Chapter - 2

FOREIGN TRADE IN INDIA

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Chapter 2
FOREIGN TRADE IN INDIA

2.1 Introduction

The object of this study is to examine the role of MMTC in India's export trade, and specifically to assess whether or not it has contributed to an increase in the volume and value of Indian exports. The subject matter must therefore be the trade of the Corporation itself and the methods it has adopted in the execution of its business. To set these matters in perspective, it is desirable first to consider the long-term trend of India's foreign trade, for it is only in relation to this background that the merits and shortcomings of MMTC can be properly understood.

Foreign exchange crisis, a halting increase in export earnings, trade in certain major commodities and markets stagnating: it is against this background that the work of the MMTC must be judged, for it was this situation which prompted its creation and which has, to an important degree, influenced its behaviour.\(^1\)

International trade is an activity of strategic importance in the development process of a developing economy. Its importance differs from country to country. Foreign exchange resources provide the crucial inputs and capital goods much needed for the economic development. In view of the limitations in regard to the inflow of

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foreign aid, the twin strategies of import-substitution and export promotion assume roles of great significance in the conservation and earning of foreign exchanges resources. Exports have assumed a place of paramount importance in the development process of the economy. Since exports are just one aspect of the allocation of resources, a minimum of foreign exchange is necessary for the rapid growth of a developing country.

Shortage of foreign exchange is considered a major constraint in rapid economic development of the less developed countries. Those countries, wishing to industrialise themselves, need external resources (foreign exchange), in addition to domestic resources for importing modern machinery and equipment, sophisticated technical know-how, intermediate goods, critical raw materials not available domestically but which are essential for achieving high levels of investment and growth. Such imports are necessary for establishing new industries, as well as, social overheads and basic infrastructure like transportation, communication, power, irrigation facilities and so on. In other words, the growth rate of an underdeveloped country depends on its resource position and foreign exchange availability.

Merchandise exports is the main source of obtaining external resources for any economy supplemented by earnings from exports of invisibles, external aid and external borrowings. Exports have always played a major role in generating invisible surplus and in financing imports. Although loan or aid, is visible earnings, earnings from shipping, insurance, tourism and remittances from abroad are substantial source

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of foreign exchange, along with commodity exports. In Indian context, export earnings from merchandise have acquired over the years, critical importance for sustaining economic development.³

2.2 Foreign trade and economic development

Foreign trade has an important place in any economy. According to Robertson, "foreign trade is an engine of economic growth".

Trade is the foundation of modern economic activity and foreign trade contributes to the economic development in a number of ways:

a) It explores the means of producing imports of capital goods, without which no process of development can start.

b) It is a means to price stability. The demand supply imbalances, which are likely to be severe in the initial stages of growth, can conveniently be connected through the mechanism of foreign trade.

c) It generates pressures for dynamic change through:

- competitive pressures from imports,
- pressure of competing for export market, and
- a better allocation of resources.

d) Exports allow fuller utilization of capacity, increased exploitation of economies of scale and separation of production pattern from domestic demand.⁴

An expanding export trade is a necessity for the economic growth of any developing country; higher rate of economic growth depends upon higher rate of export growth. Foreign trade and its plan for economic development are an inherent part of any country’s overall development. India needs to start on a systematic long term planning of its foreign trade in order to bring a breakthrough in exports.⁵

India’s foreign trade is governed by several economic considerations. The internal problems in the export industries create a number of obstacles in the way of export promotion and import substitution. Independence brought about a significant change in the pattern of our foreign trade. The Five Year Plans brought export-consciousness in the country resulting in long-term specific planning and establishment of a number of export industries.⁶

Lots of ups and downs were seen in India’s foreign trade. In the fifties and early sixties foreign trade in the Indian context meant only imports. From the mid-sixties to mid-seventies, foreign trade meant both exports and import-substitution at the same time. It was during the early eighties that a positive approach was seen


⁵Ibid., p. 207.

towards the foreign trade sector. It was recognized that imports had a developmental role to play and exports, apart from providing the crucial foreign exchange resources contributed to the greater efficiency in resource use, better technology, and better quality.\(^7\)

India’s share in world trade has declined over a period of 50 years. In 1951, when the first Five Year Plan was introduced, the share of India’s exports in world trade was 1.78 per cent. It went down to 1.36 per cent in exports in 1960-61. The same trend continued in the next decade of planning, as the share in exports in 1970-71 was 0.65 per cent. In 1980, India’s share in world exports fell to 0.57 per cent following a slight increase in mid-eighties, as the share of India’s exports rose to 0.63 per cent in 1985. The share came down to 0.53 per cent in 1991 and slightly improved to 0.57 per cent in 1992 and 0.59 in 1993. From 1994 onwards the world trade share remained stagnant at 0.6 per cent. The decline in India’s share in world trade has been arrested and reversed and the target now is to raise India’s share to more than 1 per cent.\(^8\)

Exports constitute a key factor in the economic development of a country. The rate of economic growth is largely determined by the rate at which a country can expand its export capacity.\(^9\)

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\(^9\)Ibid., p.70.
The role of foreign trade in the economic development of an economy is most important. As mentioned earlier, it is considered as the 'engine of economic growth'. There exists an inter-relationship between foreign trade and economic development. In the initial stages of economic development, developing countries like India need capital goods, raw materials and technical know how for industrialisation and economic development. They have to acquire the same from the advanced countries of the world, and this increases imports. Greater exports are needed to pay for imports. To increase export capacity again we need better technical know-how, which will also increase imports. In this way, there is an overall tendency of imports exceeding exports. This vicious circle in foreign trade is the characteristics of the take-off of economic development. The deficit in the balance of trade adversely affects the balance of payment. Any disequilibrium in balance of payments of a developing economy hampers economic development. Thus, a developing country needs external sources, in addition to domestic resources to buy from abroad capital goods, technology and critical raw materials not available domestically but which are essential for achieving high levels of investment and growth.

Expansion of exports should be made an integral part of the development process or else it may badly affect the process of economic development. The crucial role of exports in the process of economic development becomes obvious in the light of the following reasons:

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1. Large-scale development of a developing country, with minimum cost may not be possible within the limitations of the domestic market. For example, India requires an export market if it wants to make full use of its agricultural and manufacturing capacity in Jute.

2. Every developing country requires foreign supplies of machinery, equipment and technical know-how, especially in the initial stages of development. Hence, in the early stages of development there is a significant increase in imports. Foreign exchange earnings through exports are the best way to pay for imports though other avenues like foreign loans, foreign investment, and foreign exchange reserves can also be considered. Thus, it is clear that right from the beginning of the development process, special attempts should be made to expand exports in order to finance the imports.

3. A developing country needs to expand its exports even after reaching the stage of a developed country. It is experienced that economic development does not lead to self-sufficiency but in fact to a greater degree of inter-dependence. Thus, export drive has to be a continuing task not only during the development process but also even after a country reaches a stability of reasonable measure of economic development.\(^\text{12}\)

\(^{12}\)S.Subrahmanya, *op. cit.*, pp. 145 and 146.
2.3 Foreign trade since independence

India was a British Colony till 1947. The essence of British economic imperialism in India was subordination of the Indian economy to that of Britain. The British transformed the Indian economy into a supplier of raw materials, a market for British manufactures and a field of investment for manufactures, which did not permit industrialisation in India. After the partition of India, the colonial pattern of trade had to be changed to suit the needs of a developing economy. At the initial stages of development, the country had to look forward to foreign supplies since it was unable to produce domestically all the machinery, equipment and material needed for the development plans. Thus, imports were necessary to supply some of the most vital and strategic goods for economic development. However, in the process of financing these imports, the country had to suffer from large deficits in the balance of trade.\(^\text{13}\)

In the early years of Independence, the expansion of India's export trade was more than satisfactory. Several changes took place in the post Independence period especially after First Five Year Plan was launched in 1951. India's foreign trade underwent remarkable change and did not remain confined to few countries and commodities.\(^\text{14}\) India shared to the full in the gains accruing to the non-industrialised countries from the postwar and Korean boom in commodity prices and the rise in the volume of world trade. The value of Indian exports rose by more than 60 per cent between 1948-49 and 1951-52, to a monthly average in the later year of Rs. 607

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\(^{13}\)Narinder Kaur, *op. cit.*, p. 3.

million. By 1954, however, world trade was well on the road to recovery and its value had since then far exceeded the 1951 record. Growth had been steadily maintained with but there was one slight setback in 1958, which was recovered in the following year.

In 1958-59 India's exports fell more sharply than world exports and though the lost ground was recovered in 1959-60, the gap between the rate of increase in Indian and world exports remained unbridged. Taking the whole period 1952-53 to 1959-60, only one—the USSR—out of India's largest export markets showed a steady increase, year by year, in the value of Indian sales. Nowhere else had there been regular growth. The expansion of trade had been uneven and disjoined with gains in one year followed by stagnation or decline in subsequent years.15

Our exports had been more or less stagnant during the decade 1951-60. They had averaged Rs. 606 crores a year during the First Plan period (1951-56) and Rs.609 crores a year during the Second Plan period (1956-61). At the end of the Third Plan in 1965-66, we exported goods worth Rs. 806 crores.

This increase in exports had two positive features. Firstly, we no longer concentrated on our traditional exports. Their share in our total export earnings declined from about 48 per cent in 1960-61 to about 44 per cent in 1965-66. We started exporting varieties of articles.

15The Economist Intelligence Unit, op. cit., pp. 3 – 6.
Previously all the engineering goods needed in the country were imported. At the end of the Third Plan, the same was also exported in large quantities. Similarly exports of handloom products had doubled and those of handicrafts increased three times during this period. Along with this exports of iron-ore, and iron and steel also increased.

Secondly, we started exporting our goods to many more countries than ever before. Previously, bulk of our exports went to the United Kingdom and other Commonwealth countries. Now, besides the U.K, U.S.A., U.S.S.R, and Japan became our principal buyers. Besides these big countries, our exports found their way to dozens of other countries, big and small, in all the continents.

Not only were we exporting to more countries than before, the number of commodities exported to each country also increased. For example our exports to U.S.A ranged from the tiny cashew nuts to bulky grinding machinery and from curry powder to intricate internal combustion machines. However this increase in exports did not change our adverse balance of trade since we could not immediately cut down our imports. In fact imports had to be increased to meet our development needs and requirements of food grains. Our adverse balance of trade increased to about Rs. 603 crores in 1965-66 as compared to about Rs. 480 crores in 1960-61. This was inspite of our exports during this period.

After careful consideration, the Government decided to devalue the rupee in June 1966. The dollar value of the rupee was reduced by 57.5 per cent. In practical terms it meant that U.S dollar which was worth Rs. 4.76 before devaluation, became
worth Rs. 7.50 after devaluation. Similarly the rupee value of pound sterling was increased from 13-1/3 to 21. Devaluation had the effect of checking imports and encouraging exports.

In 1966-67, our exports totalled to about Rs. 1157 crores. In 1967-68, they increased to about Rs. 1199 crores and in 1968-69 to Rs. 1358 crores. In 1969-70 our exports amounted to a little more than Rs. 1413 crores an all-time record for our country. Our export list, besides the traditional exports also included machines and machine tools, railway wagons and carriages, automobiles and automobile parts, diesel engines, electric fans, iron and steel and steel pipes and tubes, bicycles, electrical wires and cables, sewing machines, machinery for jute, textile, sugar, cement and paper mills, tea machinery, telephonic equipment, air-conditioning equipment, water coolers and refrigerators, chemical and allied products, radios, iron-ore, heavy water, etc. Not only our export list multiplied but also there was a great increase in the number of countries buying our goods.

