CHAPTER 1

INDIA'S FOREIGN TRADE: A BACKDROP
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1.1 INTRODUCTION AND HISTORICAL PERSPECTIVE

EXPORTS - A GENERAL APPROACH

It is said that no man is an island. This applies to nations as well. No country can afford to function in isolation. Interdependence among the various governments and nations of the Globe is an inevitable factor in the modern world. This interdependence is predominant in the sphere of international trade and commerce.

International trade is now an essential ingredient of the normal economic life of any country. In terms of economic development international trade is a potentially effective engine of growth.

A close relationship exists between foreign trade and economic break through of a country whether it is economically developed or developing. The impact of the external trade on the economic development of a country can be explained in many ways. If the export exceeds the import and consequently there is a surplus balance of payments, the excess is utilised for investment for accelerating the economic development. The effect of export surpluses on investment and ‘effective demand’ is of special importance to industrially rich and economically advanced countries where the problem of maintaining a steady rate of growth constitutes the main economic objective.

Export earnings in a developing economy are the only way open to break
the vicious circle of poverty. In such an economy where free and uninterrupted flow of external aid is becoming increasingly difficult, export earnings can only help in augmenting capital formation. Export earnings enable poor countries to import much needed capital goods from abroad which may accelerate the pace of effective demand, productions and productivity and research and innovation. The availability of novel methodology, technology and managerial skill leads poor economies to go for the production and manufacturing of ‘new’ products and thus certain export-oriented industries come into existence. Exports pay for imports. Export earnings financing imports become essential for the very process of economic development.

HISTORICAL PERSPECTIVE
India’s Commercial Supremacy :-

India had trade relations with many countries of the world much before 1500 B.C. India’s trade balance during this period was definitely favourable. India enjoyed commercial superiority in trade relations with various countries of the world. The Europeans, particularly the Dutch and the Portuguese, vied with each other to have increasing trade relations with India. This happy state of affairs continued almost up to the period when the British assumed complete political control over the country. During the 15th and the 16th Century A.D. trade in West Asia was dominated by the Arabs and the Turks. The European countries tried to bypass West Asia in developing trade with India. It was in the process that Vasco-de-Gama emerged as the discoverer of a direct sea route to India via the Cape of Good Hope. In 1757, when the British assumed complete political control over India, the country’s foreign trade received a setback.
COLONIAL ERA

The British followed a dual foreign trade policy. While exports of manufactured goods from the country were discouraged, their imports into India were encouraged. During the colonial rule, a radical change had gradually taken place in India’s trade. The salient features of the British trade policy were:

1) Foreign trade was used as an instrument for exploiting the Indian economy.

2) India was treated as an assured and cheap source of supply of raw materials to feed the manufacturing industries in Britain.

3) The country was considered a captive market for the manufactures and semi-manufactures of Britain.

4) Major industries such as tea, coffee, rubber and jute were owned and managed by the British.

5) The colonial rulers had established the managing agency system to mobilise procurement of raw materials from the country for transportation to British.

6) Foreign exchange business relating to foreign trade was handled by British interests.

7) Services such as shipping, freight, forwarding and insurance were also owned by the British.

By 1939, India had been exporting goods worth Rs. 1,790 million annually. India’s imports were of the level of about Rs. 1,630 million at the outbreak of the Second World War. Thus, though India continued to enjoy favourable trade balance during the colonial rule, about 85 per cent of its exports comprised primary products such as foodstuffs, raw cotton, tea, tobacco, spices, hides and skins, and to some extent, leather manufactures, jute manufactures
and cotton manufactures.

DEVELOPMENTS OF THE SECOND WORLD WAR

During the Second World War, two developments of far-reaching importance took place. First, Britain needed massive quantities of items comprising leatherware, clothing, foodstuffs and cement to meet the War requirements. Payments for these supplies were to be made to India in pound sterling. In this process, by 1946, India had accumulated Rs. 17,330 million worth of sterling. Second, to overcome foreign exchange difficulties, the British rulers introduced certain foreign exchange regulations and this experience stood India in good stead after it attained Independence.

GOAL OF SELF-SUFFICIENCY AFTER INDEPENDENCE

The dawn of Independence vested the national Government with the gigantic task of building the country's economy and stepping up the tempo of industrialisation. This, in turn, created a need for massive inputs of a wide variety of capital goods. With a weak industrial base, these inputs had inevitably to be imported from developed and industrialised economies. Available foreign exchange resources were inadequate to meet these large needs. The alternative available to the country was to rely on aid and borrowings from other countries or to generate its own foreign exchange earnings. Since foreign aid was invariably tied with "strings" and the borrowings entailed a heavy debt burden, the longterm goal set by the planners was to achieve self-sufficiency. Accordingly, when the planning era started in 1951, emphasis was laid on earning foreign exchange through exports for accelerating the pace of economic development and industrialisation in the country.
1.2 PLANNING ERA

1.2.1 FIRST AND SECOND FIVE YEAR PLANS (1951-56 AND 1956-61)

FALSE OPTIMISM

During 1951-52, India’s exports amounting to Rs. 7,330 million injected an element of optimism among the planners. But this turned out to be a temporary phenomenon caused by the Korean war. This level of export performance was again reached only after 12 years. The average annual exports during the First Plan were valued at Rs. 6,090 million. The rate of growth was barely one per cent. The annual average imports totalled Rs. 7,230 million leaving an adverse trade balance of Rs. 1,140 million.

During the Second Plan, annual average exports amounted to Rs. 6,240 million, while average annual imports valued at Rs. 9,850 million left a trade gap of Rs. 3,610 million. Exports were able to meet 63 per cent of imports, the average annual growth rate being 2.2 per cent.

The foreign trade policy during the first two Five Year Plans lacked a definite direction. Shifting accent on development of heavy industry, import substitution and restrictive imports characterised the country’s policy on the international trade scene during this period.

COMPOSITIONS AND DIRECTIONS OF EXPORTS AND IMPORTS

In terms of composition of India’s exports during the fifties, three principal traditional items, namely cotton textiles, jute manufactures and tea accounted for nearly 54 per cent of the country’s total exchange earnings. Taken together, all traditional and primary products represented about 85 per cent of India’s total exports.
The major items of imports during the first two Plans constituted machinery and transport equipment with a 30 per cent share. By the end of the Second Plan, other principal items, particularly textile fibres, iron and steel, cereals and cereal products, constituted nine per cent, 11 per cent and 16 per cent share respectively in India’s total imports.

With the emphasis on attainment of self-sufficiency and heavy restrictions on imports, efforts to match imports and exports operated at a very low level. It came to be gradually recognised that only increased imports of technology, machinery, and essential raw materials could provide the foundations for a wider industrial sector and generate surplus export production for world markets. As a result, a significant shift in the policy took place during the Third Plan.

Table 1

India’s Foreign Trade during the First and Second Five Year Plans.

(Value : Rs. Million)

<table>
<thead>
<tr>
<th></th>
<th>First Plan (Annual Average)</th>
<th>Second Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td>6,090</td>
<td>6,240</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>7,230</td>
<td>9,850</td>
</tr>
<tr>
<td><strong>Balance of Trade</strong></td>
<td>- 1,140</td>
<td>- 3,610</td>
</tr>
<tr>
<td><strong>Growth Rate in Exports (%)</strong></td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Exports as Share of Imports (%)</strong></td>
<td>85</td>
<td>63</td>
</tr>
</tbody>
</table>

Source : Ministry of Commerce, GOI, Annual Reports.
Various important measures were initiated during the Third Five Year Plan for giving a fillip to India's foreign trade. These measures included liberalised import policy, strengthening of institutional infrastructure, introduction of various promotional schemes and incentives and, above all, a definite policy for India's export and import trade.

It was during the Third Plan that an independent Ministry of Commerce, then known as the Ministry of International Trade, was created to look after the trade policy and export promotion aspects as also to provide dynamism and direction to the country's international trade. Many national-level commercial institutions, such as the State Trading Organisations, were created during this period. The institution of specialised commodity or sector-specific bodies, such as Commodity Boards and Export Promotion Councils, was also enlarged during the Third Plan. To support the export effort of the Indian industry and trade, various service organisations including, inter alia the Indian Institute of Foreign Trade, the Indian Institute of Packaging and Export Inspection Agency were also established.

SCHEMES FOR EXPORT PROMOTION
To impart competitiveness to Indian products in world markets, some of the promotional schemes introduced during the Third Plan period related to :-

1) cash compensatory support;

2) supply of key inputs at international prices;

3) supply of export credit at concessional rates;

4) import entitlement (now known as import replenishment);
5) Customs & Central Excise duty drawback; and

6) freight concessions in movement of merchandise.

