98) to reach a high of 16.92% growth rate (2,000-2,001). It declined however in the next year but picked up somewhat in the year 2,002-2,003 to a level of around 7 percent. In value terms (million US dollars) they have grown from 3880.85(1997-98) to 5387.49(2002-03). The sixth category of other manufactured goods has shown a rise from 20.66 % (1997-98) to 22.84 % (2001-2002). Its contribution has further increased to reach a level of 23.18% in the year 2002-2003. The notable gainer in the category was the gems & jewellery which enhanced its contribution in the export basket from 15.27 % (1997-98) to 16.67 % (2001-2002) and further to 16.95% in the year 2002-2003. In percentage terms this category gained a lot by increasing its growth rate from 8.93 % (1997-98) to 23.19 % (1999-2000) in the respective previous years. However it declined in the year 2001-2002 by 0.72% and picked up to 20.86 % (2002-2003). In value terms (million US dollars) they grew from 7240.18(1997-98) to reach 12141.93(2002-03).

The Petroleum & crude products and other commodities have also increased their share in the export basket from 1.01% and 1.2 % (1997-98) to 4.64% and 6.03 % (2002-03) respectively.
The composition of imports has also changed between the period 1997-98 and 2,001-2,002 and still further in the year 2,002-2,003. The conclusions can be drawn for the two broad segments under which the imports of India have been studied.

The imports of petroleum crude and products (POL) have increased their contribution continuously from 19.68% (1997-98) to 27.23% (2001-02) and further to 28.78% (2002-03) in the country’s import basket. These imports made the greatest stride of 97.38 percent in the year 1999-2,000. Earlier between 1997-99 they have shown a falling trend over the previous year. This falling trend in percentage terms over the previous year was again observed in the year 2,001-2,002. Of late in the year 2,002-2,003 these imports have again picked up. In value terms (million U.S. dollars) the imports of POL items moved up from 8173.81 (1997-98) to 17685.31 (2,002-2003).

The imports of the Non-POL items on the whole has decreased its burden in the total imports of the country from 80.32% (1997-98) to 72.77% (2001-2002) and further to 71.22% (2002-03). In value terms (million U.S. dollars) these imports have gone up from 33360.75 (1997-98) to 43760.90 (2002-2003). It consists of five categories. The first category of imports of food and related items has maintained a contribution of 3% to 4% in the total value of imports made during 1997-2,002. Of late in the year 2,002-2,003 its contribution in the total value imports was 4.31%. The second category of imports is made up of textile yarn fabrics, made up articles. Their imports have continuously increased their contribution in the total imports of the country from 0.99 percent (1997-98) to 1.45% (2,001-2,002). Still further they’ve increased their share to 1.56 percent of the country’s total imports in the year 2,002-2,003. The third category of imports is of the chemicals and related products. This category has declined in terms of percentage share in total imports from 11.33 percent in the year 1997-98 to 8.66 percent in the year 2,001-2,002. In the year 2,002-2,003 its contribution in the total imports has further declined to 7.63 percent of the total imports of the country. The fourth category of imports is made up of capital goods which have also come down from 19.18 percent of the total imports (1997-98) to 12.68% in the year 2,001-2,002. There was a marginal decline in the year 2,002-2,003 when they reached the level of 12.56%. The fifth category consists of the other non-POL items whose contribution has gone down from 40.57 percent of the total imports in the year 1997-98 to 39.49% (2002-03). The significant items that have increased their share in the total imports after 1997-98 under this category are the electronic goods, gold and silver, and pearls precious and semiprecious stones.
The Direction of India’s exports and imports has also shown a change during the period 1997-2,002. The USA has maintained its supremacy. It has been the biggest consumer of the Indian exports by claiming a share of 19.43 percent of the total Indian exports (1997-98) which went up to 22.83 percent in the year 1999-2,000 and kept declining till the year 2,001-2,002 when it came to a level of 19.43 percent. In the year 2,002-2,003 USA claimed this still higher share of 20.78 percent in the total exports from India.

Next in line was the UAE which increased its share of in the total exports of India from 4.83% (1997-98) to 5.69% (2001-2002). It moved up further to level of 6.34% (2,002-2,003). The share of the UK has declined from 6.12% (1997-98) to 4.93% (2,001-2,002) and still further to 4.73% (2,002-2,003) of the total exports from India. The share of Hong Kong in the exports of India has hovered around 5% -6% during 1997-2,002. In the recent past it has further declined to 4.68% (2,002-2,003) of the total exports made from India. Even Germany could not maintain its share in the total exports made from India. Its share declined from 5.5% (1997-98) to 4.08% (2,001-2,002) and still further to 3.95% (2,002-2,003) of the total exports of India. Trade ties with China have improved as its share in the total exports made from India improved from 2.05% (1997-98) to 2.17% (2,001-02) and further up to 3.75% (2,002-2,003). As for Japan its percentage contribution has also declined in the total exports made from India. From 5.42% (1997-98) it has moved down to 3.56% (2,002-2,003) of the total exports from India. The share of Belgium in the total exports made from India has remained at the level of around three percent during 1997-2,003.