Efforts were made to increase our exports, and restrict our imports. With all the number of limitations, it was not possible to reduce our imports on the contrary it increased. Our imports increased from about Rs. 650 crores in 1950-51 to about Rs.679 crores in 1955-56. They further increased to about Rs. 1140 crores in 1960-61 and to about Rs. 1409 crores in 1965-66. In 1966-67 our imports were of the order of Rs. 2078 crores and in 1969-70 our imports mounted to about Rs. 1909 crores and Rs.1568 crores respectively. From 1970-71 to 1992-93, there was a rise in imports by about 29 times slacking the process of development of the economy.
As an effort again to restrict imports a number of articles to be imported were banned. Luxury items were banned even though they were not available within the country and a restrictive import policy was followed.

This restrictive import policy was to encourage domestic industry and import substitution. Efforts were made to minimise the import by rationalising our manufacturing processes. Import substitution saved foreign exchange worth crores of rupees.¹⁶

2.4 Globalisation and liberalisation in India

The Ministry of Commerce is responsible for the country’s external trade and related matters such as export promotion measures, commercial relations with other countries, development and regulation of export oriented industries and commodities and state trading. The Ministry formulates and implements policies in the sphere of foreign trade, reflected in the export import policy of the country. With a view to accelerate the country’s transaction to a globally oriented economy, the ministry undertakes promotional measures. It helps to promote exports and facilitate the import of production inputs required for sustaining the increased industrial growth and export growth.¹⁷


¹⁷Annual Report, Ministry of Commerce and Industry, Department of Commerce 1996-1997, p.34.
The incentive system for export promotion undertaken from time to time was largely to facilitate the export of surplus commodities. However a review of India's major exports incentive indicates that they have not worked well. The export incentives lacked predictability and transparency and either the coverage was too small or procedures much complicated. The frequent changes made the schemes less useful than anticipated. Hence, these proved to be un-conducive to the objective of promoting the exports.

The export incentive policy was focused largely on those major sectors that were oriented strongly towards the home market and was designed to facilitate the export of a modest proportion of their output with little attention to the economic cost. This is the reason that the government radically changed the policy towards massive liberalisation.\textsuperscript{18}

Standing on the threshold of the 21\textsuperscript{st} century India faced crisis – a crisis in ideology, a crisis in values, a crisis in policy prescriptions culminating in a crisis on several economic fronts. We were like a business that was sick and badly needs a turnaround. The development process had left a majority of the population untouched.\textsuperscript{19} The early 1990s witnessed the onset of several unprecedented events both in the domestic as well as in the global economy. India's balance of payment situation was critical with foreign exchange reserves reaching one of the lowest levels, ever. There was a major slow down in export growth during 1990-1991. The

\textsuperscript{18}Narinder Kaur, op. cit., p. 187.

tight balance of payments and liquidity situation compelled the Government to resort to a non-discretionary fiscal and monetary measure as also through fiscal controls. However, Government took certain concerted steps for globalisation and restructuring the Indian economy in order to boost the exports.\(^\text{20}\)

For penetrating in the global market and increasing her share in world exports, the policy of mere adjustments in fiscal and financial incentives to exports was replaced by the policy that would help setting up truly competitive production units. Keeping in view the problems encountered and to set up the rate of growth of exports the government introduced a series of trade policy changes so as to integrate the Indian economy better with the rest of the world in July 1991. Like almost every country, India too has welcomed globalisation as a development paradigm.

Prior to mid 1991, foreign trade of India suffered from strict bureaucratic and discretionary controls. To reduce controls, simplify procedures and to create a congenial environment for trade, the Government made a statement on Trade Policy in Parliament on August 13, 1991, ushering a new era in the foreign trade policy of India. Instead of controls and regulations, the focus shifted to promotion and development of foreign trade.\(^\text{21}\)

Thus, India's trade sector was liberalized to respond to the opportunities and challenges posed by the national and international developments. It was ensured that

\(^\text{20}\)Narinder Kaur, op. cit., p.166.

the changes introduced were in harmony with the rest of the economy. The EXIM Policy (1992-97) was made co-terminus with the 8th Five-year Plan and provided a stable policy matrix, subject to annual changes depending on the requirement of the economy. The new trade policy focused on liberalization, openness, transparency and globalisation. The reform package focused on competitiveness of the Indian industry to meet global market requirements.22

With its entrepreneurial talents, skilled manpower, huge stock of scientific, technical and managerial people, India is in a good position to benefit from globalisation. Though on a higher growth path, the Indian economy is currently at a critical stage of development, where there is growth without adequate employment opportunities.

The forces of globalisation have brought about significant growth in worldwide trade, investment flows and capital transactions and cross-border movement of people. Currently, about US $ 2 trillion is exchanged each day in the world currency market, while 20 per cent of the goods and services produced are traded in the global market. In 1999, FDI outflow had exceeded US $ 820 billion.

Through gradual dismantling of economic boundaries, 'globalisation is ushering in a new era of relationship between nations, economies and people' thereby bringing them even closer to each other. Globalisation as a process is 'integrating not

22Annual Report, Ministry of Commerce and Industry, Department of Commerce 1996-1997, p.34.
just economies but culture, technology and governance'. There can be little doubt that
globalisation has the potential of opening up 'many opportunities for millions of
people around the world'. It has already unfolded before us many new opportunities,
new markets, and new tools of doing business.

The new development paradigm, based on liberalisation of the economy and
its globalisation, is appropriate for us not just because the old paradigm had failed to
usher in growth and development, but because the country, with its entrepreneurial
talents, skilled manpower, huge stock of scientific, technical and managerial people,
is in a very good position to benefit from globalisation. Further, as a nation we should
no longer remain isolated from developments in the rest of the world. The nation has
paid a heavy price for closing its economy for about 50 years. India has to catch up
fast in almost every field, if she has to emerge as a major economic power.

In this context, there is need to accelerate the pace of globalisation of our
economy, by accelerating the pace of economic reform. The Indian economy, with its
inherent resilience, is now well poised for accelerated economic reform. The economy
is changing gears, from low/medium growth to high growth, from traditional
industries to new dynamic sectors, and the domestic market is changing rapidly
towards an open and competitive paradigm. With more than a decade of liberalisation,
competition though on a higher growth path, the Indian economy is currently at a
critical stage of development. It is true that it has been able to withstand the upheavals
of the world economy following the Asian, and subsequently global, financial crisis of
the late nineties, and did not suffer much loss of growth. Also, overall GDP growth
during the nineties has been around 6.1 per cent, above the average of 5.6 per cent during the eighties.

2.5 India’s foreign trade during post liberalization period

Since the inception of the planning era, India’s foreign trade had made new strides in different directions. New markets had been explored; new items had been added to the export-basket and traditional commodities like tea, leather, jute manufacturers, etc. had been marketed with more value added to them. Government laid more stress on software exports since it was considered as one of the booming industries keeping in view the immense human potential available in India.

Developmental imports predominantly accompanied import curbs and controls as well as liberalisation. These changes had taken place parallel to economic development more often as a prerequisite arising out of the needs and priorities of the economy moulded through different Governmental policies and other factors such as economic, social and political conditions prevailing in domestic economy and rest of the world. As a result, there emerged the spatial structure of India’s trade with rest of the world, which was not the same in pattern at the beginning of the planning period.23

The Government of India took bold initiatives in July 1991 by way of introduction of reforms notably in the sphere of industrial, trade and fiscal policy.

This was to create an environment that will increase exports at a rapid pace, raise India’s share in world exports and find a lasting solution to the balance of payment crisis. Significant changes in the EXIM policy were made towards liberalization, country-specific and commodity-specific measures were taken to promote exports, and the Ministry and the associated organizations were re-oriented to create export friendly environment.24

The trade policy reforms provided an export friendly, free trading environment conducive to accelerate export performance with simplified procedures. A sensitive import policy was pursued to ensure adequate availability of necessities and wage goods. Thus the trade reforms revised continuously since 1991 have helped to strengthen the export production base, remove procedural irritants, facilitate import availability besides focusing on quality and technical up-gradation and improve competitive edge.25

As seen in Table 2.1, and Graph 2.1 after the year 1991-92 India experienced a negative growth in exports for more than one percent, the successive years have been quite encouraging for Indian business community so far as the export is concerned. Besides a marginal more than 3 per cent growth in exports during 1992-93, the following three years from 1993-96 have been the golden years for Indian exports that witnessed a yearly positive growth nearing 20 per cent. This was the period when the

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25 Annual Report, Ministry of Commerce and Industry, Department of Commerce 1996-1997, p. 34.
government tried to integrate the country’s economy with the global economy and had initiated the first generation of economic reforms.

TABLE 2.1

India’s foreign trade, growth rate and deficit in trade balance

(1990-91 to 2001-02)

(Rs. in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Growth Rate</th>
<th>Imports</th>
<th>Growth Rate</th>
<th>Trade Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>18145</td>
<td>9.2</td>
<td>24072</td>
<td>13.4</td>
<td>-5927</td>
</tr>
<tr>
<td>1991-92</td>
<td>17865</td>
<td>-1.5</td>
<td>19411</td>
<td>-19.4</td>
<td>-1546</td>
</tr>
<tr>
<td>1992-93</td>
<td>18437</td>
<td>3.7</td>
<td>21882</td>
<td>12.7</td>
<td>-3445</td>
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<td>1993-94</td>
<td>22237</td>
<td>20</td>
<td>23306</td>
<td>6.5</td>
<td>-1069</td>
</tr>
<tr>
<td>1994-95</td>
<td>26330</td>
<td>18.4</td>
<td>28654</td>
<td>22.9</td>
<td>-2324</td>
</tr>
<tr>
<td>1995-96</td>
<td>31797</td>
<td>20.8</td>
<td>36678</td>
<td>28</td>
<td>-4881</td>
</tr>
<tr>
<td>1996-97</td>
<td>33470</td>
<td>5.3</td>
<td>39132</td>
<td>6.7</td>
<td>-5662</td>
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<td>1997-98</td>
<td>35006</td>
<td>4.6</td>
<td>41484</td>
<td>6</td>
<td>-6478</td>
</tr>
<tr>
<td>1998-99</td>
<td>33219</td>
<td>-5.1</td>
<td>42389</td>
<td>2.2</td>
<td>-9170</td>
</tr>
<tr>
<td>1999-00</td>
<td>36822</td>
<td>10.8</td>
<td>49671</td>
<td>17.2</td>
<td>-12849</td>
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<tr>
<td>2000-01</td>
<td>44560</td>
<td>21</td>
<td>50536</td>
<td>1.7</td>
<td>-5976</td>
</tr>
<tr>
<td>2001-02</td>
<td>43827</td>
<td>-1.65</td>
<td>51413</td>
<td>1.74</td>
<td>-7586</td>
</tr>
</tbody>
</table>

Source: Directorate General of Commercial Intelligence & Statistics, New Delhi
It was the financial crisis in the South East Asian nations due to which the country’s export growth went down to almost five per cent for two successive years thereafter and it even slipped to a negative growth of more than five per cent during the year 1998-99. During this period, Indian goods were subject to stiff competition and aggressive pricing against products from the crisis-hit South East Asian countries, which were available, cheaper in the international market after the currency devaluation in their respective countries. The slow down/decline in exports during 1996-97 to 1998-99 was due to the structural constraints operating on the demand as well as supply side of our exports. The recessionary tendencies across the world severely affected the demand side of our exports.