A Marketing Development Fund (now known as Market Development Assistance) was created in the Ministry of Commerce to provide assistance to the exporting community in their market exploration efforts by sponsoring studies and surveys in overseas markets, help them participate in international trade fairs and exhibitions and project the image of Indian export products through publicity abroad. The cumulative effect of these measures was that the sluggishness, which characterised our exports during the First and Second Plans, was replaced by some buoyancy during the Third Plan. The annual average exports from the country during the Third Plan amounted to Rs. 7,520 million. The annual average growth rate was four per cent. Annual average imports valued at Rs. 12,410 million resulted in an adverse trade balance of Rs. 4,890 million. Exports as percentage of imports were nearly 61.

**EXPORT AND IMPORT MAKE-UP**

New and non-traditional items such as engineering goods, chemicals and allied products and marine products found place for the first time in India’s export basket. The share of the three major traditional items, namely textiles, tea and jute, came down substantially to 42 per cent compared to 54 per cent during the earlier decade. The total share of all traditional items in the exports during the Third Plan came down to 55 per cent from 85 per cent during the earlier Plans.

In imports, machinery and equipment, owing to the emphasis placed on capital goods to generate a multiplier effect on production of consumer durables and consumer goods, represented 35 per cent of the total during the Third
Plan. On account of low yield, poor productivity and occasionally bad harvests in the country, considerable emphasis had to be laid on import of cereals and other foodstuffs, which together accounted for 22 per cent of the imports. Other important items of import were iron and steel (seven per cent), petroleum and petroleum products, non-ferrous metals and textile fibres (five per cent each).

RUPEE DEVALUATION

The landmark in the history of the country's foreign trade policies was the devaluation of the Indian rupee to the extent of 57.5 per cent on 6 June 1966, which changed the entire complexion. At the time of devaluation all export promotion measures including cash compensatory support (CCS), import entitlement, duty drawback, supply of key raw material at international prices, etc., were dispensed with. Devaluation envisaged that export products would become competitive in the international markets without incentives. India's exports no doubt became cheaper but the devaluation failed to compensate adequately the withdrawal of incentives. With export profile mainly composed of traditional products such as tea, jute, tobacco and textiles having inelastic demand in overseas market, the competitive edge imparted to them through devaluation proved to be quite insignificant in stepping up foreign exchange earnings. Poor harvests in the country in two successive years, 1966-67 and 1967-68, further compounded the position necessitating heavy reliance on imports of foodgrains and cereals. As to the manufactured and non-traditional products, sluggish domestic production could not generate adequate surpluses for export.

On the other hand, Indian imports comprising mainly capital equipment, intermediate goods and key inputs essential for accelerating the pace of economic development and industrialisation, inflexible as they were, became more expensive in dollar
terms, thus creating an uptrend in value of imports. The net result was that the devaluation and withdrawal of incentives exercised adverse effect on India’s exports. The value of imports outpaced that of exports, causing a huge trade deficit. To rectify this gross imbalance in trade, recourse had to be taken to a Plan holiday. The country had, therefore, a period of three annual Plans after the completion of the Third Plan.

1.2.3 THREE ANNUAL PLANS (1966-67 TO 1968-69)

As mentioned earlier, after devaluation, exports experienced a downtrend and the growth rate itself was negative compared to the previous years of the Third Plan. Our cheaper but apparently inelastic exports to the international markets only realised lesser amount of foreign exchange while we incurred large expenditure on the import of machinery, equipment, cereals, petroleum and petroleum products, fertilisers and non-ferrous metals as well as other items of import. The position was further aggravated by drought conditions within the country during the two successive years after devaluation, leading to greater imports of foodgrains. The average annual exports during the three Annual Plans amounted to Rs. 12,470 million and the imports totalled Rs. 19,910 million. The annual average adverse trade balance during this period was of the order of Rs. 7,440 million.

Moreover, Indian trade and industry with the support provided by incentives and promotional measures had earlier acquired competitiveness in a wide range of export commodities. With the removal of export incentives, trade and industry found it difficult to compete in international markets. The overall motivation to exports was also impaired substantially in the wake of growing demand in the domestic market.
It was soon realised that revival of the promotional measures was necessary not only to sustain our export effort but also to expand it in a significant way. As a consequence, export promotion measures, which were withdrawn at the time of devaluation, were restored when the Fourth Plan commenced.

1.2.4 FOURTH FIVE YEAR PLAN (1969-70 TO 1973-74)

EXPORT POLICY RESOLUTION: 1970

National commitment to exports manifested itself for the first time in the Export Policy Resolution of 1970, which received the approval of Parliament. This was certainly another milestone in the country’s export effort. Next only to defence and food, export activity was accorded the third place of importance in the national priorities. The resolution covered all sectors, including agriculture, horticulture, sericulture, forestry, fisheries, minerals, textiles, electronics, chemicals and engineering industries and called for efforts for sustaining, expanding and reorienting their export production. In this context, the Policy statement also laid due emphasis on active involvement of labour, management, producers and the exporting community. While seeking to mobilise support from State Governments, local bodies and all sections of society vitally concerned with the export effort, the Central Government laid equal stress on import substitution.

INTRODUCTION OF EXPORT HOUSES SCHEME

The scheme of Export Houses introduced during the Fourth Plan was another positive step in the right direction. Export Houses were extended various incentives including import replenishment at higher rates and blanket foreign exchange permits for market exploration as well as market expansion. Linked as these facilities were with the past performance of the Export Houses, these contributed significantly in accelerating the pace of export growth. As
against the seven per cent annual growth rate envisaged by the Export Policy Resolution the actual average annual growth rate during the Fourth Plan turned out to be 15.6 per cent, the maximum being 28.6 per cent in the last year of the Plan.

SIMPLIFIED EXIM PROCEDURES

Complex and time-consuming export procedures and incidental documentation formalities, which continued to act as a damper on the country’s export expansion efforts, were considerably simplified during this Plan period. Similarly in getting import replenishment and advance licences for import of key raw materials and inputs, timelimits were imposed to ensure processing of the applications within a reasonable period.

G.S.P. AND TRADE AGREEMENTS

At the international level, amongst the important developments that had taken place during this period, the one of special significance to our export was the introduction of the Generalised System of Preferences (GSP). This was aimed at promoting exports of developing countries to developed markets through preferential or duty-free access of their goods on a non-reciprocal basis. India is one of the few developing countries to have taken some advantage of the opportunities thrown open by the GSP.

The country also forged ahead in economic and trade cooperation through numerous bilateral as well as multilateral trade agreements with a large number of countries. Commercial development programmes with industrialised countries constituted important plans for increased trade exchanges.
NEW MARKETS AND CONDITIONS OF BOOM

At home, there were good harvests which resulted in considerable squeeze in imports of foodgrains and cereals. International markets experienced conditions of boom and the Indian export sector was able to take advantage by realising higher unit values for a wide variety of exportable items such as tea, jute, cotton, textiles, manganese ore and iron ore. Emergence of the markets of Bangladesh, Middle East and the Gulf provided further opportunities of trade diversification.

The average annual exports during the Fourth Plan amounted to Rs. 18,070 million and imports to Rs. 19,720 million, narrowing the average adverse trade balance to Rs. 1,650 million. The annual average growth rate was 15.6 per cent during this Plan, though in certain years it was much higher. The range of exports was between Rs. 14,130 million in the first year of the Plan and Rs. 25,230 million during the concluding year of the Plan. Exports as a percentage of imports constituted 93. It was during the Fourth Plan that, for the first time after independence, the country had a positive trade balance of Rs. 940 million in 1972-73. Various innovative and promotional schemes introduced during this period also acted as a stimulant for export growth. The Fourth Plan thus stands out as the golden period in India’s international trade pursuits and export performance.

contd...
Table 2

India's Foreign Trade during Third Plan, Three Annual Plans and Fourth Plan
(Value: Rs. Million)

<table>
<thead>
<tr>
<th></th>
<th>Third Plan</th>
<th>Three Annual Plans</th>
<th>Fourth Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>7,520</td>
<td>12,470</td>
<td>18,070</td>
</tr>
<tr>
<td>Imports</td>
<td>12,410</td>
<td>19,910</td>
<td>19,720</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>-4,890</td>
<td>-7,440</td>
<td>-1,650</td>
</tr>
<tr>
<td>Growth Rate in Exports (%)</td>
<td>4</td>
<td>5.8</td>
<td>15.6</td>
</tr>
<tr>
<td>Exports as share of Imports (%)</td>
<td>61</td>
<td>63</td>
<td>93</td>
</tr>
</tbody>
</table>

*Pre-Devaluation Rate.

