CHAPTER SIX

EXPORT POLICY - AN APPRAISAL

An analysis of government's approach towards export trade during and after the mid-forties suggests that export policy in India is ad hoc, inconsistent and very much general. It even lacks the basic ingredients of a policy viz., 'sagacity' 'prudence' or 'shrewdness in management'. A policy is a definite course of action adopted and pursued for the sake of expediency or facility. Such a policy involves a system or measures adopted by the government of a country in the management of public affairs. Viewed in the light of these connotations, our export policy during the entire period of planning looks completely divorced from realities and the overall economic and investment policies in the country.

Export Policy and Investment Policy

Before we analyse the deficiencies of export policy in India let us try to identify the close relationship between exports on the one hand and investment and imports as a part of investment in a
developing economy. Investment in a diversified field of industrial activity involves imported inputs. Import content of investment in the initial stages is very high since a developing country cannot produce the needed capital equipments and the strategic raw materials which are not available within the economy. These have got to be imported from abroad. The financing of these imports is facilitated mainly through export earnings since financial aid from advanced countries cannot be relied upon for ever. Even if they are available on an adequate scale the repayment of these loans has to be arranged through the foreign exchange earned from the exports. Thus exports earnings are the surest and the major source of financing development. Secondly, a well developed export sector acts as a propulsive sector in the economy through the multiplier and accelerator process.

The above analysis suggests that a country needing to push up the rate of investment and economic growth must have an export policy well consistent with investment and production policies. It is in this respect that our export policy has proved to be quite inadequate.
Export Policy in India - Historical Analysis

In the late forties immediately after independence the government of India considered exports as incidental to the foreign trade picture. Exports were considered as marginal to the general economic landscape. Our imports were mainly dependent upon the sterling reserves. These were considered as a reassuring reserve of external resources which the country could regard as capital assets for its development programmes and could also be utilized for paying for the current imports for consumption purposes. The consequence of such an approach was that the export earnings aspect of our economy was not able to acquire adequate urgency. There was, no doubt, an awareness that the sterling balances had to be husbanded carefully and not frittered away; but it did not lead to any concrete or substantial measures to adopt a dynamic export policy by the government.

The situation during the early fifties and thereafter again led to the playing down of the export angle. Korean boom helped boost India's export receipts without much special effort on the part of export industries or trade. The accretion of foreign exchange on this account enabled the country to finance
its current imports and thus helped to take its mind off the basic or long term aspects of export promotion.

Export Policy in the Early Fifties

The First Plan approach to exports policy did not have a long term perspective of making the economy export oriented. This is clear from the following statement in the First Plan document:

"...... What has to be ensured is on the one hand that the development programme is framed as to increase the potential exportable surplus and decrease in import requirements of the country and on the other that the pressure on foreign exchange is kept within manageable limits ....." \(^1\)

The above statement clearly suggests that our planners did not give serious thought towards evolving a policy for a planned development of an export sector. The First Plan further says:

"...... if foreign exchange resources are limited and are barely sufficient for"

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the imports essential for the implementation of the Plan, imports of less essential commodities will have to be restricted and measures taken to promote exports to the extent necessary. Such exports should not involve any significant diversion of resources from production in important lines. ...

It is clear that exports were not considered as essential for promoting growth and the First Plan cautions against shifting of resources from other important lines as if export sector is not an important sector.

Lack of Coherence in Industrialisation and Export Policy

Industrialisation in our country is more inward looking. The plan frame of the second plan prepared by Mahalanobis is quite vocal about this. Hollis Chenery's remarks in this regard are quite relevant.

"... Mahalanobis 'planframe' for the second five year plan draws heavily on Soviet methodology.

He starts from the assumption that the rate of investment is determined by the level of domestic production of capital goods. As the capacity to manufacture both heavy and light machinery and other capital goods increases the capacity to invest (by using home-produced capital goods) would also increase steadily, and India would become more and more independent of the import of foreign machinery and capital goods. His analysis implies that export possibilities are so limited that they can be ignored, so that the composition of demand is limited by the composition of domestic output. In order to raise the level of investment Mahalanobis concludes that investment in industries producing capital goods should be increased from less than 10 per cent to 30-35 per cent of total investment in the second five year plan.