The last financial year of the 20th century brought some relief to the exporter community and ended with a positive growth in exports. In 1999-2000 and 2000-2001 exports witnessed a significant turnaround with a growth rate of over 10 per cent and over 20 per cent respectively. This was due to the revival of world trade on the heels
of the East Asian recovery and a modest recovery in some global commodity prices. Low inflation in the domestic economy also strengthened the competitiveness of India's exports in global markets. India's export performance in the year 2001-2002 showed a negative growth of over one per cent due to weak external demand, global recession and the events of September 11, 2001.

Over the years from 1990-91 to 2001-02 the growth rate of imports reduced from 13.4 per cent to 1.74 per cent, which indicates that India is now becoming more self-reliant and is achieving greater success in import substitution. In 1991-92 there was a negative growth of 19.4 per cent due to the financial crisis prevailing in the economy. India did not have enough foreign exchange to fulfill its import requirements. Thereafter India witnessed many highs and lows in its import front. During 1994-95 and 1995-96, the growth in Indian imports was at its peak – at 23 per cent and 28 per cent respectively, and during 1999-00 India witnessed growth in imports, which stood at a little above 17 per cent as against 2 per cent growth in 1998-99 and an average of 6.3 per cent between 1996-98.

As seen in Table 2.1 and Graph 2.2 trade balance continued to remain on the negative side. The maximum trade deficit of Rs. 12849 million was seen in the year 1999-00 and the least of Rs. 1069 million was seen in the year 1993-94. Even after more than a decade of globalisation and liberalization India is still striving to achieve a favourable trade balance. The reigning government is aware of these facts. This indicates that they must identify the wrong policies that are threat to the growth of international trade and has led to the downfall. It calls for much better reforms in the economic policies.
2.6 Composition of India’s exports (1990-91 to 2001-02)

Exports constitute a key factor in economic development of a country. A country’s industrial power can be measured today through its export basket. India’s exports of major commodity groups are:

- Manufactures which include engineering goods, chemicals and allied products, cotton yarn, fabrics, jute manufactures, leather and its manufacture, readymade garments, gems and jewellery.

- Agriculture and allied products category includes cashew kernels, coffee, marine products, raw-cotton, rice, spices, sugar, tea and mate, tobacco, etc.

Tea, coffee, jute, cotton, leather, spices and other traditional items reach the world with value addition as processed and packaged items. Lots of changes have
taken place in our export basket where technological and industrial base predominates other products.

Engineering goods, high-quality cotton and synthetic yarn, fabrics, drugs and pharmaceuticals, chemicals, automobiles, trucks, TVs and audio systems, plastic and linoleum products, processed food, computer software, railway coaches, telecommunication equipment and similar high-technology items are part of our exports today reflecting the high technological and industrial development that has taken place in India over the last five decades.\textsuperscript{26}

**Agricultural and Allied goods:**

Table 2.2 indicates that in early nineties, i.e. 1990-1991, agricultural and allied goods exported were valued at Rs. 6317 crores with a share of 19.40 per cent in the total exports of India. In 1994-1995, Rs. 13712 crores worth of agricultural and allied goods were exported where the share reduced to 16 per cent in the total exports of our country. The year 1996-1997, however, saw an increase in the share of agricultural goods in the total exports, which was 20.3 per cent but fell down a little to 18.8 per cent in 1997-98. Share of agricultural and allied goods stood at 18.1 per cent and 14.6 per cent in 1998-1999 and 1999-2000 respectively with actual figures being Rs. 26104 crores and Rs. 25016 crores.

The value of agricultural exports increased to Rs. 28582 crores in 2000-2001 and Rs. 29312 crores in 2001-2002 representing a share of 14 per cent in total exports.

### TABLE 2.2

**India’s Exports of Commodity Groups**


<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Agricultural &amp; Allied goods</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>6317</td>
<td>13712</td>
<td>21138</td>
<td>26104</td>
<td>25016</td>
<td>28582</td>
<td>29312</td>
</tr>
<tr>
<td>Tea &amp; mate</td>
<td>1070</td>
<td>975</td>
<td>1171</td>
<td>2265</td>
<td>1785</td>
<td>1976</td>
<td>1719</td>
</tr>
<tr>
<td>Oil cakes</td>
<td>609</td>
<td>1798</td>
<td>2349</td>
<td>1942</td>
<td>1638</td>
<td>2045</td>
<td>2263</td>
</tr>
<tr>
<td>Tobacco</td>
<td>263</td>
<td>255</td>
<td>447</td>
<td>762</td>
<td>1009</td>
<td>871</td>
<td>808</td>
</tr>
<tr>
<td>Cashews</td>
<td>447</td>
<td>1247</td>
<td>1237</td>
<td>1627</td>
<td>2461</td>
<td>1883</td>
<td>1652</td>
</tr>
<tr>
<td>Spices</td>
<td>239</td>
<td>612</td>
<td>794</td>
<td>1633</td>
<td>1767</td>
<td>1619</td>
<td>1497</td>
</tr>
<tr>
<td>Sugar</td>
<td>38</td>
<td>62</td>
<td>506</td>
<td>24</td>
<td>40</td>
<td>511</td>
<td>1782</td>
</tr>
<tr>
<td>Raw cotton</td>
<td>846</td>
<td>140</td>
<td>204</td>
<td>207</td>
<td>78</td>
<td>224</td>
<td>43</td>
</tr>
<tr>
<td>Rice</td>
<td>462</td>
<td>1206</td>
<td>4568</td>
<td>6281</td>
<td>3126</td>
<td>2943</td>
<td>3174</td>
</tr>
<tr>
<td>Fish &amp; fish preparations</td>
<td>960</td>
<td>3537</td>
<td>3381</td>
<td>4369</td>
<td>5125</td>
<td>6367</td>
<td>5897</td>
</tr>
<tr>
<td>Meat, etc.</td>
<td>140</td>
<td>403</td>
<td>627</td>
<td>788</td>
<td>819</td>
<td>1470</td>
<td>1193</td>
</tr>
<tr>
<td>Fruits &amp; vegetables</td>
<td>213</td>
<td>606</td>
<td>802</td>
<td>931</td>
<td>1247</td>
<td>1609</td>
<td>1560</td>
</tr>
<tr>
<td>Misc. food items</td>
<td>213</td>
<td>282</td>
<td>745</td>
<td>546</td>
<td>668</td>
<td>1094</td>
<td>1236</td>
</tr>
<tr>
<td><strong>II. Ores &amp; minerals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mica</td>
<td>1497</td>
<td>2538</td>
<td>3061</td>
<td>2827</td>
<td>3005</td>
<td>4139</td>
<td>4736</td>
</tr>
<tr>
<td>Iron ore</td>
<td>35</td>
<td>22</td>
<td>27</td>
<td>43</td>
<td>42</td>
<td>64</td>
<td>56</td>
</tr>
<tr>
<td><strong>III. Manufactured goods</strong></td>
<td>23736</td>
<td>64688</td>
<td>80219</td>
<td>109787</td>
<td>127532</td>
<td>160723</td>
<td>161161</td>
</tr>
<tr>
<td>Textiles</td>
<td>6832</td>
<td>19945</td>
<td>24149</td>
<td>35581</td>
<td>40178</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>2100</td>
<td>7014</td>
<td>8619</td>
<td>11661</td>
<td>13388</td>
<td>16030</td>
<td>14655</td>
</tr>
<tr>
<td>Ready-made garments</td>
<td>4012</td>
<td>10305</td>
<td>12295</td>
<td>18364</td>
<td>20649</td>
<td>25478</td>
<td>23877</td>
</tr>
<tr>
<td>Coir yarn</td>
<td>48</td>
<td>173</td>
<td>210</td>
<td>317</td>
<td>200</td>
<td>221</td>
<td>295</td>
</tr>
<tr>
<td>Jute manufactures</td>
<td>298</td>
<td>473</td>
<td>621</td>
<td>582</td>
<td>544</td>
<td>932</td>
<td>612</td>
</tr>
<tr>
<td>Leather etc.</td>
<td>2600</td>
<td>5057</td>
<td>5790</td>
<td>6847</td>
<td>6890</td>
<td>8914</td>
<td>9110</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>6167</td>
<td>16730</td>
<td>20501</td>
<td>4950</td>
<td>5058</td>
<td>5097</td>
<td>4406</td>
</tr>
<tr>
<td>Gems &amp; Jewellery</td>
<td>5247</td>
<td>14131</td>
<td>17644</td>
<td>24945</td>
<td>32716</td>
<td>33734</td>
<td>34845</td>
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<td>Chemicals &amp; Allied Products</td>
<td>2111</td>
<td>7642</td>
<td>9849</td>
<td>14211</td>
<td>17389</td>
<td>22851</td>
<td>22339</td>
</tr>
<tr>
<td>Machinery &amp; electronic goods</td>
<td>3872</td>
<td>10947</td>
<td>14578</td>
<td>18479</td>
<td>22251</td>
<td>31870</td>
<td>33093</td>
</tr>
<tr>
<td><strong>IV. Mineral fuels &amp; lubricants</strong></td>
<td>948</td>
<td>1610</td>
<td>1761</td>
<td>594</td>
<td>3399</td>
<td>8822</td>
<td>10411</td>
</tr>
<tr>
<td>Others</td>
<td>55</td>
<td>126</td>
<td>174</td>
<td>441</td>
<td>609</td>
<td>1305</td>
<td>3398</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32553</td>
<td>82674</td>
<td>106353</td>
<td>139753</td>
<td>159561</td>
<td>203571</td>
<td>209018</td>
</tr>
</tbody>
</table>

In 1990-1991, after a gap of 10 years, there was still not much rise in the export of coffee, as Rs. 252 crores worth of it was exported. In 1994-1995, however, there was a sharp increase in the export of coffee, its value being Rs. 1052 crores showing an increase of 317 per cent over 1990-1991. In 1997-1998, coffee exports further rose to Rs. 1696 crores, accounting for 1.3 per cent of India's total exports. It touched a peak of Rs. 1728 crores worth of exports in 1998-1999. The coffee exports stood at Rs. 1435 crores in 1999-2000 and fell sharply to Rs. 1185 crores in 2000-2001 and further to Rs. 1095 crores in 2001-2002. Thus, after a continuous rise from 1990-91 to 1998-99 the coffee exports started declining since 1999-2000.

Tea has been the most important traditional commodity in our exports. The Indian tea industry is a prolific source of foreign exchange for the Central and State Governments. India has the largest average as well as the highest production of tea in the world. It even occupied the first position in our export items in few years of sixties.

Exports of tea declined to Rs. 975 crores in 1994-1995 from Rs. 1070 crores in 1990-1991, rising again to Rs. 1171 crores in 1995-1996. In the mid nineties, share of tea in total exports has been more or less constant (around 1 per cent). The share was less than 1 per cent from 2000-02. Thus share of tea exports in India's total exports showed a declining trend with 3.28 per cent in 1990-1991 to 0.8 per cent in 2001-2002.

The weakness of our tea industry was that, too little, attention was given to replanting and modernization and also to the development of high quality tea. It was
competition from other producers and other beverages that created problem in our tea exports.