USA has been the biggest source of import for India during the period 1997-2,003. It sources 7.21% of the total imports made by India in the year 2,002-2,003. The imports from Belgium have centered around 6% of the total imports made by India. The imports from China have increased their share in the total imports made by India from 2.7 percent (1997-98) to 4.54% (2,002-2,003). The share of imports from UK, Germany, Switzerland, Japan, and UAE has decreased in the total imports made by India during 1997-2,003.

India’s exports to the ASEAN bloc has moved up in value terms (million U.S. dollars) from 2474.47 (1997-98) to 3468.79 (2,001-2,002) and still further to 4628.08 (2,002-2,003). The exports have shown a positive change over the previous year since 1999-2,000. In the year 2,002-2,003 the exports from India moved up by 33.42% over the previous year. The exports to the CIS have declined from a level of 1071.46 million U.S. dollars (1997-98) to 917.37 million U.S. dollars (2,002-2,003). From the year 2,000-2,001 India’s exports to the CIS has continuously shown a declining trend over the previous year till 2,002-2,003.
Exports to the *European Union* (EU) have improved from 9156.94 million U.S. dollars (1997-98) to 9879.43 million U.S. dollars (2001-2,002) and further to 11382.24 Million U.S. dollars (2,002-2,003). From 1997-98 onwards the exports to the EU have mostly shown a positive growth in percentage terms over the previous year. India’s exports to *LALA* in million U.S. dollars has also improved from 590.28 (1997-98) to a level of 797.32 (2,001-2,002) and further to 1065.27 (2,002-2,003). The years 1997-98, 2,000-2,001, and 2,002-2,003 are significant as these have recorded a handsome positive growth (ranging between 30%-50 %) in India's exports to LALA over the respective previous years. The exports to *NAFTA* have also gone up since 1997-98 in value terms (million US dollars). From 7354.2 mill. US dollars they moved up to 11838.62 mill. US dollars (2002-2003). There has been a rise in the exports to *OECD* bloc from 20236.08 mill. US dollars (1997-98) to 27315.18 mill. US dollars (2002-2003). Exports to *OPEC* countries increased from 3535.02 mill. US dollars(1997-98) to 6906.56 mill. US dollars (2002-2003). For the *SAARC* nations the exports moved up from 1612.91 mill. US dollars (1997-98) to 2595.84 mil. US dollars (2002-2003).

Imports from *ASEAN* have gone up in value terms during the period 1997 to 2,003. From 1997-98 the imports have grown between 16 % and 19% over the respective previous years.

The imports from *CIS* have increased their contribution in percentage terms in 2,002-2,003 over the previous year. Earlier in the years 1998-99 and 2,000-2,001 the imports have witnessed a downfall over the respective previous years. In terms of value the imports have declined from 898.0 6 million U.S. dollars in the year 1997-98 to 843.2 million U.S. dollars in the year 2,002-2,003. Imports from the European Union have shown a substantial rise in the year 2,002-2,003 over the previous year of 19.82 percent. In the earlier years (after 1997-98) the annual growth rate was mostly below one percent. In terms of million U.S. dollars the imports have increased from 10693.47 (1997-98) to 12547.97 (2,002-2,003). As of the imports from *LALA* in value terms it has increased from 523.76 million U.S. dollars in the year 1997-98 to 997.97 million U.S. dollars (2,002-2,003). The imports have shown the most substantial rise of 40.29 percent over the previous year in the year 2,001-2,002. Imports from *NAFTA* witnessed a highest change of 34.85 percent in 2,002-2,003 over the previous year. In terms of million U.S. dollars the imports have increased from 4222.37 (1997-98) to 5062.39(2002-2003). The imports from *OECD* substantially moved up by 13.62% in the year 2,002-2,003 over the previous year. This was the highest change over the previous year since the year 1997-98. In terms of value the imports have gone up from 22531.04 million U.S.
dollars (1997-98) to 25011.1 2 million U.S. dollars (2,002-2,003). The imports from OPEC have consistently increased over the previous in percentage terms after 2,001-2,002. In terms of value the imports have a motive from 9425.61 million U.S. dollars (1997-98) To 3505.23 Million U.S. dollars (2,002-2,003). The imports from S.A.R.C have been quite low in value terms but have increased from 234.5 8 million U.S. dollars (1997-90) to 497.7 6 million U.S. dollars (2,002-2,003).

2. **Export Promotion:** The government has made far reaching changes in the structure of the EXIM policy since the period 1997-98. It continued with the earlier decision to make the EXIM policy co-terminus with the five year plans of the country.