..... Mahalanobis' approach to development ignores price and demand considerations completely. The target for the four sectors in his model appear to be based mainly on the goal of creating heavy industry, which is assumed to be the key to future growth. Criteria of efficiency and comparative advantage are entirely omitted from his analysis.
Although there are traces of the Mahalanobis approach in the second and third five year plans formulated by the Indian Planning Commission, the final results are much less extreme. One basic problem is that exports are expected to rise only half as fast as national income between the first and third plan periods, while demand for the goods initially imported tends to rise much more rapidly. The inelastic demand for traditional Indian exports means that a considerable proportion of investment must be devoted to commodities that are presently imported. Within this category, the principles of comparative advantage should apply. In actuality the emphasis has shifted somewhat from heavy industry in the second plan to agriculture in the third. In the latter document increasing self-sufficiency in basic industrial commodities - steel, petroleum, machinery, etc. is listed as a high priority objective but so is the maximum development of agriculture. Whether the resulting targets are consistent with comparative advantage is not considered in the published analysis.\(^3\)

\(^3\) Hollis B Chenery, Comparative Advantage and Development Policy in Economics of Trade and Growth, Edited by James, D Theberge. John Wiley and Sons Inc. New York, p. 159.
The halting approach of Indian planners in developing an export sector and to have plan and a concrete policy is quite apparent in the second Five Year Plan. The Second Plan merely suggests the need for promotion of exports without spelling out a concrete plan and a programme for identifying new products and new markets for our exports. It simply suggests that industrialisation will help in increased production and consequent increase in export surplus.

"The first two development plans drafted when the external position of India was superficially at least relatively strong, paid scant attention to the need deliberately to expand exports." The following statement in the Second Plan document clearly suggests the trend.

On the whole the fact remains that the increase in exports that we envisage over the plan period is not very striking. India's export earnings are derived from a few commodities. Three of them namely, tea, jute manufactures, and cotton piecegoods account for one half of the

These major exports are meeting increasing competition abroad. This limits the scope for any substantial increase in exports in the short run. While every effort was to be made to promote exports of new items and to develop and diversify the markets for the country's major exports it has to be recognised that it is only after industrialisation has proceeded some way that increased production at home will be reflected in larger export earnings.  

Lack of export consciousness in our country in the early period of planning has been rightly pointed out by an Indian expert. 

Until very recently there was a total lack of export consciousness in India. On the one hand there was a widespread feeling that not much could be done to increase export earnings in view of the stagnant demand for India's major exports. On the other hand responsible economists were assuring the country that import substitution, whatever

it meant would be itself able to solve India's balance of payments difficulties so that India would in fact not need a greatly intensified export effort in the long run. The result was a neglect of exports ..... 6

The Third Plan approach towards exports was again superficial in as much as it only tried to suggest some measures for reducing the fiscal hurdles and to take up cost reduction measures in export industries.

The recommendations of the Import Export Policy Committee of 1962 too were also in the nature of removal of certain hurdles. They pertained to

1. ensuring adequate supplies of raw materials and components to export industries,

2. income tax reliefs for export earnings, and

3. providing import entitlements.

The Fourth Five Year Plan has made a real appreciation of the role of exports in promoting

development. The planners have explicitly expressed the need for an integrated policy of export promotion, investment targets for export oriented industries and a proper fiscal policy to give a thrust to the export trade. The Fourth Plan says,

The most important precondition for the fulfilment of the export programme is the realisation of the production targets set for exportable commodities in the agricultural, mineral and industrial sectors. In the production and investment programmes under the Plan, special attention has been paid to this aspect of the problem. The requirements of exports should be specially taken into account in licensing additional industrial capacity during the Fourth Plan. 

The Fourth Plan emphasised the need for restraining growth in the domestic consumption of commodities where domestic consumption competes seriously with export sales. It has suggested for adopting suitable fiscal administrative and other measures so that exports have a prior claim on increased

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production as compared to internal sales. The Plan envisaged a large increase in the export manufactures, particularly in the metallurgical engineering and chemical fields. The Plan also emphasised the need for a determined drive for improving productive efficiency through rationalisation of methods of production, better management, development of technology, etc., leading to reduction in cost of production. The Fourth Plan further felt that

It would be worthwhile exploring the possibilities of setting up specific export unit which would be up to date in technology and which would devote themselves wholly to production for exports. It would be necessary to establish such units in the public sector.