The beginning of nineties saw a drastic fall in the share of tobacco in total goods exported by India. It was as low as 0.8 per cent in 1990-1991. In 1994-1995, it further came down to 0.3 per cent. In 1998-1999 its share increased to 0.5 per cent. In 1999-2000 tobacco exports touched Rs. 1009 crores but declined to Rs. 871 crores in 2000-01 and further down to Rs. 808 crores in 2001-02. In 2001-02, the share of tobacco in total exports hovered to 0.3 per cent.

In 1990-1991, Rs. 447 crores worth of cashew kernels were exported in 1991, which rose remarkably to Rs. 1237 crores in 1995-1996 indicating a rise of 176.7 per cent. In 1997-1998, Rs. 1384 crores worth of cashew kernels were exported by our country. The exports of this commodity touched a remarkable level of Rs. 1883 crores in 2000-2001 and further to Rs. 1652 crores in 2001-2002. Its share stood at 0.8 per cent of total Indian exports in 2001-2002.

Early nineties again saw a remarkable rise in the spices exported by India. Rs.239 crores worth of this good was exported in 1990-1991 which rose to Rs. 794 crores in 1995-1996, showing a rise of 232.2 per cent over 1990-1991. In 1997-1998, spices exported were valued at Rs. 1408 crores, which was almost double the amount of 1995-1996. The value of spices exported in 1999-2000 was Rs. 1767 crores and Rs.1497 crores in 2001-2002 showing a fall of Rs. 270 crores over a period of three years.
Manufactured goods:

This is a major commodity group exported by India, whose share in the total exports of our country has consistently grown from 1950-51 till date. In 1990-91, there was a sharp increase in the share of this commodity group; it represented 72.90 per cent of the total exports by India. In 1994-95, its share further rose to 78.24 per cent. It declined a little to 74.1 per cent in 1996-97 and in 1998-99; its share was 78.55 per cent. Its share further rose to 80 per cent in 1999-2000. In 2000-01 its share stood at 78.95 per cent and increased marginally to 79.77 per cent in 2001-02.

The consistent rise in the share of this commodity group can be attributed to many major commodities, whose exports have shown a remarkable increase in a span of 50 years. These goods include gems and jewellery, ready-made garments, cotton yarn and fabrics, leather and leather manufactures, machinery and electronic goods etc.

In 1990-91, cotton yarn exported was valued at Rs. 2100 crores which depicted a rise of 414.7 per cent over 1980-81. In 1995-96, foreign exchange earnings received through this commodity reached a peak of Rs. 8619 crores showing a rise of 310.4 per cent over 1990-91. In the 1997-98, cotton yarn exported was valued at Rs.12094 crores. The exports of cotton yarn rose sharply in 2000-01 and stood at Rs.16030 crores but dropped sharply in 2001-02 to Rs. 14655 crores, a fall of almost 8.57 per cent over the previous year.
Exports of ready-made garments increased to Rs. 4012 crores in 1990-91 registering a growth rate of 629 per cent over the previous decade. In 1995-96, Rs.12295 crores worth of ready-made garments were exported showing a growth of 206 per cent over 1990-91. In 1997-98, Rs. 14032 crores worth of garments were exported, showing a marginal rise of 14 per cent over mid 90's. In 1999-00 a total of Rs. 20649 crores worth of readymade garments were exported which rose to Rs.25, 478 in 2000-01 but declined to Rs. 23877 crores in 2001-02, a fall of Rs. 1601 crores.

In 1990-91, foreign exchange earnings through the export of leather and its manufactures were Rs. 2600 crores which registered a growth of 566.66 per cent over 1980-81. In mid nineties, i.e. 1995-96, the value of leather goods exported doubled to Rs.5790 crores. In 1997-98, there was a marginal decline in the export of this value, it came down to Rs. 5461 crores. There has been a consistent rise in the value of exports of this group since 1999-2000 when it stood at Rs. 6890 crores and rose further to touch Rs. 8914 crores and Rs. 9110 crores in 2000-01 and 2001-02 respectively.

In 1990-91 the value of gems and jewellery exported was Rs. 5247 crores registering a growth of 749 per cent over its previous decade. In 1995-96, gems and jewellery exported were valued at Rs. 17644 crores which depicted a rise of 236 per cent over its value in 1990-91. In 1997-98, gems and jewellery rose only by 8 per cent over its value in 1995-96, the value being Rs. 19014 crores. In 1999-2000 a total of Rs. 32716 crores worth of gems and jewellery were exported which rose to Rs.33734 crores and Rs. 34845 crores in 2000-01 and 2001-02 respectively. Its share in total exports stood at 17 per cent in 2001-02.
In 1990-91, foreign exchange earnings from machinery and electronic goods were valued at Rs. 3872 crores, showing a tremendous rise by 368 per cent over 1980-81. In mid nineties, i.e. 1995-96 Rs. 14578 crores worth of these goods were exported which showed a rise of 276.4 per cent over 1990-91. In 1997-98, foreign exchange earned from the export of these goods was valued at Rs. 18354 crores showing a marginal rise of 26 per cent over 1995-96. In 1999-2000, the share of this commodity stood at Rs. 22251 crores which increased to Rs. 31870 crores in 2000-01 and Rs. 33093 crores in 2001-02.

The share of manufactured goods, dominated the total exports of India, which fluctuated to around 80 per cent. The share of agricultural and allied goods was more variable, declining from 1990-91 to 1994-95, rising during the subsequent 2 years and dropping again since 1997-98. This was, in part, due to lack of consistent agricultural export policy and frequent supply considerations restraining aggressive trade promotion of these exports.

Though India’s share in world exports had been less than 1 per cent during a period of 50 years (1950-51 to 2000-2001). An important feature to note is that India commands an important place in world trade in tea, rice, precious and semi-precious stones, spices, coffee, leather and its manufactures, and iron-ore.

In 1996, the share of India in world trade in the following commodities was: rice (12.0 per cent), tea and mate (11.1 per cent), spices (11.2 per cent), iron-ore (7.8
2.7 Composition of India's imports (1990-91 to 2001-02)

Pre-independence, India was importer of a large number of items including food products, cotton yarn and manufactures, dyes, glassware, paper, paper board, chemicals, drugs, hardware, cutlery, iron and steel, implements, instruments, electrical goods and machinery. Lack of proper and definite import policy after Independence made the country maintain more or less the same pattern without significant change in the complexion of imports.

Imports have played a key role in promoting and accelerating the pace of economic development and industrialization in India. Soon after Independence considerable amount of our imports consisted of foodstuffs and fibres, the former to meet the domestic demand and the latter to feed the textile industry.

In 1990-91, the value of POL imported was to Rs. 10816 crores. In 1995-96 and 1997-98, imports reached a figure of Rs. 25173 crores and Rs. 30538 crores respectively. In the year 1998-99 and 1999-2000, their total value stood at Rs.26, 919 and Rs. 45421 crores respectively. In 1990-91, share of POL dropped to 25.04 per

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cent and further to 20.5 per cent in 1995-96. In 1997-98 and 1998-99, its share has been 20.2 per cent and 21.13 per cent respectively. The share stood at 31 per cent in 2000-01 and 27.2 per cent in 2001-02.

In 1990-91, chemicals imported were valued at Rs. 2298 crores which indicated a growth rate of 539.3 per cent over 1980-81. In 1995-96 and 1997-98 chemicals imported were worth Rs. 9403 crores and Rs. 12128 crores respectively. In 1996-97, chemicals had a large share 7.50 per cent in the total imports of our country, which marginally increased to 8 per cent in 1997-98. In 1998-99, chemicals had a share of 0.70 per cent. The share of total chemicals imported in 1999-2000 was 8.3 per cent, a marginal decrease of 0.5 per cent over the previous year and in 2001-02 this share stood at 7.5 per cent.

In 1990-91, capital goods imported were valued at Rs. 10466 crores, rising by 447.9 per cent over 1980-81. In 1995-96, Rs. 28289 crores worth of capital goods were imported which decreased a little to Rs. 26532 crores in 1997-98, declining by 6.15 per cent. The share of capital goods declined slightly to 23.05 per cent in 1995-96. In 1997-98, capital goods had a share of 17.5 per cent in the total imports of our country and in 1998-99; this share came down to 13.25 per cent. In the year 1999-2000, the total value of capital goods imported was pegged at Rs. 23999 crores, a substantial decline to 11.4 per cent share. In 2001-02 this share stood at 9.7 per cent.

In 1990-91, share of pearls, precious and semi-precious stones imported grew to 8.65 per cent and in 1995-96 it accounted for 5.7 per cent of the total imports by our country. In 1997-98 and 1998-99, this share rose to 7.7 per cent and 11.67 per
cent respectively. This share dropped down in 2000-01 to 9.6 per cent and further came down to 9 per cent in 2001-02.

In 1990-91, Rs. 2113 crores worth of iron and steel were imported which was almost three times over its previous value. In 1995-96 and 1997-98, the import of this commodity was valued at Rs. 4838 crores and Rs. 5595 crores respectively. The value of this commodity stood at Rs. 3975 crores in 2001-02.

In the composition of imports in the recent past reveals a rising share of food and allied products from 3.6 per cent in 1996-97 to 4.5 per cent in 2001-02. The share of POL in total imports has increased from 25.65 per cent in 1996-97 to 29 per cent in 2001-02, mainly due to low international crude oil prices. Similarly, capital goods share in total imports declined from 21.5 per cent in 1996-97 to 11.4 per cent in 1999-2000, on account of reduced imports of transport equipment, machinery (except electrical) and machine tools.

Other commodities whose imports recorded significant growth in 1999-2000 were: fuel (24.3 per cent), fertilizers (2.9 per cent), and unclassified items (21.0 per cent).29

The above analysis shows that the structure of India’s imports underwent a great change over the years. The desire for rapid industrialization necessitated large imports of machinery, capital equipment, transport equipment and project goods.

Since few decades petroleum oil and lubricants and capital goods have dominated our imports. There has been significant reduction in recent years in the imports of cereal and cereal products, fertilizers and metals besides many other goods with the progress of import substitution and higher production in the country. During the nineties commodity composition of imports for few commodities like petroleum, oil and lubricants, capital goods, pearls and precious stones, fertilizers, iron and steel, chemicals and edible oils accounted for 60 per cent to 80 per cent of our total imports.  

2.8 Trends in balance of payments during post liberalization period  

India’s experience with her balance of payments in the past decades i.e. from 1980s and 1990s and from 1990s till the beginning of the new millennium has been a mixed one. Ever since independence, India has faced deficit in its balance of payments. In other words, imports have always been more than exports.

Past analysis of India’s external trade reveals that, imports were always on the higher side because of increasing requirements of capital goods, defense equipment, petroleum products, raw material and occasionally food grains and edible oils. Exports remained sluggish owing to lack of exportable surplus, competition in the international markets, inflation at homes and increasing protectionist policies of developing countries. However, India’s external sector performed credibly over the

The developments in India's trade and payments over 1990-91 to 2000-2001 mark a noticeable structural change towards a more stable and sustainable balance of payments. During the post-liberalisation period, there had been a sharp improvement in the coverage of import payments through export earnings and in the flow of invisible receipts. Together these changes brought about a sharp reduction in the ratio of the current account deficit to GDP, from an unsustainable level of 3.2 per cent in 1990-91 to 0.8 percent in 1994-95.

There had also been a structural change in the current account in terms of a sharp reduction in debt creating flows and an increased recourse to non-debt creating foreign investment flows. This declining trend was shared by all the major components of debt flows, namely, external assistance, commercial borrowing and non-resident deposits. This favourable shift, away from recourse to debt creating flows for financing the current account deficit, had obvious implications for moderating and reducing future debt service liability.

