CHAPTER VII

TRADE POLICIES
INTRODUCTION

The general economic situation of Indian economy during the sixties, resulted in heavy commitment on defence due to wars with China in 1962 and with Pakistan in 1965. During the period of 1966-71 the economy of the country was in the grip of inflationary pressures due to devaluation of rupee in 1966, and two successive years of severe drought, more particularly after the failure of the decontrol policy of the government. The country was again, in the grip inflationary pressure due to several international factors which pushed up the prices of petroleum products, steel and non-ferrous metals and two oil shocks and again drought in eighties. Owing to the above facts the country's balance of payments position suffered from both structural as well as price disequilibrium. The urgent need of the hour was to earn and conserve foreign exchange to meet the increased requirements of the country. This demanded encouragement of exports. To earn foreign exchange or acquiring a favourable balance of payment position, the country modified its export policy, import policy, price policy, industrial policy, fiscal policy and monetary policy.

In spite of the constitutional provisions under Article 301 and the Directive principles of state policy, for many years even after India's Independence the forces of inertia, indecisiveness and more particularly lack of proper direction, as well as experience, the trade policy was considerably influenced by the colonial era. The policy framework introduced in the fourth five year plan
and the measures adopted thereafter have ushered in a phase of disciplined vigour and purposive action in the sphere of international trade. This, in turn, has helped the economy, particularly the export sector, to meet effectively the challenges of global trade posed by developments like rapid technological improvements, frequent changes in consumer preferences and more recently the oil crisis and the world wide inflation cum-recession.

In order to balance the balance of payments, India adopted liberal and controlled policies from time to time depending on the situation. Initially it placed emphasis on inward oriented trade strategy during first two five year plans. However, it realised the importance of outward oriented strategy, since third five year plan. With a short gap it further intensified export promotion measures after devaluation of 1966. Since 1975-76 India is using import substitution to support export promotion.

Import Substitution

An import plank of import policy has been the encouragement given to import substitution. This policy has been pursued to achieve two aims, namely to save foreign exchange for import of more important goods and to achieve self-reliance in as many goods as possible started very early in the planning period, the policy continues even today. Through time, however, the policy has undergone various phases in the earlier stage, for example, import substitution mostly took the form of domestic

---

production of consumer goods. At a later stage, however, emphasis shifted to the replacement of import of capital goods. The next phase and one which continues as that of reducing the dependency on imported know-how by developing and encouraging the use of indigenous technology. In the earlier phase it was natural for the country to depend upon foreign know-how for the establishment of new industries. Now, except for every sophisticated know-how, the emphasis shifted to research in and development of domestic technology. This marks a very important development in import substitution and more importantly in the state of industrialisation.

As a result of policy of import substitution, the structure of imports has undergone radical change. Many items which were imported earlier are not imported at all or are imported in small quantities. But it also needs to be pointed out that the protection provided to industries has proved to be excessive in certain cases. As pointed out in the Fifth Plan, this has resulted in the establishment of some industries that could not stand on their own and the creation of capacity that did not confirm to the criterion of social essentiality.

Export promotion:

Export promotion is the main component of trade policy which is of crucial significance for developing countries. This provides the much needed foreign exchange resources for financing import of development goods. Besides, expansion of exports allows

extension of the market which enables the domestic producers to overcome the handicaps of small internal market

Export Promotion Policy up to Devaluation:

In the closing years of the Second Plan, export promotion policy started assuming its due importance. This period was marked by the introduction of a number of export incentives, which continued till 1966. In the period up to devaluation in 1966, export incentives were considered a package of fiscal incentives and entitlement of import licences. The emphasis in the incentive package was on providing imported inputs for manufacture of export products and reducing the burden of taxation and internal transport costs on exports to make them internationally competitive. Thus, exporters were given (i) import licence as a percentage of export value for importing production inputs, (ii) drawback in import and excise duties to counter the restrict import policy, (iii) railway freight concession to exporting units treated far away from port towns, and (iv) profit tax credit to exports to encourage reallocation of resources from production for domestic market to that for export markets.

The Government of India has been taken several measures to boost exports since planning era started. The First and Second Five Year Plans did not speed up any programme for exports. The Import and Export policy committee was set up in 1962 under the Chairmanship of Shri Ramaswamy Mudaliar, and made several recommendations to promote exports. The Fourth Five Year Plan...
spelt out a bold strategy to raise exports at the rate of 7 per cent per annum and proposed several measures to boost up exports. Devaluation of Indian rupee in 1968, export policy resolution in 1970 and delinking of the rupee from sterling in 1975 had also their effect on raising exports. The Fifth Five Year Plan, again spelt out a still higher rate of growth of exports and suggested a series of short-term and long-term measures. Some of the important measures have been studied here in brief in this work.