The Fourth Plan targets of exports growth was put at 7 per cent compound per annum.

The Fifth Plan envisaged an annual compound rate of growth of exports of about 7.6 per cent. The planners have, however, stressed the need for a multipronged efforts to achieve the target. The

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Fifth Five Year Plan Draft outline has emphasised this aspect.

Success depends, first and foremost on achieving adequate production of the acceptable quality and at competitive cost, of exportable commodities. The supply constraint can set at naught all other efforts at export promotion. In case of an unavoidable set back to production, as a rule, exports should have priority over domestic consumption A long term approach is the very essence of export promotion.

The Fifth Plan has rightly emphasised that a re-orientation of the production structure towards items with rapidly expanding world market has to be another essential plank of a forward looking export strategy. The Plan has stressed the necessity of continuing a variety of devices or incentives like cash subsidies, import replenishments, preference in industrial licensing, liberal import of inputs for

production and for expansion of capacity, concessional terms and priority in allocation of domestically produced inputs and tax concessions, as also compulsions like export obligations. The import policy of 1976 has tried to translate these aspects into reality by providing various incentives to export trade.

Export Orientation and Import Policy

Import Policy in recent years is oriented to promote exports removing input bottlenecks to export industries. This is done through appropriate liberalisation of various restraints so that such industries do not suffer from supply constraints. The import policy of 1976 adheres to the basic aim of providing the registered exporters for the replenishment of the import content in products exported. But the policy gives due attention to facilitate an expansion of the export production base and to strengthen the export product itself - both quantity and price wise. Under the new import policy import replenishment has been liberalised. Import has been permitted even of those raw materials and components as are available from indigenous sources but where the price of indigenous substitute is higher. Imports of such items is allowed if their quality is
inadequate. This approach clearly suggests that for the first time export production has been given priority over import substitution. The import policy permits the import of new items against 129 export products. Government has also granted higher import replenishment for 83 items and 46 new-export products have been added to the qualifying list. The import policy suggests its export orientation further by permitting a manufacturer in export production to utilise the entire REP* entitlement for the import of machinery needed for replacement, modernisation, balancing research and development and tools and testing equipments and the upper value limits for import of these items against REP have been removed. The new import policy has permitted the export houses to utilise their REP entitlements for the stock and sale of selected types of machinery namely - garment making machinery, equipment for packing, etc. The policy is helpful in the direction of supply of indigenous raw materials for export production. The scheme in this direction has been extended and another seven items - phosphorous,  

* REP: Import Replenishment Licenses.
Import Policy and Export Houses

The new import policy has abolished the distinction between recognised and eligible export houses and the minimum qualifying exports for the grant of Export House certificate has been raised from Rs.25 lakhs to Rs.50 lakhs for certain select list of export production and Rs.3 crores for other products. The policy aims at recognising new consortia of small scale industries as an 'Export Group' with a minimum export performance of Rs.2 crores. The total qualifying exports will be calculated by taking into account the earnings of foreign exchange on account of erection changes in the case of turnkey projects, consultancy and collaboration fees earned abroad and other invisible exports. The annual average exports made in the preceding three years will be considered for calculating the minimum qualifying exports instead of only the previous years exports. The export house certificate will be valid for 3 years. Export houses are required to export products manufactured in small scale sector.
to the extent of 5 per cent of their total exports or Rs. 25 lakhs whichever is lower. This obligation is accompanied with benefits in the form of weightage given in calculation of qualifying exports. The import policy stipulates that export houses can utilise foreign exchange up to 2.5 per cent of the f.o.b. value of their total exports in the previous year for purposes like (1) promotion activities abroad, (2) payment of commission to agents abroad, and (3) import of testing equipment and spares and machinery for setting up common servicing centres.

Import of Raw Materials for Export Production

The import policy has for the first time introduced the scheme to allow imports of raw materials and components for export production without payment of customs duties. The policy has further strengthened the existing safeguards for export contracts and improvements have been made in the scheme for registering export contracts in connection with cash assistance and the exporter has been protected against changes in the value of the contract resulting from price escalation, exchange rate variation, etc. subsequent to the signing of the contract.
The import policy has given the facility of importing samples against REP licences and import of technical designs and drawings are allowed against REP entitlements up to Rs. 5.00 lakhs in a year. The facility of imports of spares against REP licences is allowed up to 20 per cent of the licence as against 10 per cent in the previous year. The Government policy of compulsory export obligation on the part of 16 large scale industries, however, continues and the units failing to export the stipulated minimum will face a 10 per cent cut in allocation of imported raw materials and components.