The BOP situation in 1996-97 and in 1997-98 remained manageable, despite some concerns on the export front. Export growth slowed down significantly because of international and domestic factors. Similarly import growth also fell down on

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account of continued industrial slackness. Net inflow on the invisibles account surged and reached a new peak in 1996-97.

The deficit on the current account of balance of payments declined to 1 per cent of GDP in 1996-97 from 1.8 per cent of GDP in 1995-96. The capital account of balance of payments exhibited a handsome surplus in 1996-97, following sustained buoyancy in foreign investment flows and a surge in net inflow of non-resident deposits.

India's balance of payments could face the crisis in the international economic and financial markets. In fact, the balance of payments in 1997-98 remained comfortable with substantial reserve accumulation for the second year in succession, supported by strong private capital flows. Total import growth also decelerated. Net inflows on the invisibles account was buoyant in 1997-98, benefiting from sustained growth in software exports.

The deficit on the current account of the BOP widened to 1.6 per cent of GDP in 1997-98 from 1 per cent of GDP in 1996-97. The BOP situation had been manageable in 1998-99, despite the continuing slowdown of exports and a marked deceleration in capital flows. Exports (in dollar value terms), however, recorded a negative growth of 3.9 per cent in 1998-99, after remaining sluggish in the last two years.\(^{32}\)

India’s BOP remained comfortable in both 1998-99 and 1999-2000 partly due to anticipatory policy actions, such as issue of Resurgent India Bonds. In 2000-2001, current account deficit narrowed further to about 0.5 per cent of GDP from 1.1 per cent of GDP in the previous year. In 2001-02, current account was in surplus and with improved capital in flows; the net accretion to foreign exchange reserves was all time high in the past decade.\(^3^3\)

2.9 Direction of India’s exports

India’s foreign trade with her trading partners has not only grown at differential rates but has also been determined by different forces, some of which have been common to all regions and countries and others have been unique to particular regions.\(^3^4\)

For 52 years (from 1950-2002), the direction of India’s exports remained, mainly towards the industrialised nations of the west. Almost two-third of the total exports were bagged by Europe and America. The Western Europe including EFTA (European Free Trade Association) countries offers the biggest market for Indian products, which is around 35 per cent of the total annual exports. The Eastern Europe’s share, which was almost 20 per cent, had been reduced between 2 per cent and 3 per cent after shrinking of the USSR market. America, mainly USA, claimed


\(^3^4\)ibid., p. 110.
over one-fifth of the total exports. Among Asian countries, Japan and Hong Kong are big buyers sharing 5 per cent and about 3 per cent respectively of Indian exports. UAE and Saudi Arabia are important buyers in Middle East. The share of all countries put together in Africa works out to about 3 per cent.\textsuperscript{35}

In 1998-99 India's largest trading partner EU accounted for 26.92 per cent of its total exports to the world and 25.71 per cent in 1999-2000. USA emerged as the second largest trading partner accounting for 21.78 per cent of India's exports to the world in 1998-99 and 22.85 per cent in 1999-2000, followed by OPEC and Japan, which had a share of 10.55 per cent and 5 per cent respectively in 1998-99 and 11.21 per cent and 4.61 per cent respectively in 1999-2000. Asia is also one of the largest trading partners of our country and had accounted for 21 per cent of India’s exports to the world in 1997-98 and 24.89 per cent in 1999-2000.

The figures changed in 2001-02, wherein Asia stood as India’s largest trading partner with a 22.4 per cent share followed by EU at 21.8 per cent, USA at 19.4 per cent and OPEC at 12 per cent share.\textsuperscript{36}


2.10 Instability of Indian exports

India’s economic development programme is largely dependent on the availability of foreign exchange. Instability in export earnings hampered the process of economic development and this was seen during 1970s, 1980s and for the entire period of 1970-71 to 1989-90. Some exportables witnessed higher instability while others experienced a relatively low instability. During 1980s non-traditional exports showed the highest degree of instability followed by traditional exports. Instability was caused due to fluctuations both in prices and volume exported. During 1980’s in case of traditional commodities, there were fluctuations in export earnings whereas in case of iron-ore volume was the source of instability. Jute, tea, cashew-kernels, iron-ore, handicrafts, leather-manufactures and marine products had a stabilising effect on India’s total export earnings during 1970s. Further, it had a destabilising effect in case of handicrafts, engineering goods, leather manufactures, chemicals and cotton-apparel, on the other hand, in case of jute manufactures, tea, cashew kernels, iron-ore and marine products, it had a stabilisation effect during 1980s.

India’s exports to U.K, U.S.A., Canada, Italy and former West Germany had a stabilising effect except in case of jute exports to Japan and Australia where it had a destabilising effect. Export of tea to former U.S.S.R., Japan and former West Germany had a stabilising effect. There were stabilising effect of iron-ore exports to Japan and Kuwait, and cashew kernels exports to Japan, France, Italy and Kuwait. Handicrafts exports to U.S.A., Canada and Australia, engineering goods to former U.S.S.R. and former West Germany, chemicals and cotton-apparel to U.K. and U.S.A respectively, leather manufactures exports to U.S.A., Japan, former U.S.S.R., France
and former West Germany and marine products to U.S.A. and Australia also had a stabilising effect.

Thus, India's trade with U.K., U.S.A., former U.S.S.R., Japan and former West Germany was instrumental in stabilising the export proceeds of jute, tea, engineering goods, handicrafts and leather-manufactures, whereas, on the whole, only few countries had destabilizing effect on India's total trade. Thus, there is a need is to explore new and better markets for India’s exports.37

2.11 Role of multinationals on augmenting India’s exports

It has been seen that Multinational Corporations occupy an important place in the national economy of many less developed countries. They are vast reservoirs of capital, technical and managerial resources. There is fear and suspicion of MNCs in developing countries since they repatriate too much of profits and dividends and cause an adverse impact on the host country’s balance of payments.

It was estimated that there are 50 large transnational corporations in the world of which 23 operate in India. There is an impression, in both official and non-official circles, that MNCs play a minor role as far as India’s exports is concerned as compared to the other developing countries. The Reserve Bank of India's survey during 1964-70 showed that there was a net outflow of Rs.891 crores on account of foreign collaborations. The main reason for this was the sustained high level of imports as against low level of exports and the large quantum of dividend remittances

37Narinder Kaur, op. cit., pp.185 and 186
particularly by subsidiaries. The sharp increase in foreign collaborations was import substitution oriented rather than export-oriented.

The Government of India after realising various issues such as high remittances through imports and dividends; import of technology and control and management passed the Foreign Exchange Regulation Act of 1973 (FERA). Under this Act, it became obligatory for a number of subsidiaries to dilute their foreign equity and branches to convert themselves into Indian companies. As a result, the number of branches of MNCs has been reduced to 315 for the year ended March 31, 1980 from 481 in the corresponding period of 1976 and during the same period, the number of subsidiaries of MNCs also fell from 171 to 118.\(^\text{38}\)

2.12 Export promotion initiatives

The Central Government has set up Export Promotion Councils, Commodity Boards and Product Oriented Development Authorities in different sectors of the foreign trade. State Trading corporations, Minerals and Metals Trading Corporation and Handicrafts and Handlooms Export Corporation have also been set up to look after and transact foreign trade.

A large number of institutions have been set up to impart training, pursue research and provide consultancy work relating to exports which includes the Indian Institute of Foreign Trade, Federation of Indian Export Organisations, the Indian Institute of Packaging, the Indian Council of Arbitration, Export Inspection Council

\(^{38}\) S. Subrahmanya, op. cit., pp. 180 and 181.
of India etc. The Indian Trade Promotion Organisations has been set up to organize trade fairs and exhibitions within the country and abroad.

At the level of industry, there are apex chambers such as Associated Chamber of Commerce and Industry, Confederation of Indian Industry and Federation of Indian Chamber of Commerce and Industry. There are Chamber of Commerce and Associations of industries in a number of states to promote foreign trade.

These Institutions and Agencies connected with the exports promotion efforts if sufficiently enthused and energised can be used to enter the new millennium of intensified global challenges, with renewed confidence. It has to be ensured that there is no overlapping and duplication of functions so that export promotion measures become more focused.39

2.13 EXIM Policy 1st April 2002 - 31st March 2007
(with special reference to diamond, gems and jewellery export promotion schemes)

The concept of long term EXIM Policy is accepted in India since 1992. The Government of India announced the first five-year EXIM Policy on March 31, 1992, for the period 1992-97. The announcement coincided with the launching of India’s Eighth Five Year Plan. On March 31, 1997, another EXIM Policy was announced for

the period 1997-2002. It terminated by the end of March 2002 and the government announced the third five-year EXIM Policy for the period 2002-2007.40

The principal objectives of an EXIM Policy are as follows:

1. To accelerate the country's transition to a globally oriented vibrant economy with a view to drive maximum benefits from expanding global market opportunities.
2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.
3. To enhance the technical strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities.
4. To provide consumers with good quality products and services at reasonable prices.
5. To place special emphasis on exports which generates high net foreign exchange.
6. To simplify and streamline procedures for import licensing and export promotion.
7. To facilitate technological upgradation and modernization of export based industries.
8. To promote import substitution and self-reliance.
9. To facilitate availability of necessary imported inputs for sustaining industrial growth.
10. To provide export incentives so as to encourage the exporters.
11. To impart continuity and stability in Export-Import policy.

12. To encourage the attainment of high and internationally accepted standards of quality and thereby enhance the image of India's products abroad.

13. To establish the framework for globalisation of India's foreign trade.\footnote{N. G. Kale and M. Ahmed, Export Marketing, Mumbai: Vipul Prakashan, 2003, pp. 140 and 141.}

On 30\textsuperscript{th} January 2002, the Government announced a Medium-Term Export Strategy (MTES) for 2002-07, providing a vision for creating a stable policy environment with indicative sector-wise targets for achieving 1 per cent share for India in world trade by 2007 from the existing level of 0.6 per cent in the next five years, implying a compounded annual growth rate (CAGR) of 11.9 per cent. In absolute terms this would mean a rise in exports from US $ 44.56 billion in 2000-01 to US $ 80.48 billion in 2006-07. Gems and Jewellery are one of the fourteen priority areas identified for achieving this dream vision.

The new EXIM Policy 2002-07 also seeks to usher in an environment free of restrictions and controls. Synergy between these policies and strategies is expected to realize India's strong export potential and enhance the overall competitiveness of exports.\footnote{Vibha Mathur, India: Foreign Trade Policy and WTO (1991-2003), Delhi: New Century Publications, 2003, p. 41.}

The objectives of EXIM Policy 2002-2007:

1. Exports and imports will be free, except to the extent they are regulated by the provisions of this policy.

2. The Central Government may, in public interest, regulate the import or export of
goods by means of a negative list of imports or a negative list of exports, as the case may be.

3. The negative lists may consist of goods, the import or export of which is prohibited, restricted through licensing, or canalised. The negative list of imports and the negative list of exports are contained in the policy.

4. Prohibited items in the negative list of imports shall not be imported and prohibited items in the negative list of exports shall not be exported.

5. Any goods, the import or export of which is restricted through licensing, may be exported or imported only in accordance with a license issued in this behalf.

6. Any goods, the import or export of which is canalised, may be imported or exported by the canalising agency specified in the negative list.

7. No export or import shall be made by any person without an importer-exporter Code (IEC) number unless specifically exempted.