In the year 1997-98 the EXIM Policy for the first annual EXIM policy for the period 1997-2002 was presented. The aim of this policy was to accelerate the country's transition to a globalized economy chose to leave the backs of benefits from the expanded international trade order. The EPCG scheme was a streamlined with tariff rates reduction from 15% to 10%. Zero-duty imports were permitted by the EXIM Policy 1997-98 were c.i.f value of imports was Rs.20 crores and above. The benefits of the scheme were passed on to the agriculture and allied exports and to the service industry. The policy discontinued the VABAL and the Pass-Book scheme while continuing the QABAL scheme. The Duty Entitlement Passbook (DEPB) scheme was introduced to neutralize the incidence of basic customs duty. The scheme of deemed exports was expanded in the policy of 1997-98. Relaxations were given to the export oriented units. The export obligation period Under the adverse license scheme was increased. The EXIM policy 1997-98 shifted many items from the restricted list to the special import license list. The SIL entitlements were also increased for various categories of exporters. The threshold limits for recognition for various categories of export houses were revised. Many sector the specific schemes were introduced in the EXIM policy 1997-98. The special thrust was given to the gems and jewellery sector. The software exports, electronics sector also received a boost. The procedural complications being faced by the industries engaged in the export trade were tried to be reduced.

The revised EXIM Policy 1998-99 expressed the government's commitment to strengthen the domestic industry and make it globally the brigade in competitive. The policies studied the poor export performance figures posted by certain export sector mainly gems and jewellery, agriculture and Allied products, leather sector etc. the procedural delays, increased transaction costs, high cost of export credit, infrastructure constraints etc. were identified as the main obstacles in the export growth. The time limit for filing post-DEPB
Claim was also raised from 90 days to 180 days. But once license the scheme offered one 5c the scheme of advanced license was also extended to include the export house/trading house/ star trading house/ Superstar trading house. In the EPCG Licenses a variation of ten percent in the value, for which the license was issued, was permitted without the license holder having to apply for endorsement of these variations. Goods like jigs, fixtures, moulds and dies were then permitted to be imported as part of the capital goods. The threshold limit was uniformly lowered for many sectors many of which came in the area of small scale industries. These licenses could now be had also from the port offices. The benefit of SIL was also extended to the electronics sector. The EOU's/EPZs in the agriculture and allied sector received a push as now they were required to post a positive value addition. In line were the units of the electronics sector that also received the advantages of enhancements in depreciation limits. The EXIM Policy 1998-99 gave encouragements to the project exports. The exporters of the gems and jewellery sector were given the benefit of duty drawback in respect of the gold taken by them on payment of duty from nominated agencies. The Policy also besides giving advantage to the electronics sector gave thrust to the pharmaceutical sector which could now export a specified amount of free samples. The Policy also made necessary procedural rationalizations for the small scale sector units by permitting the establishment of private bonded warehouses. The advance licenses were to be issued to the status holders on provision of information by them. Additional licences were to be issued without delay. Automatic validity to the EPCG licences was provided for a variation of 10%. Nearly 340 items were shifted to the OGL list. Decentralization was granted in respect of extensions of export obligation period and revalidation of advance licences. EDI was introduced to speed the procedural functioning.

The EXIM Policy 1999-2000 paid special emphasis on computerization and electronic communication with exporters. The scheme was introduced in Delhi on a pilot basis. The exporters could file their application for advance license electronically. The scheme of annual advance license was introduced for the exporters without stipulation of minimum value addition. They were not to approach the DGFT time and again. The EPCG Scheme was made much liberal by making the imports of capital goods without the actual user condition. The holders of the EPCG license could source the capital goods domestically instead of importing them. The EPCG license was to carry a validity period of 24 months. The additional facilities were given to the jewellery and studded jewellery. They could import consumables up to one percent of the FOB value of the exports made by them in the
previous year. The EXIM Policy 1999-2000 a diamond Imprest License. This license was to be used to import cut and polished diamonds. It could be issued in advance for import of the rough diamonds from any source. Certain procedural relaxations were made to the advantage of export oriented units and the units operating in the export processing zones.

The requirement of the net foreign exchange earnings as a percentage of (NFEP) was uniformly fixed at twenty percent for both export oriented units and the its operating in the sport processing zones. However for the hardware units, biotechnology and toys sectors, the net foreign exchange earnings requirement was reduced to a positive NFEP. The EXIM policy 1999-2,000 recognized the importance of services and added a special chapter on service exports. It planned to extend almost all possible facilities that were applicable to the merchandise exports to the service exports. The EXIM Policy 1999-2,000 extended an equal opportunity to small and medium exporters. If the status was claimed in terms of the FOB value of exports, double weightage was to be given to the export products manufactured by the small scale industry, handloom and handicrafts. The policy also made arrangements to involve the states in the promotion of exports. The states were asked to promote the agro-exports. The EXIM Policy 1999-2,000 gave recognition to the national service rendered by the exporters by issuing green cards to such exporters who exported 50 percent of their production with the minimum of Rs1crores per year. The DEPB scheme on pre-export basis increased the credit entitlement from five percent to ten percent of the value of average exports in the preceding three licensing years. The admissible limit for import and export of samples for export promotion was considerably relaxed. The institution of ombudsman for on the spot solutions to the problems faced by the exporters was set up.