Economic Policy and Export Orientation

India's economic policy is oriented towards regulation of imports through fiscal and administrative means. This policy need not clash with the export orientation for the growth of our economy. The propensity to import may be kept down and a policy to explore the possibilities of efficiently raising revenues for public expenditure through taxation of imports can be pursued.

There is also no hurdle in pursuing the current national slogan of self reliance in which import substitution is given a considerable role. Such
a policy does help in keeping down the propensity to import. But ultimately production for exports rather than for home market should be the leading sector in the economy. The official economic policy in our country is also oriented to discourage consumption. This policy actually is in consistency with the above. Thus without any substantial departure from its accepted prevailing notions of what is economically sensible or politically acceptable the Government of India could consider responding favourably to the proposition that the possibility of exports as an exceedingly important element in the external component of development should be recognised in our economic planning and industrial or other economic policies through which the further growth of the nation's economy is sought have to be promoted.

The prospects of India and other developing countries in building up their export sectors depend upon the degree of response from the world economy and the rate at which world commerce is growing. Historically speaking there was relative stagnation of world commerce between 1914 and 1945. But international trade has been growing in the 1950s and 1960s twice as fast as in the half century before 1914 and the for the rest of the current century we can hope that the course of inter-
national trade would be closer to the world's experience since the 1950s than its experience between 1914 and 1945. No doubt the international economy has suddenly been clouded due to the oil crisis. But the crisis has to be resolved sooner or later. It is probable that the new equilibrium that may be reached might be of a different kind and at a different level of international economic relations as compared to what might have been the case had this oil crisis not erupted in the manner or at the time it has done. It would be reasonable to expect that the course of world commerce would continue to be favourable to the export sectors of national economies functioning as leading sectors of domestic economic expansion in various countries. Our Government, therefore, should frame its general economic planning and international trade strategies in terms of the high importance of the external component in our development.

In this context it is reasonable to argue that beyond a point, it might be easier for Indian industry to produce more than for India's internal trade to sell. This view is supported on the following assumptions:
1. Indian society remains very much rural in character. It is preeminently peasant based one. This reduces the rate of growth of consumption level within the country.

2. Our country's economic planning and the investment programme included in the plans have started at and have still to reckon with low aggregates or rates of savings. A certain degree of deliberate curtailment or postponement of current consumption is necessary for finding resources for adequate levels of investment for economic growth.

3. Lastly in terms of technology or business management, the country's industry has advanced and is more modern than marketing organisations or procedures.

These conditions enable Indian industry to produce more than for India's internal trade to sell more. A considerable expansion in domestic production would run into distribution problems given the limitations in the marketing organisation and the constraints on the growth of consumption.

The World Demand and Export Growth

The world economic situation appears to be
promising and helpful. Industrialised countries have a good market for the products from India and other developing countries. Full employment, high incomes and affluence generally have combined to maintain demand both for domestic production and imports at high levels. The propensity to import in these countries is going up due to their fast growing economies. They are also capable of financing increases in their import bills as their export sector has been a major factor in the growth of their GNP. These countries have been facing shortage of manpower which is a corollary of the full or near full employment. Their wage levels are rising faster than their productivity. These countries are, therefore, interested in opting out for labour intensive industries and concentrating on capital intensive, high technology manufactures. This has led to make them inclined to throw open their markets to the manufactures of less sophisticated industries in those developing countries which are in a position to offer such goods at attractive prices because of their lower labour cost or other factor endowments. Developed countries are responsive to export capacities of the developing countries due to another important reason. The advanced countries have to facilitate
the repayment obligations of developing countries in respect of development assistance received from the industrialised advanced countries. The advanced countries also wish to take advantage of investment opportunities for their domestic capital and enterprise since there is abundance of low-cost manpower in the developing countries. Industrially advanced countries realise that if they are developing their economic relations with the developing countries in their directions they can do so only if they are able to assist the latter in exporting more. This will help in holding the trade deficits.