Source: Ministry of Commerce, GOI, Annual Reports.

1.2.5 FIFTH FIVE YEAR PLAN (1974-75 TO 1977-78)

SETBACK BY OIL CRISIS

The Oil Crisis, which erupted in 1973, caused a serious setback to the export effort of the country. The oil price hike in early 1973 and the resultant strain owing to the heavy import bill considerably thwarted our economic development and industrialisation process. At the international level, the economy itself was subjected to adverse phenomena such as inflation, stagflation and recession. The boom conditions which characterised the Fourth Plan period began to taper off. While imports became expensive, exports of a large number of items realised lower unit values compared to the earlier years. The worst-affected countries during the global economic crisis in the wake of the oil price hike were the non-oil developing countries including India.
The stagnating global economic growth created serious difficulties even for the industrialised economies. They suffered from balance-of-payments problems, unemployment and squeeze in their imports. These problems gave rise to restrictionist practices, a phenomenon termed as protectionism.

Restrictive measures to check imports from Third World economies were resorted to by developed countries through numerous tariff and subtle and not so subtle non-tariff barriers such as orderly marketing arrangements, voluntary export restraints, minimum price regimes, quantitative restrictions, customs valuation procedures, broader fiscal changes, documentary controls, consular formalities marking and labelling requirements, health and sanitary regulations, stringent consumer safety standards and testing and packaging requirements. These measures adversely affected products of export interest to all developing countries, India being no exception.

There was a spurt in India's expenditure on oil imports compared to the earlier years. Expenditure on oil imports started mounting from 1973-74. In the same year, over 22 per cent of export earnings were consumed by the import of oil. The situation worsened in subsequent years, and by 1978-79 oil as a share of the total imports constituted 44.4 per cent. Oil imports as a percentage of total exports in 1978-79 constituted 52.8. The position further deteriorated in 1979 with the onset of second oil crisis.

The impact of some of the favourable factors in the international arena, like GSP, which had earlier provided some fillip to exports of developing countries including India was thus eroded by these non-tariff barriers and protectionist tendencies adopted by the developed economies.
TRADE PERFORMANCE

In spite of an adverse international economic and trading environment, India continued to pursue an outward-looking import regime. While developed countries and many of the co-developing economies were in the midst of squeezing their imports, the import policy adopted by the Government of India was even during this period trying to acquire a liberal tinge. Nevertheless, the difficult international marketing milieu was one of the important factors that compelled Government to terminate the Fifth Plan in the penultimate year in 1977-78. The subsequent two years, i.e. 1978-79 and 1979-80, were marked by “rolling” plans.

In spite of the downtrend in global exports, India’s performance in the Fifth Plan compared to that of the Fourth Plan was quite impressive. Our exports during the Fifth Plan ranged between Rs. 33,040 million in 1974-75 and Rs. 53,730 million in 1977-78. The level of imports, however, remained far ahead of our exports. Imports ranged between Rs. 44,680 million in 1974-75 and Rs. 60,260 million in 1977-78. Barring 1976-77, when the country witnessed a favourable trade balance of Rs. 720 million for the second time after Independence, the adverse trade balance during the Fifth Plan varied between Rs. 6,530 million and Rs. 11,640 million.

1.2.6 ROLLING PLANS

The two-year period, 1979-80, was characterised by “rolling” plans. India’s export performance during 1978-79 valued at Rs. 57,260 million represented a 6.3 per cent increase over the previous year. In 1979-80, exports amounting to Rs. 64,180 million indicated a rise of 12.0 per cent. This annual uptrend, however, compared to the growth rate ranging between 19.3 per cent and
31.0 per cent during the first three years of the Fifth Plan was much less. The slow growth rate during the two years was attributed to lower unit value realisation and substantial fall in the products of the country's major export interest, notably gems and jewellery, iron and steel, engineering goods, tobacco, oilcakes, man-made fibres and metal manufactures. Domestic supply constraints and recessionary trends in overseas market remained the major contributory factors for the downtrend in exports. Imports during 1978-79 and 1979-80, on the other hand, amounting to Rs. 68,110 million and Rs. 91,430 million respectively were marked by phenomenal growth. These registered 13.0 per cent and 34.2 per cent rise respectively over the preceding years. The inflationary trends caused by the second oil crisis, apart from exercising heavy pressure on import bill, resulted in a sharp rise in expenditure, on imports of important items in 1979-80.

DEEPENING CRISIS

The non-oil producing economies of the world were hardly able to make adjustments arising from the difficulties of the first oil shock when the global economy was overtaken by the second energy crisis in 1979. Second oil price hike compounded the problems confronted both by the developed countries and the developing economies. The major markets of the industrialised countries further restricted access and intensified non-tariff barriers. Inflationary and recessionary trends in world markets resulted in demand squeeze and fierce competition for the limited opportunities. Exports of developing countries were the worst hit during this period. India's effort also suffered through fall in international prices of tea, coffee, spices and iron ore.

The export production of the country was seriously constrained on account of shortage of inputs including power, coal and raw materials for which
the various sectors were dependent on imports. Price rise even in the indigenously available raw materials and the uptrend in wage levels affected competitiveness and impaired export profitability. The economy also faced transport and shipping difficulties in the export-related activities. In order to cater to the domestic demand, export policies in relation to certain agricultural products such as sugar and rice were deliberately made restrictive.

PROMOTIONAL MEASURES

Among the various export promotion measures initiated during this period, the most significant was the step to involve the State Governments more actively to develop exports of agricultural commodities and products of the cottage, handicraft and small scale sectors. As part of the export promotion strategy, emphasis was laid on exports of value added manufactured or processed products as also on tightening of the quality control and inspection standards.

THE SCHEME OF 100% EXPORT ORIENTED UNITS (EOUs) WAS INTRODUCED IN THE YEAR 1980 WITH THE OBJECTIVE OF GENERATING PRODUCTION CAPACITY FOR EXPORTS BY PROVIDING AN APPROPRIATE POLICY FRAMEWORK, FLEXIBILITY OF OPERATION AND INCENTIVES.

Export duties on certain products like tea and spices were either abolished or reduced to augment their foreign exchange earnings. Other steps including action to set up Export-Import Bank and extension of preshipment credit facility upto 180 days for exports. Concerned with the problems and constraints of the export sector, the Government of India in its keenness to render international business activity congenial and conducive, a number of sector-specific task forces were set up. The objective of such task forces which covered sectors like gems and jewellery, leather and leather manufactures, agricultural products,
electronics and small scale industries was to conduct thorough examination of their problems for remedial action and to study their export prospects.

**PHASE OF RECESSION & RECOVERY**

*1.2.7 SIXTH FIVE YEAR PLAN (1980-81 TO 1984-85)*

The Sixth Plan was launched when the global economy was passing through a phase of great depression. In particular, during its initial two years, the growth rate in the economies of the developing countries was a meagre 1.4 per cent and that of the industrialised nations even less, barely 0.9 per cent. The subsequent years though witnessed a sporadic recovery the growth rate could not be sustained. The international factors which influenced India's foreign trade during the Sixth Plan comprised depressed global economic situation, adverse balance of payments position in a vast majority of non-oil producing countries, demand recession, growing protectionism, unstable exchange rates and deteriorating terms of trade of developing countries.