8. To simplify the process of exporting to such an extent that even the small artisans feel motivated to export.

9. To achieve ambitious one per cent of the global share of trade by 2007, up from the current level of 0.67 per cent. For this, a compound annual growth rate of 11.9 per cent in dollar terms is required.

10. To immunize the country’s exports from general constraints prevalent in the economy.

11. To give massive boost to exports and thereby to have a big-leap forward for exports.

12. To provide growth and employment within the country through export promotion.

13. To convert export into a mass activity from being a class pursuit.\(^\text{43}\)

\(^{43}\)N.G.Kale and M.Ahmed, \textit{op. cit.}, p. 163.
The new EXIM Policy unveiled by the government on March 31, 2002 set the pace for export promotion measures not only during 2002-03 but for the entire period of the next five years coinciding with the tenth five year plan. The export promotion strategy focused on export market diversification as one of its policy planks with special focus on untapped regions like Sub-Saharan African and the CIS. The policy contained several far-reaching components to take India’s exports on a steady growth trajectory. This included, among others, removal of all import curbs or Quantitative Restrictions (QR’s), save a few sensitive items reserved for exports through STE’s, a farm-to-port approach for exports of agricultural products, special thrust on cottage sectors and handicrafts and beefed up ASIDE. Apart from these specific booster measures, the government also rationalized and simplified procedures in respect of various export promotion schemes with a view to cutting down unwanted hassles and bringing down the transaction cost of industry and trade tangibly. A brief description of the EXIM Policy (2002-07) initiatives to boost diamond, gems and jewellery exports is given below:

➢ Schemes for gems and jewellery

Exporters of gems and jewellery are eligible to import their inputs by obtaining Replenishment Licenses and Diamond Imprest Licenses from the licensing authorities in accordance with the procedure specified in this behalf.

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> **Replenishment license**

The exporters of gems and jewellery products listed in Appendix 30-A of the Handbook (Vol.1) shall be eligible for grant of Replenishment license at the rate and for the items mentioned in the said Appendix to import and replenishment their inputs. Replenishment license may also be issued for import of consumables as per the details given in paragraph 4.80 of Handbook (Volume 1).

> **Export of Cut and Polished Diamonds for Certification/Grading**

Gems and jewellery exporters with a track record of at least three years and having an annual average turnover of Rs. 5 crores and above during the preceding three licensing years or the authorized offices/agencies in India of Gemological Institute of America (GIA), The Robert Mouawad Campus, International Gemological Institute (IGI) and European Gemological Laboratory (EGL) in USA, Hoge Road Voor Diamond, Antwerp, (HRD), World Diamond Centre of Diamonds High Council, Antwerp, Belgium may be permitted to export cut and polished diamonds each weighing 0.50 of a carat and above to the said laboratories/agencies, for the purpose of certification/grading reports by them with a condition that the same should be re-imported with the certificate/grading issued by them without any import duty at the time of re-import.

At the time of export of cut and polished diamonds for certification/grading, exporter should give an undertaking to the customs that the cut and polished diamonds will be re-imported within three months of exports for certification/grading. The export invoice should clearly indicate the estimated value, height, circumference, and weight of each diamond to be exported for certification/grading so that at the time
of their import, the above specification could be compared with the original ones to establish their identity. Subsequently these cut and polished diamonds would be exported as per the provisions of the policy.

➢ Schemes for gold/silver/platinum jewellery

Exporters of gold/silver/platinum jewellery and articles thereof may import their essential inputs such as gold, silver, platinum mountings, findings, rough gems, precious and semi-precious stones synthetic stones and unprocessed pearls etc. in accordance with the procedure specified in this behalf.

➢ Nominated agencies

The exporter availing the schemes of gold, silver, platinum jewellery and articles thereof may obtain gold, silver, and platinum from the nominated agencies. The nominated agencies are Minerals and Metals Trading Corporation Limited (MMTC), Handicrafts and Handloom Export Corporation (HHEC), State Trading Corporation (STC), The Project and Equipment Corporation of India Ltd. (PEC) and any agency authorised by RBI. A bank authorized by RBI is allowed export of gold scrap for refining and import in the form of standard gold bars.

➢ Items of export

The following items, if exported, would be eligible for the facilities under these schemes:

i. Gold jewellery including partly processed jewellery and articles including medallions and coins (excluding the coins of the nature of legal tender), whether plain or studded, containing gold of 8 carats and above.
ii. Silver jewellery including partly processed jewellery, silverware, silver strips and any articles including medallions and coins (excluding the coins of the nature of legal tender and any engineering goods) containing more than 50 per cent silver by weight.

iii. Platinum jewellery including partly processed jewellery and articles including medallions and coins (excluding the coins of the nature of legal tender and any engineering goods) containing more than 50 per cent platinum by weight.

➢ Value addition

The value addition will be as given as per paragraph 4.56.1 of Handbook (Vol.1).

➢ Wastage norms

Under the schemes for gold, silver, platinum jewellery, the wastage or manufacturing loss shall be admissible as per paragraph 4.56 of the Handbook (vol.1).

➢ Export against supply by foreign buyer

Where export order are placed on nominated agencies/status holder/exporters of three years standing having an annual average turnover of Rs. 5 crores during the preceding three licensing years, the foreign buyer may supply to the nominated agencies/status holder/exporter, in advance and free of charge, gold/silver/platinum, alloys, findings and mountings of gold/silver/platinum for manufacture and export. The exports may be made by the nominated agencies directly or through their associates or by the status holder/exporter as the case may be. The import and export of findings shall be on net-to-net basis. The foreign buyer may also supply to the
nominated agencies/status holder/exporter in advance and free of charge plain, semi-
finished gold/silver/platinum jewellery including findings/mountings/components for
repairs/remake and export subject to minimum value addition of 10 per cent. 
However, if the imported semi finished gold/silver/platinum jewelers is exported as 
studded jewellery, value addition of 15 per cent shall be achieved. In such cases of 
export, wastage of 2 per cent may be permitted. The procedures in this regard shall be 
as prescribed in the Handbook (Vol.1).

➤ Export through exhibitions/export promotion tours/branded 
jewellery

The nominated agencies and their associates with the approval of Department 
of Commerce, Government of India, as well as the approval of GJEPC, may export 
gold/silver/platinum jewellery and articles thereof for holding/participating in 
exhibitions abroad. Personal carriage of gold/silver/platinum jewelers, precious, semi-
precious stones, beads and articles and export of branded jewellery is also permitted. 
These exports shall be subject to the conditions as given in the Handbook (Vol 1).

➤ Export against supply by nominated agencies

The exporter may obtain the gold/silver/platinum as an input for export 
promotion from nominated agencies in advance or as replenishment after exports in 
accordance with the procedure specified in this behalf.
Export against advance license

An advance license may be granted for the duty free import of:

i. Gold of fineness not less than 0.995 and mountings, sockets, frames and findings of 8 carats and above.

ii. Silver of fineness not less than 0.995 and mountings, sockets, frames and findings containing more than 50 per cent silver by weight.

iii. Platinum of fineness not less than 0.900, mountings, sockets, frames and findings containing more than 50 per cent platinum by weight.

Such licenses shall carry an export obligation, which is required to be fulfilled in accordance with the procedure specified in this behalf. The advance license holder may obtain gold/silver/platinum from the nominated agencies in lieu of direct import in accordance with the procedure specified in this behalf.

Gem replenishment license

Gem replenishment license may be issued under the schemes for export of gold/silver/platinum jewellery and articles thereof as given in paragraph 4.4.8, 4.4.9, 4.4.10 and 4.4.11 of the policy. In the case of plain gold/silver/platinum jewellery and articles, the value of such licenses shall be determined with reference to the realisation in excess of the prescribed minimum value addition. In the case of studded gold/silver/platinum jewellery and articles thereof, the value of Gem replenishment license shall be determined by taking into account the value of studdings used in items exported, after accounting for the value addition on gold/silver/platinum including admissible wastage. Such Gem replenishment license shall be freely transferable.
> Gem replenishment rate and item

The scale of replenishment and the item of import will be as prescribed in Appendix 26A of Handbook (Vol.1).

> Personal carriage of export/import parcels

Personal carriage of gems and jewellery parcels by foreign bound passengers and personal carriage of gem and jewellery import parcels by an Indian importer/foreign national may be permitted as per the conditions given in Handbook (Vol.1).

> Diamond Imprest Licenses

Diamond Imprest Licences for import of cut and polished diamonds including semi processed diamonds, half cut diamonds, broken in any form, for mixing with cut and polished diamonds or for export as it is, may be issued for export of cut and polished diamonds. Such licenses shall carry an export obligation, which has to be discharged in accordance with the procedure specified in this behalf.

> Eligibility

An exporter of cut and polished diamonds who is status holder may be issued a license for import of cut and polished diamonds upto 5 per cent of the export performance of the preceding year of cut and polished diamonds.
> Export obligation

The export obligation against each consignment shall be fulfilled within a period of 5 months from the date of clearance of such consignment through customs. However, at no point of time, the importer shall be required to maintain records of individual import consignments nor will they be required to co-relate export consignments with the corresponding import consignments towards fulfillment of export obligations.

> Private/public bonded warehouse

Private/public bonded warehouse may be set up in SEZ/DTA for import and export. Import of cut and polished diamonds, cut and polished coloured gemstones, uncut and unset precious and semi-precious stones and import and re-export of cut and polished diamonds and cut and polished coloured gemstones will be subject to achievement of minimum value addition of 5 per cent.

> Diamond and jewellers Dollar Accounts

Firms and companies dealing in the purchase/sale of rough or cut and polished diamonds/diamond studded jewellery with a track record of at least three years in import or export of diamonds/diamond studded jewellery and having an average annual turnover of Rs. 5 crores or above during preceding three licensing years may also carry out their business through designated Diamond Dollar Accounts. The Diamond Dollar Account Scheme shall operate under the current licensing scheme of this chapter. This scheme shall be optional and those importers/exporters who wish to continue to use Rupee Accounts shall be allowed to do so under the existing policies.
Dollars in such Accounts available from bank finance and/or export proceeds shall be used only for:

i. Import/purchase of rough diamonds from overseas/local sources.

ii. Purchase of cut and polished diamonds from local sources.

iii. Import/purchase of gold from overseas/nominated agencies and repayment of dollar loans from the bank; and

iv. Transfer to the Rupee Account of the exporter. Details of this DDAS are given in the Handbook (Vol.1). The procedure outlined in the Handbook (Vol.1) shall also apply to diamond studded jewellery.

A non DDA holder is also permitted to supply cut and polished diamonds to DDA holder, receive payment in dollars and convert same into rupees within the period of seven days and the cut polished diamonds so supplied by non-DDA holder will also be counted towards the discharge if his export obligation and/or entitled him to replenishment license as the case may be.\(^\text{45}\)

2.13.1 Implications of EXIM Policy 2002-2007

The EXIM Policy framed by the government on March 31, 2002, would have the following implications on the economy:

Implications on import of capital goods

The EXIM Policy has made import of second-hand capital goods easier. By permitting second-hand imports under the EPCG scheme, key sectors like textiles can import used plant and machinery from developed countries to upgrade quality at a competitive cost. However, this would badly affect the domestic capital goods industry. The local machine manufacturers would face severe competition from imported second-hand plant and machinery.