The EXIM Policy 2000-2,001 carried the trade liberalization process ahead. Special economic zones where setup on the Chinese model. These zones were expected to attract foreign investments particularly in production for exports and where expected to generate millions of jobs. Gujarat and Tamil Nadu were two states where these zones were set up. It was also planned to convert the existing export processing zone into the special economic zone. The state governments were requested to declare the units of exports as public utility services so as to encourage them in the global export commitment of the nation. The EPCG scheme was given to all the sectors without any threshold limit on a payment of five percent duty. The government decided to introduce the post-export duty-free replenishment license scheme to improve the availability of imports or raw materials for exports. It was decided that the post-export DEPB scheme was to last till 31st March 2002. This scheme was made
more accessible. The holders of advance license were exempted from payment of many kinds of duties. A Diamond Dollar Scheme was introduced in which the exporter could retain the export proceeds. The central silk board dropped the inspection of the pre-export silk. The input-output norms for the silk exports were also rationalized. Encouragements were also provided to the drugs, pharmaceutical, agro-chemical and bio-technology exports. The export oriented units and the units of the export processing zones having an investment in plant and machinery of above Rs.5 crores were only to post a positive value addition. The EXIM Policy 2000-2001 uniformly extended the benefits of deemed exports to all the eligible categories. The Policy also made concessions to the exports from Jammu & Kashmir. The Indo- Burmese trade was also granted the permission of normal trade on payment of applicable duties. The special import license was discontinued after March 31st, 2000. The Quantitative Restrictions were removed from 714 items from 1st April, 2000. The Tariff commission was to be strengthened so as to protect the unfair treatment towards the domestic industries. The electronic filing of license applications that was introduced earlier was given an extension to all the ports of the country by June, 2000. The policy sought to eliminate the physical interface between the exporter and the DG FT. The last policy in the five year term was the policy of 2,001-2,002. This policy completed the process of disappointing the quantitative restrictions. It rationalized the existing export promotion schemes. The export promotion capital goods scheme was a liberalized to allow the imports of jigs, fixtures, dyes, moulds for the full CIF value of the license instead of restricting to twenty percent of the CIF value of the license. It extended the facility of the annual advance license to deemed exports and intermediate supplies. The Policy extended the facility of advance license even to cases where some of the inputs were supplied free of cost to the buyer. To the entitlement for advanced license where standard input-output norms did not exist was increased from 100 percent to 200 percent of the F. O. B. value of the preceding year exports In case of export house/trading house/ star trading house / Superstar trading house. The policy extended the validity of duty free replenishment certificate (DFRC) scheme from twelve months to eighteen months. It kept the validity of DEPB for a period of twelve months from the date of issue. The items imported against it were made freely transferable. As per the EXIM Policy 2,001-2,002 the units In the EOU/EPZ were allowed to achieve the minimum export performance of three times the value of capital goods over a period of five years instead of five times the value of capital goods. Under the sector specific schemes for export promotion the EXIM Policy 2,001-2,002 extended the diamond dollar
account scheme to exporters of diamond studded jewellery who had an average annual turnover of Rs.5 crores and above during the preceding three licensing years. It planned to place a special thrust to the agricultural export of the country. The participation of the states was sought in building up of the agricultural export zones. These zones were to plug the necessary informational gaps in the areas of global prices, demand, quality standards etc. To the area cultural exporters were entitled to be recognized as a export house/trading house/star trading house/superstar trading house on achieving 1/3 rd of the threshold limit prescribed for exporters of goods. The market access initiative (MAI) was launched to assist the industry in research and development, market research, specific market and product studies, warehousing and. retail marketing information in select countries. The policy introduced the special chapter on SEZs. The developers of such zones were allowed duty free import/procurement from the DTA. The process of removal of import restrictions which began in 1991 was completed with a phased removal of restrictions on 715 items. The EXIM Policy 2,001-2,002 permitted the import of secondhand automobiles.

3. The Export Risks Insurance Corporation (ERIC) set up by the government of India in the year 1957 in order to provide export credit insurance support to India exporters was in the 1964 transformed into Export Credit & Guarantee Corporation limited (ECGC). It was further changed into Export Credit Guarantee Corporation of India limited in the year 1983. It is a company wholly owned by the Indian government and works under the administrative control of the ministry of commerce. The ECGC is the fifth largest creditor insurer of the world in terms of coverage of national exports. It also offers guarantees to banks and financial institutions to enable the exporters to obtain better facilities from them. It guards the exporters against the payment risks, provides guidance, provides information on credit-worthiness of overseas buyers, provides credit ratings on about 180 countries, makes it easy to obtain export finance from financial situations and banks and helps the exporters in recovering the bad debts.

The covers issued by the ECGC can be divided into four groups which are: standard policy, specific policies, Financial guarantees and special schemes. The corporation has performed well during the recent years.

The problem areas are there for the ECGC. Globally, the credit insurance business has been going through rough weather, but interestingly it has still not affected the ECGC in some of its business like the short-term credit insurance. In the medium and long run however it would get affected as a corporation may not be able to underwrite big projects of
huge value unless reinsurance cover is made available from global reinsurers who do not want to cover any risk for project exports in African, some Asian and Latin American countries. For large projects the reinsurance coverage is not available.