**HOME CONSTRAINTS**

At home, besides shortages of foreign exchange and key inputs, labour unrest, low productivity and high cost of production were some of the factors which rendered Indian export merchandise in world markets uncompetitive. In addition, strong pull of the vast domestic market, unstable prices, restrictions on exports of items of mass consumption, and problems of export marketing stood in the way of stepping up foreign exchange earnings. Technological gap, lack of adherence to quality standards and scant attention to build lasting business contacts were some of the complaints often voiced by the foreign counterparts importing a wide variety of goods from India.
WIDENING TRADE DEFICIT

After having made satisfactory progress during the Fourth Plan and to some extent in the Fifth Plan too, the period that followed started witnessing a yawning trade deficit. Exports during the Sixth Plan could meet only 60 per cent of imports as against 86 per cent in the Fifth Plan. On an average annual growth rate in exports was 17.5 per cent and 13.8 per cent respectively during the Fifth and Sixth Plan period. The single important factor responsible for increase in imports and the widening trade deficit gap during the Sixth Plan was the second oil crisis of 1979. As a result, in 1980-81 imports of petroleum and petroleum products formed 44.5 per cent share of the total imports. These swallowed 82.0 per cent of the total export earnings during that year. Even in 1982-83, oil imports forming 38.2 per cent share of the total imports consumed as much as 66.6 per cent of country’s export earnings.

contd...
### Table 3

India's Foreign Trade during Fifth Plan, Rolling Plans and Sixth Plan (1974-75 to 1984-85)  
(Value : Rs. Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>% change over previous year</th>
<th>Imports</th>
<th>% change over previous year</th>
<th>Trade Balance</th>
<th>Exports as percentage of imports</th>
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</thead>
<tbody>
<tr>
<td><strong>Fifth Plan</strong></td>
<td></td>
<td></td>
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<tr>
<td>1974-75</td>
<td>33,040</td>
<td>30.9</td>
<td>44,680</td>
<td>49.2</td>
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<td>74</td>
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<td>1975-76</td>
<td>39,420</td>
<td>19.3</td>
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<td>78</td>
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<td>1976-77</td>
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<td>1977-78</td>
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<td><strong>Plan Annual Average</strong></td>
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<td>17.5</td>
<td>51,470</td>
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<td>-7,060</td>
<td>86</td>
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<td><strong>Rolling Plans</strong></td>
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<td>1978-79</td>
<td>57,260</td>
<td>6.3</td>
<td>68,110</td>
<td>13.0</td>
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<td>1979-80</td>
<td>64,180</td>
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<td>91,430</td>
<td>34.2</td>
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<td>70</td>
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<td><strong>Sixth Plan</strong></td>
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<td>1980-81</td>
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<td>1981-82</td>
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<td>1982-83</td>
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<td>5.5</td>
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<td>1983-84</td>
<td>98,720</td>
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<td>1,57,330</td>
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<td>-58,610</td>
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<td>1984-85</td>
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<tr>
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Source: Computed from DGCI & S Data and Annual Reports of MOC, GOI.
1.3 TOWARDS LIBERALISATION

1.3.1 SEVENTH FIVE YEAR PLAN (1985-86 TO 1989-90)

Notwithstanding the recession-ridden international trade and declining exports, India increased its imports of machinery and equipment through liberal policy for effecting technological upgradation and modernisation. Higher intake of steel, non-ferrous metals, and chemicals was for augmenting industrial output. Imports, at higher levels, of items like edible oils, sugar, fertilizers and petroleum were to meet the growing domestic demand as also to maintain their prices.

PROMOTIONAL POLICY MEASURES

The Government initialed various promotional measures during the Seventh Plan to propel exports from the country. The major steps taken during the Plan included relatively liberalised import-export policy, introduction of new and additional incentives, simplification in procedural formalities, increase in market promotion assistance under the Market Development Assistance, identification of thrust sectors and thrust markets, and exemption in income-tax on profits from exports to the extent of 100 per cent.

1) Import Export Policy :– Even since the Import Policy was introduced in the country, it had remained an annual feature since the policy was announced every year on March 31. Besides, the Policy was subject to too frequent changes through Government notifications. The common complaint of the exporting community was lack of stability in the policy framework which hindered long-term export planning and export commitments with foreign buyers. To remove this long-standing complaint, for the first time, the Import-Export Policy announced in 1985-86 was made valid for three years, i.e. upto March 31, 1988.
2) **Passbook scheme** :- The emphasis in the Import-Export Policy was on assuring easier access to imported inputs for maximising production and exports. Towards this end, an Import-Export Passbook Scheme was introduced with effect from January 1, 1986. The objects of the scheme was to allow the manufacturers who were regular exporters, duty free imports of inputs instead of taking a decision on case to case basis. Other improvements in the Policy included reduction in the categories of licences and simplification of export procedures. A substantial degree of liberalisation was effected in the Import-Export Policy. The Open General Licence (OGL) list for capital goods imports was enlarged to encourage technological improvements and modernisation in different production and processing sectors. Export houses and trading houses were allowed liberal imports of drawings and designs.

3) **Cash Compensatory Support (CCS)** :- The Cash Compensatory Support scheme, which had remained in force since 1966, was an important export promotion measure available to various sectors engaged in international business. This scheme also created uncertainties as to the validity of rates of cash assistance and its very continuance as it was announced on an annual basis. To do away with the element of uncertainty and to help Indian exporters enter into long-term commitments with their overseas counterparts with effect from July 1, 1986, the scheme of CCS was imparted stability. It was also made applicable for three years, extending its validity upto March 31, 1989.

4) **Deemed Exports** :- Cash compensatory support was also allowed on certain types of supplies made in India. These supplies were considered as “Deemed Exports”.

5) **Duty Drawback** :- The Government had constituted a high powered Committee in Nov. 1985 to undertake a comprehensive review of the duty drawback
system. Procedures were evolved for expeditious disbursement of duty drawback claims. Improvements were effected in the procedures of Custom Houses to ensure quick payments of drawback claims.

6) Market Development Assistance: In order to expand exports to relatively lesser tapped and difficult markets, higher rates of Market Development Assistance were made applicable to recognised export houses and export promotion councils for participation in exhibitions and international trade fairs. Increase was also effected in the quantum of market development assistance for opening foreign offices for consultancy organisations.

7) Thrust Products & Thrust Markets: For promoting exports and achieving the goals of the Seventh Plan, selectivity approach was adopted for a concerted export drive. Keeping in view their strength and export potential, fourteen product groups were identified as thrust sectors. 37 thrust markets were identified for export expansion during the Plan period.

8) Income-Tax Exemption: In 1988 an important landmark policy decision for promoting exports related to exemption in income tax on export profits to the extent of 100 per cent. This was considered to be a substantial incentive for the export sector. Its impact was quite pronounced on sectors like gems and jewellery. After the introduction of the income-tax exemption scheme, export of gems and jewellery witnessed a phenomenal increase ranging between 70 per cent and 90 per cent in the following year.

9) Other Fiscal & Financial Incentives: In addition to the exemption of export profits from income tax, a number of other fiscal and financial incentives were extended to accelerate the pace of exports during this period. The objective of these measures which were largely in the form of facilities, subsidies,
grants and tax reliefs was to improve competitiveness of Indian products, projects and services in world markets. These included a five year tax holiday to 100 per cent Export Oriented Units, a concession hitherto before available only to units operating in Free Trade and Export Processing Zones.

10) Improvements In Industrial Policy :- A series of improvements were also effected in the Industrial Policy of the country during the Seventh Plan. With a view to stimulating industrial production, the limit of assets for definition of large houses under the MRTP Act was raised. Export production was allowed to be excluded for the purpose of establishing dominance of large enterprises under the Act. Besides, export production by large-scale units was exempted from industrial licensing. The additional capacity to be created by them for exports was allowed through simple notification to Directorate General of Technical Development. The large-scale firms willing to export 60 per cent of their production were allowed to produce specified goods holding export potential.

11) Free Trade Zones :- Before the commencement of Seventh Plan, the two Free Trade/Export Processing Zones in existence were the Kandla Free Trade Zone and the Santacruz Electronic Export Processing Zone. As an instrument of export promotion, four more FTZs approved for establishment in 1984, were Kerala (Cochin FTZ), Tamil Nadu (Madras FTZ), and West Bengal (Falta FTZ). The seventh FTZ was also sanctioned during the Plan period for establishment at Vishakhapatnam in Andhra Pradesh.

ENCOURAGING TRENDS

Positive outcome of the promotional steps taken during the Seventh Plan was reflected in trade expansion, higher growth rate in exports, diversified
export profile, changed structure of imports, and broad-based destinational pattern. With the exception of the initial two years, i.e. 1985-86 and 1986-87 which experienced an export growth of 2.4 per cent and 14.3 per cent respectively in the remaining three years of the Plan export growth in rupee terms varied from 25.9 per cent to 36.8 per cent. However, as was the case in the earlier Plan periods, imports during the Seventh Plan continued to outpace exports.

EXPORT PROFILE

Export of low value commodities or semi-manufactures were replaced by high value-added non-traditional items. Major proportion of foreign exchange earnings, during the Seventh Plan accrued from products such as gems and jewellery, ready-made garments, engineering goods, leather and leather manufactures, and chemicals and allied products. Equally impressive was India's trade performance during the last three years of the Seventh Plan period. After experiencing a decline in exports in 1985-86, initial year of the Plan, during the rest of the period, export growth in dollar terms on an average worked out to 17 per cent. An encouraging trend in the export profile was sizeable addition of foreign exchange earnings from the exports of mineral fuels and lubricants including coal.