Export Incentives

Exporters find less profitable and convenient to export than to sell their products within the country due to higher domestic prices, rising costs, heavy transport costs, complicated export marketing procedures, tax provisions, delayed price realisation, stiff world competition and economic and political risks involved. India is no exception. It is, therefore, essential on the part of the Government to provide incentives and facilities to exporters, in such a way and to such an extent that maximum exports are made by exporters to boost exports rather than diverting their marketing capability to the domestic markets. Government of India has been conscious about granting incentives to exporters ever since the policy of export promotion pronounced. These incentives form, content, extent and conditions have been frequently revised. Removal of export controls, reduction of export duties, allocation of raw materials, liberalisation of imports, imports entitlements and replenishment licences, income tax and sales tax concessions, drawback of duties, export and manufacture under bond, free trade
zones, freight concessions, cash compensatory support, marketing development fund and awards for outstanding export performance are some of the important export incentive schemes in addition to the credit and insurance facilities, export obligations, export oriented industrial licensing, import licences for capital goods and concessions to recognised export houses and registered exporters.

Cash Compensatory Support (CCS)

It is an important measure to improve the competitive ability of Indian goods in foreign markets. The scheme (CCS) introduced in August 1966 covered originally limited export sectors such as engineering goods, chemicals, sports goods, plastic and processed foods. It has been modified and refined according to changing needs and presently covers a wide range of products and product groups in 13 broad sectors including engineering goods, chemicals and allied products, leather manufactures, marine products, processed foods, plastic manufactures, readymade garments, woollen carpets and druggists, tea in consumer packs and tea bags, sports goods, silk and rayon, jute goods and handicrafts. In addition to physical exports, the scheme has also been extended to deemed export against supplies effectuated in India to foreign transits. The facility is also applicable to the value of surrendered replenishment licences and supplies of inputs made in India at international prices.

The scheme does not have much of subsidy and seeks to compensate exporters for the unrefundable indirect taxes and duties.
such as sales tax and local levies on raw materials or non-physical inputs like fuel and power, otherwise not refundable The scheme is under constant review and the rates of CCS are revised in the light of changing international trading environment as well as the extent of competition in world markets A major change in the scheme was effected in July 1986 imparting to it a much wanted stability, as against the earlier schemes which were operative on an annual basis

The Import Entitlement Scheme

The Import Entitlement Scheme was the main export incentive given the Government and introduced in 1957 By 1965, more than 30 per cent of export products and 85 per cent of export earnings were covered under the scheme The scheme did help Indian exports by providing the required inputs at a lower cost, thereby making exports more profitable Since the scheme was extended to cover a wide range of products, Indian exports also got diversified

Devaluation of Indian Rupee

The event of the devaluation of Indian Rupee on 6th June 1966 by 36.5 per cent has affected export promotion The main objectives of devaluation were increasing exports, checking imports and encouraging import substitution, stopping smuggling and other malpractices in the foreign trade, controlling price rises, obtaining external aid, increasing public revenue and removing disparity between the official rate of exchange and the market rate of exchange of Indian rupee, which reflects to improve balance of pay-
ments. With devaluation, fiscal incentives and import entitlement schemes were dispersed with import duties reduced and imports liberalised, and export duties imposed on several traditional exports.

Devaluation, however, did not create much positive impact on Indian exports, and not created any spectacular results due to inelastic foreign demand for primary exports, inelastic domestic supply and our inelastic demand for foreign products which were elastic in supply. Devaluation would have encouraged exports, if there was to be export surplus. Private final consumption expenditure (at 1960-61) prices rose from 13,466 crores in 1965-66 to Rs 16,018 crores in 1969-70. Thus a rise in private consumption expenditure leading to increased absorption inside the economy, reduced the volume of export surplus and failed to improve the balance of payments after devaluation. Many Indian economists admitted that the devaluation of rupee did not achieve the expected results at all because of failure to raise production, abolition of export incentives, levy of export duties and dislocation of trade with the East Europe, unfavourable position of elasticity of demand and supply, rising private consumption expenditure.