In guarantees to the Indian banks the claim-premium ratio has been adverse—about 147 percent. The banks do not provide pre-ship and finance guarantee these days due to exporters’ failure to export. If the banks are unable to recover the amount from the exporters, the ECGC has to pay to the bank. This has prompted the corporation to increase its premium rates. The corporation has kept its focus on small and medium-size exports intact. For exporters whose main business is in developing markets, the corporation has created a new premium structure and also reduced its premia.

The corporation has 30 offices in the country with over 14,000 exporters as its client base, yet it has to be vigilant has a number of new insurance companies and even banks are thinking of getting into the insurance business.

4. The State Trading Corporation of India Ltd. (STC) is a premier international trading house owned by the Government of India. Having been set up in 1956, the Corporation has developed vast expertise in handling bulk international trade. Though, dealing largely with the East European countries during the early years of its formation, today it trades with almost all the countries of the world. Because of Corporation's in depth knowledge about the Indian market, STC is able to supply quality products at most competitive prices and ensure that the goods reach the foreign buyer within the prescribed delivery schedule. It also imports bulk agricultural items for Indian consumer in case of scarcity in the domestic market. Some of the items imported by the STC in recent past include wheat, pulses and sugar.

STC has rendered good services to the Indian manufacturers in the following ways:

- Financial assistance to exporters on easy terms.
- Taking products of small scale manufacturers to international trade fairs and exhibitions.
- Import of machinery and raw material for export production.
- Assistance in the areas of marketing, technical know-how, quality control, packaging, documentation, etc.
- Supply of imported goods in small quantities as per convenience of buyers.
- Market intervention on behalf of the Government.
In the period 1999-2000 and 2000-2001 its non-canalised exports have increased while there has been a fall in the counter trade. As for the imports on government account they have gone down but the Corporation's imports have gone up. However there was a decline in the total turnover. The profit after tax has also come down during the said period.

The Corporation's import turnover during 02-03 was more than double at Rs 1,753 crore as against Rs 780 crore during the previous year.

The State Trading Corporation of India (STC) has announced a 20 per cent dividend for the year 2002-03.

During the year, STC recorded a 60 per cent increase in its turnover from Rs 1,582 crore in 2001-02 to Rs 2,533 crore in 2002-03, a company statement said here on Monday.

During 2002-03, STC exported food grains worth Rs 651 crore, notching a growth of 22 per cent compared to last year. (BUSINESS LINE INTERNET EDITION THE HINDU, TUESDAY, SEPT.23, 2003)

MMTC is the country's first superstar trading house which continues to be a leader in the mineral exports. It has received the CAPEXIL (Chemical and Allied Products Export Promotion Council) Award for highest mineral exports tenth time in a row. It trades in the iron ore, Manganese ore, chrome ore, and others (such as Barytes, Bentonite, Mud Chemicals, Bauxite, etc.). MMTC is also global player in the agro trade. It is India's largest bullion trader. It trades into gold, silver, platinum, diamonds, colored gemstones, gold and studded jewellery. As compared to the previous year, in 2000-2001 MMTC's turnover increased by 35%. The iron ore exports in quantity terms have also registered an increase in the said period. The Corporation also plans to increase its trade by entering into special trading arrangements and third country trade.