Implications for agriculture sector

In order to promote diversification of agriculture, transport subsidy has been announced for export of fruits, vegetables, floriculture, poultry and dairy products. This would encourage more exports of horticulture, floriculture and other related areas of agriculture. However, instead of this, if the government gave emphasis on infrastructure facilities, such as port handling, storage and so on, which are required for the development of agriculture exports it would have been much more beneficial.

To promote export of agro and agro-based products, the Government has notified 20 agro-export zones, which would help in pushing up exports of agricultural items.

Implications for Special Economic Zones (SEZs)

This policy has placed a lot of emphasis on SEZs. Off shore Banking Units (OBUs) has been allowed in SEZs. This means that Indian banks would be able to establish branches in the SEZs, which would operate as foreign branches in India. The OBUs would enable Indian exporters in SEZs to obtain funds at international rates.
This would improve the competitiveness of Indian exporters in such zones. Apart
from OBUs, a number of incentives have been provided to SEZ in order to boost
exports of India.

➤ **Implications of extension of credit period**

The realization of export proceeds has been extended from 180 days to 360
days in case of consumer goods. This facility is made available to export houses and
all forms of trading houses. This would enable the export houses and trading houses
to offer longer credit terms, which in turn would enable them to increase exports in
the overseas markets.

➤ **Implications for SSIs and cottage industries**

This policy places emphasis on SSIs and cottage industries through various
policy initiatives. For instance, an amount of Rs. 5 crores under MAI has been
earmarked for promoting cottage sector exports coming under KVIC. Also SSIs and
cottage industries are entitled to get export house status at Rs. 5 crores instead of
Rs.15 crores. This would enable SSIs and Cottage industries to obtain export house
status and take advantage of facilities and benefits offered to such houses.

➤ **Implications for electronic hardware units**

The Electronic Hardware Technology Park (EHTP) scheme has been modified
to enable the sector to face zero duty regime of WTO. The units in EHTP are entitled
to - Net Foreign Exchange as a Percentage of Exports (positive in five years) and no
other export obligation. This would boost the performance of units in EHTP, which in turn would generate employment.

➢ Implications for service sector

The modified EXIM Policy of March 2003 has made an attempt to focus on service exports. Service exporters can import 10 per cent of their overseas sales (10 per cent of the average export during the past three years) at zero duty. This facility can be utilized to import office equipment, spares and consumables which would give a big boost to key sectors like healthcare, tourism and professional services.

➢ Implications of diversification of markets

The EXIM Policy 2002-07 has emphasized the need to diversify markets for Indian exports with initiatives like “FOCUS AFRICA”. This initiative is a welcome move, as it would help Indian exporters to explore fast growing markets of Sub Saharan Africa, which was neglected by India in the previous years.46

➢ Implications for gems and jewellery

Customs duty on import of rough diamonds is reduced to zero percent. Import of rough diamonds is freely allowed. Licensing regime for rough diamond is being abolished. This would help the country to emerge as a major international centre for diamonds.

Value addition norms for export of plain jewellery have been reduced from 10 per cent to 7 per cent. Export of all mechanised unstudded jewellery is allowed at a value addition of 3 per cent only. This would further boost exports of jewellery items. Personal carriage of jewellery would be allowed through Hyderabad and Jaipur airport as well.\(^\text{47}\)

\(\text{➤ Implications of simplification of Customs clearance}\)

The customs clearance has been simplified. The percentage of physical examination of export cargo has been reduced to less than 10 per cent except for a few sensitive destinations. This would enable quicker movement of goods at the port and docks.\(^\text{48}\)

2.13.2 Export promotion measures in EXIM Policy 2002-2007

In the EXIM Policy 2002-2007 certain export restrictions were removed. Following are the items on which export restrictions have been done away with:

\(\text{➤ Groundnut oil}\)

Groundnut oil in 5 kg packs or above, a restricted item, required licence for its export but the restriction is now removed.

\(^\text{47}\)Pawan Kumar Garga, \emph{op. cit.}, p. 113.

\(^\text{48}\)Michael Vaz, \emph{op. cit.}, p.105.
➢ Agricultural seeds

Earlier twelve varieties of agricultural seeds were restricted and required licence. Now ten varieties have been removed from the restricted (licensable) list to the free list, enabling free exports of the item. Only jute and onion have remained, on the restricted list.

➢ Cashew

Export of cashew to Russia under Escrow Account/Rupee Repayment was allowed subject to registration of contracts with CEPC. The quantity/value ceilings were notified by DGFT, but now this restriction has been removed.

➢ Butter

There was a restriction of getting registration certificate issued by APEDA, but now the restriction is been removed.

➢ Coir and coir products

Coir and Coir products could be exported subject to MEP, but now no such restriction.

➢ Hand knotted Carpets, etc

Hand knotted carpets, etc were allowed to export subject to production of RCMC from the CEPC, New Delhi. This restriction is no more prevailing.
➢ Wollen carpets, etc

The exports of wollen carpets, etc were earlier allowed on the basis of documents against acceptance (D/A), and only if, backed by bank guarantee. This restriction is now removed.

➢ Viscose staple fibres (regular)

This item was in the restricted list requiring licence for its exports but now the restriction is been removed.

➢ Mica Waste

This item was earlier permitted for exports only through designated STE, i.e. MMTC. Now the canalization is been removed.

➢ Stone boulders

Earlier MEP was applicable, but now there is no such restriction.

➢ Raw hides and skins

There was restriction of registration of price and quantity with CLE, Chennai and MPEDA, Cochin respectively i.e. Animal/Fish Hides and Skin, now no such restriction.

➢ Petroleum products

Certain items were permitted for exports only through specified STEs, i.e. IOC; certain other items were freely exportable subject to registration of contracts
with OCC. In view of the dissolution of OCC w.e.f 1.4.2002, the items requiring OCC became free. Kerosene and LPG were made free from canalization but would still require NOC from M/s P&NG. Crude oil would however be exportable through STE i.e. IOC Ltd.

➤ Chrome Ore

Chrome Ore other than beneficiated chrome ore fines/concentrates (average feed grade to be less than 33 per cent Cr 203) was permitted for export only through specified STE, i.e. MMTC Ltd. The range has now been increased to 42 per cent Cr 203 for enabling a more free export regime.

➤ Other measures

- Import/Export of samples is to be liberalized for encouraging product upgradation.
- Penal interest rate for bonafide defaults is to be brought down from 24 per cent to 15 per cent.
- No penalty is to be imposed for non-realisation of export proceeds in respect of cases covered by ECGC insurance package.
- No seizure is to make of stock in trade as this disrupts the manufacturing process affecting delivery schedule of exporters.
- Foreign Inward Remittance Certificate (FIRC) is to be accepted in lieu of Bank Realisation Certificate for documents negotiated directly.
- Optional facility will be available to exporters to convert from one scheme to another scheme. In case the exporter is denied the benefit under one scheme he shall be entitled to claim benefit under some other scheme.
• Newcomers are to be entitled for licenses without any verification against execution of Bank Guarantee.\textsuperscript{49}

2.14 Foreign trade related organisations in India

In India there are many organizations been established with the main objective of promoting foreign trade of the country. Given below are some of the organisations in India that have helped in the upliftment of the foreign trade:

1) Agriculture and Processed Food Products Export Development Authority (APEDA)

The APEDA came into existence in 1986. It serves as the focal point for agricultural exports, particularly the marketing of processed foods in value added forms. It introduces effective quality control measures and co-ordinates its activities with national bodies like Horticulture Board and State governments for generating production for exports and with research institutes for development of value added products.

The products covered by the Authority are fruits, vegetables and their products, meat and meat products, poultry and poultry products, dairy products, confectionery products, honey and sugar products, cocoa and its products, alcoholic

\textsuperscript{49}Annual Report, Ministry of Commerce and Industry, Department of Commerce, 2002-2003, pp. 46 and 47.
and non-alcoholic beverages, cereal products, pickles, chutney and papads, geargum, horticulture products, herbals and medicinal plants.⁵⁰

2) Export Credit Guarantee Corporation (ECGC)

Export Credit Guarantee Corporation Limited was originally set up as Export Risk Insurance Corporation in July 1957. It was transformed into Export Credit and Guarantee Limited in 1964. In December 1983, it was renamed as Export Credit Guarantee Corporation of India Limited. The primary objective of the Corporation is to promote exports from India by providing export credit insurances and guarantee facilities to the Indian exporters and commercial banks.⁵¹

3) Export Promotion Councils (EPCs)

EPCs are non-profit organizations registered under the Companies Act/Societies Registration Act. At present there are 20 export promotion councils, out of which eleven are under the Ministry of Commerce. The main function of the EPCs is to promote exports in the foreign market, to assist the new exporters in the export trade, to sponsor trade delegations abroad and participate in trade fairs and exhibitions abroad. Each council is responsible for the promotion of a particular group of products, projects and services.

The government provides grants under specific heads for these councils and also appoints senior officials to act on the working committee and guide its


deliberations. The working committee discusses all problems and policies and necessary action is taken.\\footnote{Archana Singh, \textit{op. cit.}, pp. 57 and 58.}

4) **Federation of India Export Organisation (FIEO)**

FIEO is a New Delhi based non-profit servicing organization and is registered under the Societies Registration Act. It is an apex body of various export promotion institutions in India and it functions as primary servicing agency to provide integrated assistance to the Government recognized export houses and as a central co-ordinating agency in respect of export promotional efforts in the field of consultancy services in the country. It co-ordinates and supplements the export promotional activities of various organizations and institutions such as export promotion councils, commodity boards, chamber of commerce etc.\\footnote{\textit{Ibid.}, p. 56.}

5) **Indian Institute of Packaging (IIP)**

IIP is a Mumbai-based registered body set up on 14 May 1966, under the Societies Registration Act. It was established to develop awareness about the importance of packaging and to assist the export sector in adopting modern technique of packaging. Its activities include standardisation, demonstration, testing and training in the fields of packaging as well as packing. It undertakes research on raw materials for packaging industries, organizes training programmes on packaging technologies and stimulates consciousness on the need for good packing, etc.\\footnote{Archana Singh, \textit{loc. cit.}}
6) **Indian Institute of Foreign Trade (IIFT)**

IIFT is a Delhi based autonomous organization registered under the Societies Registration Act of 1964. It is primarily concerned with developing training programmes and research and marketing studies. The research activities of the institute are confined to export trade mainly in the field of policy formulation and in the field of specific exports, market surveys etc. It conducts surveys on behalf of the various state governments to identify commodities from each state, which have an export potential.\(^{55}\)

7) **Marine Product Export Development Authority (MPEDA)**

MPEDA is a statutory body set up in August 1972 with its headquarters at Ernakulam (Kerala). It is a statutory body and is responsible for development of the marine products industry with references to exports. It has been showing good progress in exporting marine products especially fish and fish products.\(^{56}\)

8) **Minerals and Metals Trading Corporation of India (MMTC)**

MMTC is an independent corporation set up in October 1963 in the public sector and occupies a prominent position in India's foreign trade. It is the first public sector enterprise to be accorded the status of "GOLDEN SUPER STAR TRADING HOUSE" for long standing contribution to exports. It is a fully government owned company and its main object is to develop the export of mineral ores and to import and distribute some of the essential raw materials for industry in India.


It is the largest non-oil importer of the country and has made considerable headway in increasing its imports. It has also emerged as the largest bullion trader in the sub-continent, importing and selling the largest quantity of gold and silver.

It is the largest non-oil importer of the country and has made considerable headway in increasing its imports. It has also emerged as the largest bullion trader in the sub-continent, importing and selling the largest quantity of gold and silver.  