IMPACT OF POLITICAL INSTABILITY

The last two years of the Seventh Plan were marked by political instability with hung Parliament at the centre. The process of economic liberalisation initiated during the Seventh Plan could not be implemented in right earnest. Nor could it be possible to carry forward and complete it mainly on account of ideological differences among political parties assuming reigns of the
Government. During a short span, in quick succession two political parties, different from authors of economic liberalisation, formed the coalition Government at the Centre. Had the process of economic liberalisation launched during the Seventh Plan continued uninterrupted, India would have by now stolen a march over many of the developing countries which currently happen to be in competition in offering the best economic package to overseas investors, foreign direct investment being at the centre stage of structural reforms in the globalisation pursuits.

Table : 4

India's Foreign Trade During the Seventh Plan (1985-86 to 1989-90)  
(Value : Rs. Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>% Change over previous year</th>
<th>Imports</th>
<th>% change over previous year</th>
<th>Trade Balance</th>
<th>Exports as % of Imports.</th>
</tr>
</thead>
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<tr>
<td>1985-86</td>
<td>1,15,780</td>
<td>2.4</td>
<td>2,16,640</td>
<td>28.3</td>
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<td>54.7</td>
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<td>1986-87</td>
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<td>14.3</td>
<td>2,01,000</td>
<td>2.2</td>
<td>- 76,500</td>
<td>61.9</td>
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<td>1987-88</td>
<td>1,56,700</td>
<td>25.9</td>
<td>2,22,400</td>
<td>10.7</td>
<td>- 65,700</td>
<td>70.5</td>
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<tr>
<td>1988-89</td>
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<td>2,82,400</td>
<td>26.9</td>
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<tr>
<td>1989-90</td>
<td>2,76,800</td>
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<td>3,54,200</td>
<td>25.4</td>
<td>- 77,400</td>
<td>78.1</td>
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<tr>
<td>Seventh Plan Annual Average</td>
<td>1,75,220</td>
<td>21.7</td>
<td>2,54,330</td>
<td>18.7</td>
<td>- 79,110</td>
<td>68.1</td>
</tr>
</tbody>
</table>

Source : Computed from the DGCI&S Data and Annual Reports of MOC, GOI.
1.3.2 SERIOUS ECONOMIC CRISIS AND STRUCTURAL REFORMS
ANNUAL PLANS (1990-91 AND 1991-92)

The Eighth Plan which was to commence from 1990-91 could not take off on account of political changes in the country. The two years following the completion of the Seventh Plan were characterised as Annual Plans. The economy was faced with huge budgetary, fiscal and trade deficits. The BOP crisis had assumed alarming proportions. The credibility of the country in world markets was threatened on account of erosion of confidence among the commercial and multilateral lending institutions. Tight money market and shortage of foreign exchange had severely impaired capacity to import, which in turn adversely affected production and export activities.

Growth of real GDP had sharply decelerated. The inflation started mounting and reached the highest ever rate of 16.7 per cent in August 1991. Foreign exchange reserves of the country had declined to a level of 1.1 billion US Dollars (Rs. 2,383 Crores) by June 1991. These were barely sufficient to meet two weeks of import requirements. The country was on the brink of default in the discharge of its international debt liabilities.

Eventful developments had also occurred on the international scene. These included cessation of Cold War, fall of the Berlin Wall and unification of Germany, collapse of Communism and change over of the East European countries from iron curtain economies to free markets, enlargement of the European Economic Community as a single entity, Gulf War, and sharp increase in world prices of petroleum. Two of these developments which compounded the already precarious economic situation of the country were the Iraq-Kuwait war and disintegration of the Centrally planned economies.
IMPACT ON INDIAN ECONOMY

In the disintegration of the markets of East Europe, which had accounted for 18-20 per cent of India's exports, the export sector of our economy suffered a serious setback. Quite many of the items, which were destined to the former USSR and other Centrally planned countries lost these export markets. Their revival necessitated massive efforts after these countries had adjusted to the changed economic and political environment.

The major impact on the Indian economy was exercised by the Gulf war which led to:

(a) loss of export markets in Iraq and Kuwait for wide ranging products as well as projects;

(b) setback caused by stoppage of inward remittances by Indian workers in the Gulf markets;

(c) huge expenditure on evacuating war affected Indian settlers and their families;

(d) sharp rise in world prices of oil and resultantly increase in the imports of petroleum bill;

(e) estimated loss of over Rs. 5,000 crores in coping with the situation caused by the Gulf war.

Besides the above, the export sector of the Indian economy lost the momentum gathered during 1986-90. The export growth rate decelerated to 9.1 per cent in dollar terms during 1990-91. Import squeeze for want of foreign exchange resources and BOP crisis starved the export industries of imported key inputs.
Loss of confidence among foreign commercial banking institutions culminated in heavy reduction in loans to India. There was a precipitous decline in invisible receipts in the form of private remittances, travel and tourist earnings. The position was further aggravated by heavy withdrawal of NRI deposits, which were of the nature of short-term loans.

REVIVAL OF CONFIDENCE

The Government therefore adopted various measures to grapple with the grave situation which threatened the collapse of the economy. Its first and foremost task was to improve the dwindling foreign exchange reserves and to restore confidence of the multilateral financial and commercial lending institutions in India's credit rating. This was sought to be achieved, among others, through increased borrowings from IMF and World Bank. With the same end in view, 20 tonnes of confiscated gold was leased to SBI which entered into a sale arrangement in the world market for an amount of 200 million US Dollars with an option to repurchase subsequently. In consonance with the Reserve Bank of India Act empowering it to keep 15 per cent of its gold abroad, about 47 tonnes of gold was moved to the vaults of the Bank of England and the Bank of Japan to raise 600 million US Dollars in two transactions to tide over the serious liquidity crunch. This was a temporary arrangement and subject to redemption of gold pledged abroad on improvement in country's foreign exchange reserves position.

IMPORT COMPRESSION

To overcome the precarious situation, emphasis of the Government initially remained on import compression through fiscal and monetary measures rather than physical controls although the latter were also subsequently resorted
to during 1990-91 and 1991-92. The direct import compression measure introduced in October 1990 stipulated a cash margin of 50 per cent on payments for imports other than those of capital goods. These cash margins in the following six months were increased to 133.33 per cent and then to 200 per cent for all OGL imports and 150 per cent for imports under specified licences. In the case of 100 per cent EOUs also a cash margin of 50 per cent was imposed.

FALL IN EXPORTS

During 1990-91 exports valued at Rs. 3,25,500 Millions increased by 17.6 per cent compared to Rs. 2,76,800 Millions in 1989-90. However, in dollar terms, exports at 18.1 billion US Dollars in 1990-91 decelerated to 9.1 per cent as compared to 19 per cent growth in the previous year. The deceleration in export performance was due to import compression, tight export credit policy, acute foreign exchange scarcity and BOP crisis. The position was further compounded by depressed international trading environment and the unfavourable developments in the world.

STRUCTURAL REFORMS

It was realised that the Indian economy had for long been sheltered and protected from international competition. No country can grow in isolation and the only way to accelerate the pace of economic development was to make it internationally competitive and to integrate it into the global economy. It was considered desirable by the Government to launch on the programme of structural reforms to provide a new direction and dynamism to the economy. In July 1991, as part of the massive economic liberalisation programme,
the Government initiated a series of measures. In the short run, these aimed at crisis management of the economy while in the long run the structural reforms were aimed at improving efficiency, productivity, and international competitiveness.

ECONOMIC & TRADE RELATED MEASURES INITIATED WERE:

1) Exchange Rate Adjustment :- The process of economic liberalisation began with a two stage indirect devaluation of Indian rupee on July 1 and 3, 1991 to the extent of 18 per cent to bring about exchange rate adjustment. The principal objectives of this measure were (a) to ensure a reasonable incentive for export promotion, (b) to encourage efficient import substitution, (c) to check the flight of capital from India, (d) to discourage inflow of remittances through illegal channels, and (e) to enhance competitiveness of country’s exports in world markets.

2) Export - Import Linked Exim Scrips :- Imports were linked with exports and the scheme of import entitlement (REP) licences was replaced by Exim scrips. Exim scrip was made the main instrument of export promotion. It was made freely tradeable. On most of the export products it was extended at the rate of 30 per cent of FOB value. Additional Exim scrips entitlements amounting to 40 per cent of FOB value of export were made applicable to specific products. Exports generated from the GCA and the RPA countries were to use Exim scrips for import from the respective area only.