There is also greater scope for the developing countries to expand trade among themselves and thus rely upon export sector as a propulsive sector though it cannot be denied that the economies of developing countries are more competitive than complementary to one another. But complementaries do exist for the simple reason that factor endowments do vary among developing countries. With a certain level of industrial growth developing countries can hope for expansion of trade among themselves. The rising level of purchasing power or the propensity to import and generations of export capacities give sufficient scope for increased trade among themselves. Germany for
instance looked more to the less developed countries of Europe for export outlets in the 19th century. Japan in the 1930s directed its export drive towards Latin America and the tropical world.

It is, therefore, reasonable to conclude that the external component, in the sense of an emphasis on the growth of exports, balanced by a proper perspective on imports, is necessary and can be a dynamic factor of development. Our planners and policy makers should consider how our country could tend the export component in its development in a more organized fashion and through a complex of purposive economic decisions and measures.

**New Orientation in Export Policy**

The 1970 Export Policy Resolution visualises exports as one of the guiding principles of investment and production pattern of the country. It visualises allocation of the essential inputs for production for exports as a matter of very high national priority. The following are the highlights of the policy resolution.

1. The role of the public sector in the development and expansion of foreign
trade will be expanded progressively and substantially.

2. New public sector agencies will, wherever and whenever necessary, be created.

3. To assist export oriented units in the procedures relating to foreign investment, licensing of creation or expansion of industrial capacity, licensing of import of capital goods and raw materials or other inputs.

4. The needs of the export sector in the economy will receive very high priority.

5. Measures will be undertaken for scientific exploitation of the sea foods potential.

6. The Export potential of forest produce will be exploited more fully.

7. In the textile sector selective modernisation of exporting or export oriented units will be undertaken.

8. Every effort will be made to organise production and marketing of labour intensive goods.

9. While providing assistance to build up efficient production, government will endeavour to compensate exports for the temporary handicaps that stem from transitional difficulties inherent in a developing economy.
10. Government will expand and intensify the policy of compulsory quality control and preshipment inspection.

11. Part of home production must always be made available for export through, if necessary, temporary restraints on home consumption.

12. Efforts will be intensified to start new shipping services and to strengthen existing ones and to secure fair freight treatment for our export cargo.

13. Early implementation of the UNCTAD II resolution on GSP will be pursued as a matter of high priority.

14. The promotion of economic co-operation in Asia and strengthening of economic links with developing countries in Africa and Latin America will be actively pursued.

Reflections

Export Policy resolutions have been emphasising the need for the achievement of 7 per cent growth rate in exports and stress the necessity of realistic economic and industrial policies. It has been emphasised that the public sector has to play an important role in the development and expansion of foreign trade and that the government will make every effort to secure
Indigenous raw materials required for export production in right quality and quantity and at fair price. The export policy resolutions have, from time to time, mentioned that production and marketing research are the responsibility of several bodies—official and non-official. The Government has stressed the need for making the system of compulsory quality control and preshipment inspection more efficient than at present. The export policy resolution mentions the need for restraining consumption. It exhorts the agricultural and industrial producers to expand output and labour and management to maintain industrial peace. The Resolution places accent on expansion of mineral sector and forest resources increase in the production of cash crops and scientific exploitation of sea food potential.

It is no doubt useful to put the overall export problems and development in the right perspective, but it is necessary for the government to evolve certain strategies and identify different areas to achieve the national goal of export growth with a high priority. Some of the Government policies are inconsistent with its export promotion policies. The monopolies Act for instance puts restraints on the expansion and diversification of activities of the
big industrial houses. Such a policy goes against the efforts of the private enterprise to create export surplus. Export policy resolution hardly discusses the important issues like (1) identification of markets, (2) identification of items, and (3) identification of appropriate institutional machinery.

The Government has not paid adequate attention to intensive market research and products research to ascertain local requirements and preferences in a changing economic and social conditions so that the sphere of our influence is maintained and share of the market is increased. The Government should take this task with a good degree of seriousness.

Items with vast export potential should be properly identified. Such identification helps everyone to concentrate on their production. In this direction it involves finding out the exact requirements of each traditional and non traditional items so that production could be oriented both on a short and long term basis to suit the changing international demand pattern. A degree of selectivity is inevitable and we have to select a few industries the products of which have a good viable export market. Such industries should be offered all out assistance and encouragement to increase their exports continuously.