5. Bilateral and multilateral trading arrangements of India have to a great extent smoothen it's flow of goods and services to and from other nations. It has 65 Commercial offices working abroad. In the South Asian region trade is carried along the bilateral trading arrangements with Bangladesh within the framework provided by the India-Bangladesh Trade Agreement. India-Maldives trade is regulated in terms of the bilateral Trade Agreement signed in 1981. Indo-Nepal relations on trade and other related matters are governed by the bilateral Treaties of Trade and Transit, and Agreement for Cooperation to Control Unauthorised Trade. Though under the international conventions, Nepal being a landlocked country, India is obliged to provide only one transit route to facilitate Nepal's trade with third countries, 15 transit routes have been provided through the Indian territory.
and more such routes can be added to the list with mutual agreement. Despite bilateral
discussions and our diplomatic demarches in this regard, Pakistan is yet to allow its trade
with India on a free and MFN basis. Sri Lanka has traditionally been an important export
market for India, and is the second largest importer of Indian goods in the region after
Bangladesh. The bilateral trade is carried out in accordance with the provisions of the Trade
Agreement signed in 1961. The trade is in freely convertible currencies and on MFN basis.
North East Asia consists of China, Japan, Republic of Korea, Hong-Kong, Taiwan,
Democratic People Republic of Korea, Macao and Mongolia. Japan, Hong-Kong, China and
Republic of Korea are the major trading partners of India in this region. The highest trade
turn over in this region is with Japan. The highest export in NEA region is to Hong Kong.
India’s trade with South East Asia region comprises trade with ASEAN countries. India has
established Joint Business Councils with Singapore, New Zealand, Australia, Malaysia,
Indonesia, Thailand, Vietnam and Philippines. The European Union(EU) presently consists
of 15 countries. India’s share in EU’s global imports is around 1% and India ranks 17th as
EU’s trading partner. With nearly 370 million citizens with high purchasing power and a
common currency(Euro), it is also our largest potential market. relations are built on the
foundations of (i) Indo-EU Cooperation Agreement on Partnership and Development which
came into effect in August, 1994; (ii) Indo-EC Joint Commission and (iii) bilateral framework
agreements in areas such as trade, investment, taxation, maritime transport, textiles, civil
aviation, tourism, science and technology, agriculture, etc. India has agreements for
investment promotion/protection with 11 countries of EU. Similarly, agreements for
avoidance of double taxation exist with 13 countries in EU. There are other cooperation
programmes such as Indo-German Export Promotion Programme, Indo-British Partnership
Initiative and difference economic cooperation programmes with European Commission.
These agreements/fora provide a permanent platform for constant review of bilateral
economic and commercial relations. The Second India-EU Summit was held in New Delhi
on 23/11/2001. An India-EU Business Summit was also held during November 22-23, 2001
in conjunction with the political summit. Notwithstanding the cooperation frame work
existing with the countries of European Union, India has been adversely affected by a
number of non-tariff barriers in the EU such as health/sanitary and phyto sanitary standards,
complex system of quota/tariff, packaging and labelling requirements, preferential trading
arrangements, repeated and increased use of anti-dumping/anti-subsidy investigations
against Indian products/goods etc. The group of erstwhile ‘Rupee Payment Area’ (RPA)
countries comprise of 12 countries. The disintegration of the COMECON countries has been a major development in this region causing decline in India’s trade with these countries. The associated reasons are dismantling of established State trading organizations, abolition of Rupee Payment System, severe liquidity constraints and weak financial structure of these countries. FT (CIS&B) Division deals with India’s bilateral trade relations with CIS region consisting of 12 countries. USA is India’s largest trading partner and plays a dominant role in India’s trade. India accounts for only 1% of USA’s total exports and imports. Exports from India to Canada constitutes 1.47 % of India’s total export while India’s import from Canada constitutes 0.78 % of India’s total import during 2000-2001. As in the case of other Latin American countries growth in trade between Mexico and India has been inhibited by such factors as distance, difference of language etc. Mexico, Brazil, Argentina, Chile, Peru, Venezuela and Colombia, Trinidad & Tobago are India’s major trading partners constituting 88% of the total trade with the LAC region. West Asia and North Africa (WANA) region comprises 19 countries, divided into three groups namely, (i) GCC countries (6 countries – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, U.A.E.) (ii) West Asia (7 countries – Iran, Iraq, Israel, Jordan, Lebanon, Yemen, Syria) and (iii) North Africa (6 countries – Algeria, Egypt, Libya, Morocco, Sudan, Tunisia). Mutual Most-Favoured-Nation (MFN) treatment is accorded in respect of trade with most of these countries. There are 51 countries in the Sub-Saharan African region. India’s share in global trade of Sub-Saharan Africa has been low due to distance, language barriers, etc.

6. India also carries strong trade relationships with the regional economic groupings that are spread across the globe. The Indo-ASEAN trade has developed over many years and India has been exporting prominently the gems and jewellery, electronic goods, oil meals, drugs, pharmaceuticals and fine chemicals. India carries a potential to increase trade relations with ASEAN from $9 billion in the year 2,000 to $24-30 billion by 2,007 at the compound annual growth rate of fifteen to eighteen percent. ASEAN investors have considerable opportunities in the years of personal financial services, insurance and in value-added services in corporate banking. The Indian exports to the CIS countries have put improved much as compared to use of the earlier years. Tea, Coffee, ready made garments of cotton etc. are the principal export items from India. The major items imported by India include fertilizer, iron& steel, newsprint etc. In India both CII and Ficci have sent business delegations to the CIS nations. The Ministry of Commerce has been operating Focus:CIS programme to enhance trade relations with the CIS nations. India also carries strong trade ties
with the European Union. Gems & jewellery, cotton yarn fabrics, machinery and instruments etc. are the major exports made by India. Pearls, non-electrical machinery, etc. are imported by India from the EU. Regular business summits are organized to strengthen relations with EU. Latin American Integration Association (LAIA) has been also the area of trade concentration focused by India. The principal items of exports to LAIA include Drugs, pharmaceuticals and fine chemicals; transport equipment; ready made garments of cotton etc. India imports edible vegetable oils, raw cotton and waste from the LAIA. India also carries strong trade links with NAFTA. Gems and jewellery, ready made garments of cotton, drugs, pharmaceuticals and fine chemicals etc. are the principal export items of India. The major commodities imported by India include electronic goods, non-electrical machinery, professional instruments etc. in the case India carries strong trade links with the OECD nations that together have a global reach. India exports gems and jewellery, cotton yarn fabrics madeups etc., marine products etc. the value of exports made by India to the OECD has gone up in dollar terms. The major imports made by India include birds, precious and semiprecious stones; gold; non-electrical machinery etc. The group of eleven developing countries that is OPEC is also having trade relations with India. India exports gems and jewellery, machinery and instruments, rice etc to the OPEC. The imports made by India include mainly the pearls, precious and semiprecious stones, gold, non-electrical machinery etc. India is active in the promotion of SAARC. It exports products like cotton yarn fabrics, transport equipment, sugar, machinery and equipment etc. It imports non-ferrous metals, essential oil & cosmetic preparations etc from the SAARC.