3) CCS Abolished :- While essential imports of sensitive items like POL and fertilizers were protected, other imports of raw materials and components were linked to export performance. In this process, the system of Cash Compensatory Support was abolished.
4) **Supplementary Licences** :- The system of supplementary licences was discontinued and the category of unlisted OGL abolished, except for small-scale industries and for manufactures of specified life saving drugs and equipment. These import requirements were also to be met through Exim scrips.

5) **Advance Licences** :- The system of ensuring duty free access to imported inputs by exporters through advance licensing particularly in the wake of high import duties had been an important medium. The change in the trade policy made this system more effective by simplifying and speeding up the process of issuance of these licences, reducing the documentary and procedural requirements, specifying in free foreign exchange the value of advance licence, widening the coverage of items for imports, providing scope for adjustment in price fluctuations, and permitting under certain conditions disposal of raw materials imported against advance licences without prior permission of the concerned authorities, on fulfilment of export obligation.

6) **Export Houses And Trading Houses** :- The institution of export houses, trading houses and star trading houses, as a medium of export promotion was strengthened under the new policy regime. These houses were permitted to import wide range of items against additional entitlements of Exim scrips at the rate of 5 per cent of their FOB value of exports. Setting up of trading houses was also allowed with 51 per cent foreign equity for promoting exports. These were made eligible for all the benefits available to domestic export and trading houses.

7) **Restricted List** :- The new trade policy made significant changes in July-August 1991 in the list of restricted items for import. On the basis of review of the list, 98 restricted items for import were shifted to the limited permissible list, 37 items from the limited permissible list were shifted to the OGL list.
and 110 items under OGL were shifted to limited permissible list.

8) **Decanalisation** :- Considerable reduction was effected in the new policy in the canalised items. Six items of import were decanalised and placed under OGL. Sixteen items of export were also decanalised. Fourteen items of import were decanalised and their imports allowed against exim scrips. Similarly, 116 items were decontrolled and their exports permitted without licensing formalities.

9) **Removal Of AU Requirement** :- In respect of import of OGL capital goods and raw materials and components, the Actual User condition was removed. The requirement of having registration or industrial approval from the concerned Departments for import of OGL capital goods, raw materials, components, consumables and spares was also dispensed with.

10) **EPZs And 100% EOU** s :- Significant improvements were also made in the scheme of Export Processing Zones (EPZs) and 100 per cent Export Oriented Units (EOUs) to make them an effective instrument of export promotion as also for attracting foreign direct investment. These changes covered the following facilities and incentives:

(a) EPZs and 100 per cent EOU.s were extended Exim scrips at the basic rate of 30 per cent of their net foreign exchange earnings;

(b) the duty applicable on sales in domestic tariff area (DTA) was reduced to 50 per cent of the normal customs duty. Relaxation was also made for sale in DTA.

(c) the net foreign exchange earned by 100% EOU.s or units in EPZs were allowed to be clubbed with the earnings of their parent or associated companies
in the DTA for the purpose of acquisition of status of export houses or trading house for the latter.

(d) the international price reimbursement scheme (IPRS) for supply of steel was extended to units in EPZs and 100% EOU. Import of capital goods for these units was also permitted under automatic approval procedure.

11) Tariff Reduction: The process of rationalisation and simplification of tariff structure was also initiated as part of the economic liberalisation measures. In the Budget for 1991-92 tariffs and custom duties were heavily slashed, these were brought down from 300 per cent to 150 per cent. Even the reduced tariff structure was considered to be one of the highest in the world and it was decided to further reduce the import duties to bring them to the levels prevailing elsewhere in the globe. The objective was to provide an incentive to foreign investors and to impart competitiveness to Indian products in the export markets.

12) Industrial And Investment Policies: The industrial and investment Policy of the country announced on July 24, 1991 incorporated significant changes. Industrial licensing was, to a large extent, abolished import of foreign technology was liberalised and made automatic. The MRTP Act was suitably amended to do away with the approvals hampering expansion of industrial activities.

13) Foreign Direct Investment: Prior to the new Industrial Policy announced in July 1991, foreign direct investment policy regime was quite restrictive. In the new policy, a provision was made for automatic approval up to 51 per cent foreign equity holding in 34 specified high priority, capital intensive, hi-tech industries. Other measures in respect of foreign investment included liberalised terms for technology agreements based on the commercial judgement
of the investor and without the prior approval of the Government, permission of foreign equity of 51 per cent for trading companies keen to offer specialised marketing services for systematic exploration of world markets, and provision for a higher equity participation than 51 per cent for larger foreign investment projects, subject to approval of the Foreign Investment Promotion Board (FIPB) which had been set up for the purpose.

14) Partial Convertibility (LERMS) :- In the Union Budget for 1992-93, further changes as part of the liberalisation package were announced. These included abolition of export subsidies as also the Exim scrips, introduction of partial convertibility of Rupee under the scheme known as Liberalised Exchange Rate Management Scheme (LERMS), further reduction in custom tariffs, and placement of most of the imports under OGL. The scope of LERMS was further enlarged with switch over to full convertibility of Rupee on trade account in the following year.

SUBDUED TRADE PERFORMANCE

India's trade performance during 1991-92 despite the structural reforms remained subdued. Export during the year at 17.8 billion US Dollars indicated a negative growth of 1.5 per cent compared to the previous year. However, in rupee terms, exports at Rs. 4,40,400 Millions represented a growth of 35.3 per cent. Recession in major markets including USA, Japan, Germany and U.K. and collapse of East European markets responsible for 18-20 per cent of our exports were the main causes of decline in country's exports during 1991-92. Dismal GDP growth of the domestic economy, marginally negative growth in agricultural and industrial sectors, continued import compression restrictive access to imported raw materials, mounting inflation in addition to devaluation to the extent of 18 per cent, credit controls and higher interest
rates affecting availability of pre-shipment and post shipment export finance as also lack of competitiveness were some of the domestic constraints which affected country’s trade expansion efforts.

Trade performance, particularly export trade in 1991-92 presented certain positive features. These favourable indications in relation to regionwise and marketwise exports as well as specific sectorwise trends were the precursor for identification of "extreme focus areas" for concerted export promotion efforts during the Eighth Plan. Export performance of some of the sectors of the economy during 1991-92 compared to the earlier Annual Plan was somewhat impressive in rupee terms. These included agricultural and agro based items, marine products, minerals and ores, chemicals and computer software, textiles, carpets and handicrafts.

<table>
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<td>India's Foreign Trade during 1990-91 and 1991-92 Annual Plans</td>
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<td>(Value : Rs. Millions)</td>
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<th>Year</th>
<th>Exports</th>
<th>% change over previous year</th>
<th>Imports</th>
<th>% change over previous year</th>
<th>Trade Balance</th>
<th>Exports as % of Imports.</th>
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<td>1990-91</td>
<td>3,25,500</td>
<td>17.6</td>
<td>4,31,900</td>
<td>21.9</td>
<td>- 1,06,400</td>
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<td>1991-92</td>
<td>4,40,400</td>
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<td>4,78,500</td>
<td>10.8</td>
<td>- 38,100</td>
<td>92.0</td>
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</tbody>
</table>

Source : Annual Reports of Ministry of Commerce, GOI.
1.3.3 MOMENTUM IN STRUCTURAL REFORMS
EIGHTH PLAN (1992-93 TO 1996-97)

EIGHTH PLAN APPROACH

The Eighth Plan itself kept in view the philosophy of integrating India into the global economy and the focus on economic liberalisation. Accordingly, the planning process made the necessary provision for appropriate adjustments and the Plan document outlines the following four areas of approach:

(a) Clear prioritisation of sectors/projects for investment to facilitate implementation of the policy measures relating to fiscal, trade, industrialisation and human resource development;

(b) Resource mobilisation for the priority sector for their effective utilisation including timely completion of projects to avoid cost over-runs.

(c) Development of a social security net through employment generation and provision of improved health care as well as extensive education facilities.

(d) Creation of necessary organisational framework to ensure that the gains of investment in the social sectors reach the intended beneficiaries.

EXPORT GROWTH TARGET

In the area of exports, the Eighth Plan set a target of 13.6 per cent per annum in dollar terms. Imports were targetted to grow at a rate lower than exports, being 8.4 per cent on an annual basis. With a view to supporting the export sector, the Plan envisaged growth and diversification of agriculture to achieve not only self sufficiency but also adequate export surpluses. In the realm of industrial production, the related sectors such as energy, transport and communication system were to be strengthened during the Plan. In order
to help the Indian economy catch up with global developments, improvements in technological capabilities and upgradation of competitive efficiency through modernisation as well as development of science and technology were given due emphasis.