9) Handicrafts and Handlooms Export Corporation of India Ltd. (HHEC)

HHEC is a fully owned subsidiary of State Trading Corporation established in 1962. Its main objectives are to develop new overseas markets and expand traditional exports of handlooms, handicrafts, ready-made garments and jewellery made of gold and silver, etc. It participates in trade fairs and exhibitions abroad. It sends trade delegations abroad and also invites foreign trade delegations into India.

10) Spices Trading Corporation (STC)

It was incorporated under the Companies Act, 1956 in October 1982, but the actual trading activities commenced from September 1983. The main objectives of the Corporation are to carry on domestic and international trade in spices and its products; to process and cure spices and manufacture its products; to support, project, maintain,

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58Michael Vaz, op. cit., p 90.
increase and promote the production of its products and to promote research and
development of spices and its products.\textsuperscript{59}

11) State Trading Corporation of India (STC)

This premier international trading company owned by the Government of
India was set up in 1956. It undertakes export, import and domestic trade in a number
of items in competition with the private trade and industry. It also imports many mass
consumption items entrusted to it by the Government of India in view of domestic
shortages. The STC also provides assistance in the form of term loan, supply of
imported plant and machinery as well as raw materials with a view to generating
greater production for exports. Apart from increasing foreign exchange earnings
through exports, STC's operations have imparted stability to the industrial sector.\textsuperscript{60}

12) Indian Trade Promotion Organisation (ITPO)

Trade Development Authority (TDA) merged with the Trade Fair Authority of
India (TFAI) to form a new organization under the name of Indian Trade Promotion
Organisation (ITPO) in January 1992. The main objectives of the organization are to
develop and promote exports, imports and upgrade technology through fairs in India
and abroad, compile and disseminate trade related information, to undertake publicity
through print and electronic media, to assist Indian companies in trade development,

\textsuperscript{59}Vibha Mathur, Foreign Trade of India: Policy and Developments (1950-2000),

\textsuperscript{60}Vibha Mathur, \textit{op. cit.}, p. 167.
contract programmes and integrated marketing programmes for specific products in specific markets.\textsuperscript{61}

13) Export Inspection Councils (EICs)

EICs was set up in 1964, under the Export Quality Control and Inspection Act 1963 to adopt measures for the introduction and enforcement of quality control and compulsory pre-shipment inspection of various exportable commodities. It is also charged with the responsibility of establishing test houses and laboratories throughout the country for the inspection of commodities.\textsuperscript{62}

14) Project and Equipment Corporation of India (PEC)

PEC is a public sector enterprise under the Ministry of Commerce. It is a leading exporter of semi-turnkey projects and engineering equipment. It has diversified into trading activities such as third-country trade; commodity exports and imports of raw material to support export activities of associate manufacturers.\textsuperscript{63} Its objectives are to boost the export of engineering and railway equipment in established markets, penetrate into new markets, promote the export of non-traditional and new products and boost the exports of turnkey projects in the field of railway systems, public utilities and industrial plants.\textsuperscript{64}

\begin{itemize}
  \item \textsuperscript{61} Singh Archana, \textit{op. cit.}, p. 59.
  \item \textsuperscript{62} Archana Singh, \textit{op. cit.}, p. 55.
\end{itemize}
2.15 Conclusions and suggestions

In more than fifty-six years of existence as a Sovereign Democrat Republic India has seen many ups and downs. There has been a significant change in several sectors of the economy, which includes industry, agriculture, education, external trade etc. This is because of the consistent efforts and foresight of the enlightened leaders and statesmen of the country, which have made India a strong and vibrant economy. It can be concluded that the progress has been somewhat gradual as compared to the other Asian neighbours. But this fact has to be overlooked since it is not easy to weld together a nation of over 900 million people from diverse background and cultures into an organized and influential force in the global economy, in an essentially democratic framework.

The country has over the years developed sound infrastructure base in wide ranging industrial and manufacturing sectors. Institutional framework for export development like MMTC, STC, PEC, HHEC etc., have helped to provide the necessary service support to the export sector. The pattern of policy framework has ensured adequate availability of raw materials, capital goods and equipment, and components and spares, both indigenous and imported. The import policy has also been liberalised and procedural formalities as well as documentary requirements involved in export-import transactions have also been simplified. The fiscal and monetary incentives have imparted competitiveness to the Indian goods and services in the overseas market. The cumulative effect of all these initiatives is that export sector of our economy has grown from strength to strength.
Notwithstanding India’s achievements on the export front, our imports have continued to outpace our exports leading to huge trade deficit. This has been a cause of concern to the Government and the public at large. The imbalance of foreign trade indicates that the country has still to go a long way to earn foreign exchange earnings and to meet the bulging import bill. The task is undoubtedly challenging, considering the crisis-ridden global economic and trading environment. An appraisal to diagnose the shortcomings, which hold back further progress, is badly required.

Presently, it is seen that high value and high technology products are exported mainly to developing countries whereas traditional and low value items are destined to developed markets. Similarly small and medium scale enterprises account for large proportion of exchange earnings, and the contribution of large and organised industrial houses is quite minimal. An important initiative as an ingredient of the policy framework has to be to encourage the participation of large industrial and business houses, which have the capabilities and competence to contribute significantly to the country’s export efforts. A micro level approach can be followed to ensure that the problems coming their way are resolved on a priority basis and they should be subjected to compulsory export obligations.

The policies and promotional measures relating to export promotion need to be made more pragmatic by associating professionals and experts having thorough knowledge of export sectors and products while formulating the policies. To achieve the desired results, liberalised policy initiatives and promotional measures should be
less conditional so that efforts of the exporters are not wasted in complying with the incidental time-consuming formalities.

The spirit and objective underlying the policy changes should be driven home among the officials and personnel vested with the responsibility of handling or processing the paperwork through training or orientation of the concerned officials. Clarity of objective can help the concerned officials in interpretation of rules and policies in their proper perspective thereby avoiding unnecessary irritants to the exporting community. The need for speed and efficiency in handling and processing paperwork and competence with incidental formalities cannot be over-emphasised. A single window and across the table clearance can solve the problem of delays involved in completing the procedural formalities.

There is a need for simplified import policy which can be comprehended by a layman, minimum documentary formalities preferably a single document meeting the requirements of all departments and agencies, in-built flexibility in the sphere of export promotion policy framework to help exporters meet or counter the aggressive marketing practices and strategies of the competitors in world markets. India can no longer depend only on its traditional trading partners. There is a need to diversify by penetrating into new markets. To start with, the focus should be on certain key markets like European Union, USA, Japan etc.

The Ministry of Commerce had developed a Country-Commodity matrix sometimes back. This can serve as a useful model for the trade and industry for prioritisation of export markets. New markets like Latin America, East European and Central Asian markets can be chosen for an export thrust since there is a large
measure of goodwill for India in these countries. The Ministry of Commerce can identify countries as potential new markets for Indian products. Special incentives can be provided in the Export-Import Policy for promoting exports to these countries.

'Made in India' label should be a symbol of quality, competitive price, reliability and service to the international consumers. For this Indian exporters should follow ethical measures. Exporters not adhering to the rules and resorting to unethical business practices not only reflects adversely on the entire Indian exporting community but on the nation as a whole. On account of the decline in the exports of our traditional items, an increase in the share of non-traditional items is essential. India should try to create new demand in foreign countries through demonstration effect, arrange exhibitions, trade fairs in foreign countries for the expansion of the markets. Import should be restricted to only those items, which are required for our economic development. Imports of food grains and non-essential items should be stopped and our internal demand should be met through import substitution. Export of raw materials should be cut down and the exports of manufactured and semi-manufactured goods are to be encouraged.

India is experiencing considerable strain on the foreign exchange front, hampering our economic development. It not only holds up the setting up of new industries but also prevents the full use of installed capacity by creating scarcity of raw materials, components and spare parts. In order to solve the problems of foreign exchange shortage, bilateral trade and payments agreements should be made wherever possible. The system of payments of imports through exports is badly required for
India. This will help to improve the disequilibrium of our balance of payments to a great extent.

The policy of export promotion should be encouraged. For this purpose, we should restrict the consumption of some goods, which can be easily exported. Export promotion is necessary for self-sustaining growth and for the repayment of foreign loans.

For nearly five decades of planning, India has been running a deficit on the balance of payments, which indicates that deficits in BOP have come to stay for long in India. Initially, the extent and nature of these deficits was not very unfavourable as the size of the deficits was not alarming and a large part of the deficit on current account was caused by a deficit on balance of trade and was financed by external assistance.

Frequent hike in the prices of crude oil and inflationary rise in prices of other import commodities were the causes of BOP crisis. The Government took several steps to reduce BOP crisis by enhancing exports and introducing a new import-export tariff policy in 1991. Full convertibility of the rupee, liberalization of industrial and trade practices, emphases on high value items like ready-made garments, leather goods and finished steel, etc. was the strategies adopted to promote exports. The Foreign Trade (Development and Regulation) Act in 1992 which was replaced by the Import and Export (Control) Act, 1947 empowered the Central Government to formulate and announce from time to time the Export and Import policy and amend it
whenever required. Many industries were decontrolled and many areas reserved for the public sector were thrown open to private sector.

As a measure of export promotion, exports have emphasized value-added exports instead of raw materials. Hopefully with the ongoing reform process, the foreign trade policy of India will usher in a new era dedicated to promotion and development of foreign trade.

India is determined to raise its share in world trade to 1 per cent for which it requires a total export figure of US$ 75 billion from the current levels of US$ 43 billion. The task though difficult, is achievable, for which appropriate steps and measures have to be taken by the government. The measures may include improved infrastructure facilities, exploring new markets and making relevant and necessary changes in the Export Import Policy.

For India to become a leading exporter in the world trade it will have to achieve at least 2 per cent share of the world exports by the year 2020. Based on the past trends in world trade and new developments in global economic scenario envisaged over the next years, aggregate world exports are likely to cross 25,000 billion dollars by 2020. India's exports should, therefore, exceed 500 billion dollars to achieve this vision. There is great export potential in our agricultural sector and service sector. Our IT exports alone have so much potential that it can cross 150 billion dollar mark by the year 2020. Thus, what is badly required is formulation of a highly focused strategy and its rigorous implementation to achieve the desired export thrust.
Finally, it can be concluded to achieve the desired goals, India needs concerted action at all levels – at the level of the individual exporter, export promotion agencies, large business houses and the concerned departments in the State and Central Government. Moreover Indian industries should have the ability and will to operate against intense global competition. This is possible only through quality products and aggressive marketing strategies on the basis of brand image, after-sales service and improved technology. Greater focus should be given to certain keys areas that have not received adequate emphasis, like R&D, technology up gradation, Human Resource Development and strengthening of infrastructure facilities. Only then would our export vision be translated into a concrete reality and India can race into the new millennium as a true global player.

Lets hope that the EXIM policy for 2002-2007 with its bold measures provides ample opportunities to exporters in streamlining the operations and upgrading their industries for fighting global competition in this WTO regime. India has great potential to be one of the leading nations in the world trade with its resources and skilled labours. The industries have certainly understood the urgency to grow in the international market with the advent of MNCs like Pepsi, Coco Cola, Allianz, etc. This has resulted into emergence and growth of trading house such as the Wipro, Infosys, Tata, Birla, etc. India has to still go a long way to develop its international trade by reducing the imports and increasing the exports. We might have lost over the place in the world trade but the history of trade will always encourage us to once again be called as the GOLDEN BIRD.