7. The Indian foreign trade Seems to suffer from a very dear problems that have and reduced its strength. These include notably the high procedural transaction costs, coupled with infrastructure bottlenecks, in some of the stronghold in areas of India exports. The textiles and the garment sector exports are seen to suffer from this problem. The cross sectional study made by the EXIM Bank has come to the conclusion that the Indian exporters are required to invest more time and resources in non-price factors which do not relate to physical process of production but affect the supply of exportables. Such non-price factors include obstacles and difficulties associated with administrative processes, dishonesty of public agents, delays in sourcing finance, transportation etc. It takes much more than the actual time in the export process in cases like getting a refund of the duty drawback. The firms also face the inadequate availability of working capital funds which affects their exports. The low thrust on the research and development in the Indian software companies
is quite evident when compared with the companies of the developed world. The leading Indian companies spend only 0.89 percent of their turnover against 14-19 percent spent by the software companies of the developed world towards the research and development activities. Indian software sector could suffer from the lack of proper implementation of the GATS provision and inadequate liberalization in Mode4.

Historically, for agri-products the major constraint has been the difficulty of securing exportable surplus. This has given Indian exporters the reputation of being unreliable suppliers. The primary need, therefore, is to increase productivity in exportable agricultural products. Other major problems in agriculture and allied areas (including floriculture, horticulture, medicinal plants, and fisheries) have been poor infrastructure and inadequate access to global marketing channels. Creating products to match international health and hygiene standards is an additional problem for the fishery and dairy sectors. Agriculture sector primarily faces non-tariff barriers. The tea producers in India face a high cost of production. As regards the coffee industry India’s main problem is the overproduction of the cheaper and hardier Robustas mainly by Vietnam. This has affected the Indian coffee exports. In exports of rice India also faces problems of infrastructural bottlenecks. Rice exporters are rather upset over the sudden discontinuance of rake allotment, which has dislocated their shipment schedules. Movement by road is not only more expensive, but also restrictive of volumes, apart from creating logistics problems.

In the leather sector, many of the export oriented units depend on import for such imports, leading to delays, higher cost and longer turn around time. The other problems include the compliance of labor standards and environmental standards.

The Indian chemicals industry faces the problem of very low levels of R&D spending. The chemical industry has been demanding the simplification of procedures as regards the customs and excise, single window clearance, fixation of ad hoc norms for new products, custom bond facility etc.

The Indian pharmaceutical industry suffers from insufficient institutional infrastructure. Currently, processing of patent applications in the Indian patent office (IPO) takes a minimum of four to five years. If the processing of an application takes longer time, till then the product can make use of the monopoly marketing rights.

The capital goods industry is the epicenter for the development of a strong and self-reliant India since independence. Excess capacity in ending-user industries coupled with the
lack of investment in other sectors such as power, fertilizers and refineries, has adversely affected growth opportunities for manufacturers of capital goods.

**Procedural problems:**

The country's exporters faced the *appreciation of the rupee* against the U.S. dollar. The Information Technology (IT) companies and the project exporters are the hit points for such rupee appreciations the export profitability is eroded which worries the exporters much. The magnitude of the problem can be gauged from the fact that around 80% invoicing in case of textiles is done in dollar terms. The problem further gets a blow up when the increasing foreign exchange reserves are not properly absorbed every year into investments.

Exporters also face the hikes in *container rates*. Such increases make the exports are uncompetitive owing to the rising freight charges. The use of feeder vessels was being made to make exports where again the waiting times extended to fifteen days sometimes, the shipping lines are more eager to move lighter items.

The Indian exporters face in *non-tariff barriers* in the markets abroad. The Indian exports to the U.S. as per the report face greater non-tariff barriers. The indirect NTBs faced by the Indian exporters include measures like health and safety and technical regulations, customs valuation procedures and marks of origin restrictions. Even anti-dumping duties, countervailing duties, regional subsidisation, subsidization of public enterprises, tied aid, etc., is included under this category.

Many a times the Indian exporters face *unilateral bans* on their exports. In October 2,002, such a hit was received by the seafood exporters when it's been rejected consignments from five major exporting units alleging contamination by antibiotic residues.

*Legal and procedural complexities in the importing nation* are also faced by the Indian exporters abroad. For instance the problems that are faced in exporting to the European Union include the preferential trading agreements with other countries, certification problems and visa and other regulations.

*Market denials as against the market access* is the other problem faced by the Indian exporters in many of the developed nations. The very recent proposed bans on the Business Processing Outsourcing (BPO) by four states in the US for data processing contracts for the developing countries defied the principles of market access.

*Slow import cargo clearance* hits the imports made by the traders and the manufacturers.

*Inability to fulfill export obligation sans extensions* results into the exporters being declared as defaulters and they are required to pay customs duty on the excess imports of raw materials.
made by them together with a 24% interest from the date of import made by them. The price fluctuations and other uncertainties of the political climate disable the exporters to fulfill their export obligations within the stipulated time period.