**EXPORT-IMPORT POLICY (1992-97)**

The new five-year Export-Import Policy (1992-97) was introduced with effect from April 1, 1992. This major departure from the earlier three-year Policy regime was to impart stability in the policy framework. The new Policy was made co-terminus with the Eighth Plan. Besides changes or amendments, if any, in the Policy were to be made once in a quarter. Earlier, too frequent changes were announced in the Policy through notifications which tended to defeat the purpose of stability to the disadvantage of the industry and trade.

For the first time, the Policy was given an export bias. Earlier this Policy was known as Import-Export Policy; the new Policy was titled Export-Import Policy. The hallmark of the new Policy is substantial elimination of licensing, quantitative restrictions, regulatory measures and discretionary controls. Except for two small negative lists - one for imports and another for exports - all goods are allowed to be imported and exported freely. Following were the important features of Export-Import Policy 1992-97.

**1) Small Negative Lists** :- The negative list for exports is confined to 79 items. Of these, while seven are banned, 51 are allowed export against licence, 11 items can be exported subject to ceiling, and 10 items are to be canalised for export through designated agencies. Besides, 46 items have been separately listed for export without licence but subject to compliance with specified terms.
and conditions. The negative list for imports comprises 79 items. Out of these, 3 products (animal tallow, rennet and unmanufactured ivory) are prohibited; 68 items mainly consumer goods are allowed import against licence; and 8 items are allowed import through designated canalising agencies.

2) Duty Exemption Scheme :- The scope of the duty exemption scheme was enlarged in the policy by introducing value based and quantity based Advance Licences to provide greater flexibility to the exporter to import and export goods within the overall value limits and without any quantitative restriction except in the case of sensitive items.

3) Export / Trading Houses :- In the Export-Import Policy (1992-97) a crucial role of export houses, trading houses and star trading houses was recognised by the Government. The facility of self certification under the Advance Licence Scheme was extended to export and trading houses.

4) Export Oriented Units (EOUs) :- To provide a thrust to the scheme of 100 per cent EOUs and units in Export Processing Zones (EPZs), sectors like aquaculture, horticulture, agriculture, and animal husbandry were thrown open for such units. Provision was also made for 100 per cent EOUs to export their production through export houses, trading houses and star trading houses.

5) Export Promotion Capital Goods Scheme :- The Export Promotion Capital Goods (EPCG) Scheme was liberalised and two avenues were made available for import of capital goods at concessional rates of customs duty at 25 per cent and 15 per cent with corresponding specified export obligation. In the changed Policy enforced from April 1993, the facility to import capital goods at the concessional rate of customs duty of 15 per cent with concomitant export obligation was retained.
6) Second Hand Machinery: A significant feature of the new Policy relates to restriction-free import of all types of capital goods, plant, machinery and equipment, subject to licensing. The actual user (AU) condition for such import has also been dispensed with and equipment is permitted without the requirement of a licence.

IMPROVEMENTS IN POLICY:

The Policy framework in the on-going phase of economic liberalisation is still subject to refinement and fine tuning. Accordingly, important changes have continued to be incorporated in the Export-Import Policy (1992-97) after it was originally introduced.

The significant ones are:

(a) The negative list for export was further pruned and the requirement of export licensing dispensed with for the items removed from the list. The changed Policy attached priority to exports in general and to the agricultural sector in particular. Duty free imports of capital goods and raw materials have been rendered easier under the Policy.

(b) EOUs engaged in agriculture, aquaculture, floriculture, horticulture, pisciculture, animal husbandry, poultry and sericulture were extended the facility of duty free imports. Such EOUs and units working in export processing zones were allowed to avail of the facility of duty free access to imported machinery and equipment as well as raw materials even if they exported only 50 per cent of their production. As against this the requirement for EOUs engaged in non-agricultural sectors is 75 per cent.

(c) The scope of the EPCG Scheme was enlarged by extending it to agricultural
and allied sectors. Besides, certain raw materials required by this sector, which were earlier in the negative list, were allowed to be freely imported.

(d) To help exploit their export potential a new EPCG Scheme for Services was introduced. Under this Scheme, capital equipment could be imported at concessional rate of customs duty of 15 per cent by those engaged in professional services such as architects, artists, chartered accountants, consultants, doctors, economists, engineers, journalists, lawyers and scientists.

The EPCG Scheme has also been opened to other services like hotels, restaurants, travel agents, tour operators and diagnostic services.

(e) Criterion for recognition of export houses, trading houses, and star trading houses was also changed in the new Policy. The basis of recognition had been changed from net foreign exchange earnings to FOB value of exports to meet the demand of the industry and trade.

FOREIGN EXCHANGE REGULATIONS ACT (FERA):

Suitable changes to support the liberalised trade policy, were made in the Foreign Exchange Regulations Act. These relate to liberalisation of rules, exemption from various provisions which had earlier impinged on trade, and removal of restrictions on foreign travel.

ACTION PLAN TO BOOST EXPORTS:

The Government also came out with a five-point Action Plan to boost exports in 1992-93. This included formation of a national plan for export promotion of 34 identified extreme focus sectors, launching of a National Awareness Programme, one to one meeting with export houses, trading houses and star trading houses including leading industrial houses, initiating a world-wide
effort to energise India’s commercial representation abroad, mounting publicity in overseas markets, stepping up of export promotion efforts in selected 40-50 foreign countries and reorienting the role of the Directorate General of Foreign Trade (earlier known as office of the Chief Controller of Imports and Exports) from a regulatory authority to that of a promotional agency. Steps were also taken for increased interaction with industry and trade and national level organisations with a view to reducing controls and licensing as also for simplifying procedural formalities incidental to exports. Simultaneously, emphasis was laid on improving bilateral trade relations with selected countries of the world.

Table 6

India's Foreign Trade during Eighth Plan (1992-93 to 1996-97)

<table>
<thead>
<tr>
<th></th>
<th>In Rs. Crores</th>
<th>Trade Balance</th>
<th>In US $ million</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
<td></td>
<td>Exports</td>
</tr>
<tr>
<td>1992-93</td>
<td>53,688</td>
<td>63,375</td>
<td>-9,687</td>
<td>18,537</td>
</tr>
<tr>
<td>1993-94</td>
<td>69,751</td>
<td>73,101</td>
<td>-3,350</td>
<td>22,238</td>
</tr>
<tr>
<td>1994-95</td>
<td>82,674</td>
<td>89,971</td>
<td>-7,297</td>
<td>26,330</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,06,353</td>
<td>1,22,678</td>
<td>-16,325</td>
<td>31,797</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,17,525</td>
<td>1,36,844</td>
<td>-19,319</td>
<td>33,106</td>
</tr>
<tr>
<td>Total (1992-93 to 1996-97)</td>
<td>4,29,991</td>
<td>4,85,969</td>
<td>-55,978</td>
<td>1,32,008</td>
</tr>
<tr>
<td>Annual Average</td>
<td>85,998</td>
<td>97,194</td>
<td>-11,196</td>
<td>26,402</td>
</tr>
<tr>
<td>Annual Average Growth Rate (1989-90 to 1995-96)</td>
<td>23.0</td>
<td>21.3</td>
<td>10.3</td>
<td>8.9</td>
</tr>
</tbody>
</table>

During 1992-93, exports rose by merely 3.7 per cent in dollar terms - from 17,866 million in 1991-92 to 18,537 million in 1992-93, but as against them, imports increased by a much larger margin of 12.7 per cent - from 19,411 million in 1991-92 to 21,882 million in 1992-93. Consequently, balance of trade deficit which was of the order of 1,545 million in 1991-92 rose to a high figure of 3,345 million in 1992-93. Several factors were responsible for the worsening trade deficit. Firstly, the import of oil rose by 13.6 per cent and peaked to 5,624 million in 1992-93. Secondly, with the removal of import compression measures, imports recovered and this also added to the import bill. On the export front, the exports to the General Currency Area (GCA) rose by 10.4 per cent in 1992-93. This was largely due to a response to the liberalized trade and exchange rate regimes. But exports to the Rupee Payment Area (RPA) declined by 62.2 per cent in 1992-93 on top of a decline of 42.5 per cent in the previous year. This was due to the continuance of economic uncertainties in the former Soviet Union. This had an adverse effect on boosting exports. The disturbances in Bombay and the continuing recessionary trends in European countries also produced a negative effect on the process of acceleration in imports.

During 1993-94, the export promotion measures did lead to a rise of exports by 19.6 per cent - from 18,537 million in 1992-93 to 22,238 million in 1993-94. This is welcome. On the import front, there has been an increase in imports by only 6.1 percent - from $ 21,882 million in 1992-93 to $ 23,306 million in 1993-94. This has resulted in reducing the balance of trade deficit to $ 1,068 million in 1993-94, as against $ 3,345 million in 1992-93.

It may, however, be noted that provisional estimates are based on DGCI
& S data and do not take into account the defence imports. Consequently, when RBI figures, based on actual shipment of bills would be available, the trade deficit would be still larger. To that extent the trade deficit figures underestimate the trade gap.

During 1994-95, exports shot up to $ 26,330 million as against $ 22,238 million in 1993-94, indicating an increase of 18.4 per cent. On the other hand, imports increased at a much higher rate by 22.9 per cent. In absolute terms, imports during 1994-95 touched $ 28,654 million as against $ 23,306 million in 1993-94. This has resulted in an increase of balance of trade deficit from $ 1,068 million in 1993-94 to $ 2,324 million in 1994-95. Although during 1995-96, exports increased to $ 31,797 million as compared to $ 26,330 million in 1994-95 - a sharp increase of 20.9% in dollar terms, but the benefit of high export promotion was more than neutralised by the unprecedented increase in imports by 26.9% during 1995-96 - from $ 28,654 million in 1994-95 to $ 36,678 million in 1995-96. But with a comfortable position of foreign exchange reserves, the country can afford this deficit in balance of trade.

During 1996-97, export grew merely by 4.1 per cent i.e. from US $ 31,797 million 1995-96 to 33,106 million in 1996-97. There is no doubt that imports also slowed down and increased by just 5.1 per cent i.e. from $ 36,678 million to $ 38,548 million in 1996-97. Consequently, the trade deficit soared to a high figure of $ 5,442 billion in 1996-97, nearly equal to the level of 1990-91 when a crisis in the balance of payments was precipitated. In the absence of detailed segregated data, it would not be possible to clearly specify the reasons for the sharp decline in exports, but some probable reasons being given are (i) depressed nature of world markets,
(ii) the saturation of developed country markets for electronic goods, which have been among the most dynamic export sectors, and (iii) increased protectionism by industrial countries in the area of textiles and clothing (despite GATT and WTO). However, on the import front, the reckless import liberalisation has contributed to mounting and burgeoning import bills.

Taking the 7 year period (1989-90 to 1996-97), it may be stated that exports in dollar terms grew on an average growth rate of 10.3 per cent per annum and imports grew by 8.9 per cent per annum. This trend needs to be sustained, if over a longer period the country has to generate a surplus in trade balance so as to enable it to reduce the burden of rising interest payments arising from external debt.
1.4 TRENDS IN INDIA'S FOREIGN TRADE SINCE INDEPENDENCE

SALIENT POINTS

Between 1951 and 1971, the total value of foreign trade rose only 2.5 times; it was only between 1974-75 and 1994-95 that there was considerable increase in the total value of India's trade. This is explained by increase in the quantum of trade as well as rise in the prices of goods constituting imports and exports. The continuously rising value of trade brings out the significance of international trade for the Indian economy and with a higher degree of economic development and diversification of the economy, the value of trade is bound to increase still further. In spite of this tremendous growth, India's share in world trade was 0.66 per cent in 1994 which was less than that of small countries like Taiwan and Singapore. In 1950-51, however, India's share was 2.1 per cent of world trade.

LARGER GROWTH OF INDIA'S IMPORTS

Secondly, the value of India's imports has been continuously rising since 1951, for various reasons, such as:

(i) rapid industrialisation necessitating increasing imports of machinery and equipment, industrial raw materials, technical know-how etc;

(ii) regular import of foodgrains from 1958-59 to 1972-73 under P. L. 480 to supplement domestic production and thereafter, to maintain certain level of buffer stocks of foodgrains;

(iii) control of inflationary pressure within the country through increased imports and supply of price sensitive goods such as edible oils, cement etc;

(iv) policy of liberal imports on the pretext of export promotion, resulting
in increase of not only essential imports but even non-essential imports such as coloured T.V., etc.: and

(v) periodic hike in crude oil prices by OPEC since 1973 from a little over 2 to nearly 27 per barrel, constituting the single biggest factor for boosting imports since 1973-74 and especially till 1979-80.

(vi) Policy of import liberalisation pursued during 1985-86 and thereafter.

(vii) The disquieting factor here is that the unit value index of imports has risen much faster than the quantum index.

INADEQUATE EXPANSION OF EXPORTS

During the first three Plans, there was no increase in exports - in fact, there was even a decline. If was only during and after the Annual Plans, exports really started picking up. One reason why India's exports were almost stagnant during the first 15 years of planning was the predominance of traditional goods such as tea, jute and cotton manufactures, the foreign demand for which was generally inelastic. Besides, the rise in prices in India and the high cost of production of our export goods did not allow these goods to be competitive in the international markets.

After devaluation of the rupee in 1966, Indian export goods got a price advantage. Moreover, the Government entered into a series of bilateral agreements with Socialist countries which gave a boost to our exports. The Government introduced a series of fiscal and cash incentives to boost exports. Finally, it set up a number of export promotion councils and agencies to promote exports. These factors explain the very rapid growth of exports in the 1970's. But the increase in exports was never adequate and accordingly, exports matched imports only in two years in the last 47 year period. There were
many reasons why our export effort did not match our import requirements:

(i) the major export items of India were till recently agriculture-based and the prices of primary goods generally remained low in the international commodity markets, mainly because the demand of developed countries for these goods was inelastic and partly due to the failure of primary goods producing countries acting together,

(ii) the ever-increasing domestic consumption and inadequate export surplus in certain commodities, e.g., sugar, vegetables, meat, etc. the demand for which has been rising;

(iii) export promotion measures, such as tax and other incentives were found inadequate, particularly in the context of larger incentives provided even by advanced countries like West Germany and Japan;

(iv) the policy of protectionism adopted by advanced countries such as U.S.A. preventing the full flow of exports from developing countries; and

(v) long period of business recession in recent years in most developed countries, resulting in sluggish international demand; and

(vi) the unit value of exports has risen much more than the quantum index of exports, showing that the increase in the value of exports was partly monetary. But then, the rise in the unit value of imports was much greater than the unit value of exports.

(vii) In 1980-81, exports as percentage of GNP were only 5.5 per cent, in 1990-91, this ratio increased to 6.9 per cent and 1995-96, it further improved to 11.0 per cent. This implies the growing importance of exports for the Indian economy. However, imports which were 10.2 per cent of GNP in 1980-81, declined to 9.2 per cent in 1990-91, but rose further to 12.7 per cent in 1995-96. There is a need to prune inessential imports
so that the benefit of sharp increase in exports can be translated into a positive balance of trade.

WIDENING TRADE DEFICIT

Except for two years, when India had marginal trade surpluses, she has experienced deficits throughout this period, and what is worse, the annual average trade deficit which was only Rs. 108 crores during the First Plan rose to Rs. 467 crores during the Second Plan to Rs. 747 crores during the Third Plan and to Rs. 689 crores during the Annual Plan period. It was only during the Fourth Plan period that a real and successful attempt was made to reduce the trade deficit by restricting imports on the one side and boosting exports on the other and the result was that annual average deficit came down to Rs. 162 crores during the Fourth Plan. The Fifth Plan period reversed the trend of the Fourth Plan and witnessed the upward increase of both import and exports - trade deficit rose to Rs. 810 crores. Since then, the position has almost gone out of control - for example, trade deficit during the Sixth Plan period has averaged Rs. 5,935 crores per annum. The situation has worsened further and average annual trade deficit during 1985-86 to 1989-90 was of the order of Rs. 10,841 crores. During 1992-93 and 1996-97, average trade deficit was of the order of Rs. 11,196 crores. This indicates further deterioration during the Eighth Plan.

Chapter 1 rendered historical perspective of India’s Exports, starting from colonial era and covering various phases of India’s Economic Planning right upto the Eighth Five Year Plan 1992-93 to 1996-97.

The subject of the present study is ‘Performance of 100% EOUs.’ EOU has been a prominent sector in India’s export effort. As such it was imperative to discuss India’s Foreign trade. This would provide a backdrop to the entire study.