The problem of *poor and costly infrastructure facilities* compounds the exporters’ problems.

The *insincere attitude of the customs officials* poses problems for the exporters.

8. The ongoing changes in the world economy and the consequent impact the Indian economy would receive in the time to come make it necessary to ponder and deliberate over the long term projections that the external sector of the country would witness. The projected growth rates of acceleration clearly cannot take place without tapping the avenues being offered by the international economic scene as regards the markets, investment, and technologies. Exports In the Indian context, exports are still seen to be primarily supply-side determined. Although demand-related factors, like relative prices (including exchange-rate movements) and world incomes, are becoming progressively more important, particularly for specific export items, the dominant factor continues to be the ability of the economy to produce adequate volumes of exportables to address international markets. Analysis of the recent export performance indicates that the share of tradables in GDP continues to exert a strong influence on export behaviour, with exchange rate variations and relative prices also playing significant roles. International income levels still do not appear to matter significantly, reflecting the low share of Indian exports in international trade.

The results indicate that if the Tenth Plan growth targets are met, exports are likely to reach $80,419 million by 2006-07. This would mean a compound growth rate of 12.4 per cent during the Tenth Plan, with an elasticity of 1.5. It needs to be noted, however, that these projections are based on the assumption that the REER will be maintained at more or less the current level. Thus, some flexibility does exist in increasing exports further with a more aggressive exchange rate policy, if necessary.

The highest growth during the Tenth Plan is expected in petroleum products, followed by communication and electronic equipments, electrical machinery, other non-metallic minerals, chemicals, paints, drugs and cosmetics, textiles, readymade garments, food and beverages, etc. With an increase in agricultural production of 4 per cent during the Tenth Plan and with limited domestic demand (due to constraints in purchasing power), efforts would be on to increase export of processed items. This could include exports of horticulture products, particularly processed foods and vegetables, cashew nuts, spices,
CHAPTER XI

CONCLUDING OBSERVATIONS AND SUGGESTIVE MEASURES

manufactured tobacco, castor oil and oil meals, apart from dairy products, poultry, processed meat and other processed foods and beverages.

The behaviour of aggregate import demand in the country is expected to be strongly driven by domestic growth rates. In scenario-1 (if tariffs come down from 33.7% to 15% by 2006-07) total imports are likely to reach to $1,32,058 million by 2006-07, implying an annual growth of 18 per cent and an elasticity of 2.3. However, if tariffs are reduced only to 18 per cent (scenario-2), the imports are likely to reach up to $1,22,846 million by 2006-07, i.e. an annual increase of 16.3 per cent and an elasticity of 2.0.

Crude petroleum would continue to have the highest share, followed by other metallic (including gold and silver) and non-metallic minerals, chemicals, machinery and transport equipments. Import of food items is projected to be relatively low, except edible oils. The highest growth in imports during the Tenth Plan is likely to be from communication and electronic equipments, followed by electrical and non-electrical machinery, edible oils, non-metallic minor minerals, tea and coffee and leather and leather products.

The trade balance, derived on the basis of the projected exports and imports under different scenarios, is expected to increase to $(-) 1,64,141 million in scenario-1 and to $(-) 1,41,352 million in scenario-2.

On the basis of the current account and capital account, the balance of payments seen in terms of change in reserves, has been projected under the two scenarios. In scenario-1, when the tariffs are brought down to 15 per cent, the change in reserves by 2006-07 is likely to be $(-) 5,701 million. The change in reserves is likely to be $3,511 million by 2006-07 in scenario-2 where the tariffs are brought down less sharply to 18 per cent.

It needs to be observed that the sustainable current account deficit and balance of payments situation at present are likely to be substantially compromised if average tariffs are brought down sharply to East Asian levels. Concerted effort would, of course, be required to increase exports. Since structural changes (in terms of changing share of tradables and relative prices) can be a medium to long-term option, it is the nominal exchange rate that would need to be suitably adjusted from time to time to keep balance of payments under control. It is the financing of the current account deficit that is important for sustained development during the Tenth Plan. Flow of foreign investment into productive sectors is essential.
In light of the above conclusions the researcher on his part proposes the following suggestive recommendations to enhance the growth rate and share of the Indian Foreign Trade in the World Scenario

1. Overall macro-economic stability needs to be ensured.
2. EXIM Policy further needs to be planned for an even shorter period and procedural simplification should be the hallmark in the initial years.
3. Reduction and if possible elimination of the transaction costs is required.
4. Implementation efficiency must be given a thrust.
5. Cost consciousness and cost cutting is the need of the hour.
6. A big boost is required in the research and development investment, quality upgradation leading to a value addition of comparable standards that culminates into a win-win situation.
7. Still better nexus needs to be developed between the exporting community, Government, both state and central and the academics.
8. Working capital should be made available to overcome certain sector specific problems.
9. Gaining a better say at the WTO and strengthening the multi-lateral and bi-lateral trade relation to overcome the problems of NTBs, dumping etc.
10. A good access to the international marketing channels would help a lot.