Infact, devaluation was a typical surgery of Indian currency to remove the over-valuation of rupee indicated by chronic adverse balance of payments position, and required post-operative positive steps to gain recovery and self-sustained growth of the economy. Thus, the growth of exports and rise in foreign exchange reserves in the post-devaluation years explain the long term impact of devaluation.

**Duty Drawback:**

Through this scheme customs duties and central excise duties paid on raw materials, components and packaging material used for export production are reimbursed to exporters. The scheme is administered through two types of drawback rates: All Industry and Brand. The first one applicable to group of products and the second is to individual export products. It was revised in February 1986. The All Industry rates have been rationalised and improved for a number of sectors such as leather and leather manufactures, footwear, readymade garments, cotton textiles, carpets, sports goods, bulk drugs and household articles of plastic. The recommendation of the Drawback Review Committee revised the scheme of sanctions of drawback claims and disbursement and procedure.

**Export Credit**

The pre-shipment and post-shipment credit is extended to exporters of all products at a concessional rate of interest. Such a credit is available for 180 days at the concessional rate of
95 per cent. In accordance with a recent decision, financial institutions like Industrial Development Bank of India, Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India are to implement a scheme of Rebate on Interest on the Rupee Loans. Under the scheme, export enterprises are entitled to a rebate of one-fifth on loans in the years in which their export sales reach or exceed 25 per cent of total sales. The rebate is, however, subject to a floor interest rate of 10 per cent per annum on the relative loans. This rebate is also applicable to 100 Per Cent Export Oriented Units Commercial Banks, Industrial Development Bank (IDBI), Reserve Bank of India and Export Credit and Guarantee Corporation are the important IDBI provides medium terms credit, requirements of exports directly. The RBI not only refinance short-term credits, but has initiated special scheme for export credit to enlarge the quantum of credit and reduce its cost including the export bill scheme.

Market Development Assistance (MDA)

Financial assistance from Market Development Assistance in the form of grants at varying rates for different promotional activities is channelised through respective export promotion councils for sponsoring trade delegations, participation in international trade fairs and exhibitions, sponsoring of market surveys and study teams, and founder taking publicity abroad. MDA is also extended to other export promotion agencies and institutions for undertaking market surveys and related activities in overseas.
countries. The value of this assistance has been increased for opening foreign offices.

**International Price Reimbursement Scheme**

Government of India has recently introduced a scheme to make available key inputs at international prices. This facility, known as International Price Reimbursement Scheme (IPRS), initially made applicable to steel, has been extended to aluminium. According to available indications, this scheme is likely to be extended to other major export sectors as well. With its enlarged scope, it will not only cover inputs for export production but also process accessories where there form substantial proportion of cost structure.

In the case of export of rubber-based manufactured goods, the difference between the international price of equivalent grade of natural rubber and the domestic price is partially reimbursed in the form of subsidy. The rate of subsidy paid to exporters of manufactured products of rubber was enhanced with effect from 1st April 1986 from Rs 4,500 metric tonnes to Rs 6,000 metric tonnes.

**EXPORT PROMOTION ORGANISATION**

Export Promotion Organisation play an important role in planning, organising, guiding, controlling and developing export promotion activities in the country and act as an effective link.

---

between producers, exporters, Government and other organisations participating in export marketing operations. The incentive schemes may not be so effective if there is no such organisation. The organisation advise the government on the one hand and render assistance to exporters on the other hand. Specialised and well developed services and skills for market information, intelligence, publicity, fairs and exhibitions, finance, insurance, transport shipping, product development, designs, quality control, packaging costing, pricing procedures, documentation, marketing channels, etc., may be made available to exporters by such organisations so that exporters may not feel handicapped from expanding exports. These organisations reflect a long-term approach to the problems of export promotion and create a favourable climate for expanding exports.

Many institutions, agencies and offices participate in the export promotion activities along with organisations. Some are directly related to the task of export promotion, e.g., Export Promotion Councils, Export Credit and Guarantee Corporation, Export Inspection Council, Trade Development Authority. Some other related with export promotion to a limited extent, e.g., Industrial Development Bank of India, Reserve Bank of India, State Trading Corporation, Chief Controller of Imports and Exports, Board of Trade. Similarly, while some export organisations are working as government offices, a number of export promotion institutions have been organised as statutory bodies, autonomous corporations and private associations, e.g., The Department of Foreign Trade.
under the Ministry of Commerce of the Government of India, Import and Export Advisory Council, Zonal Export and Import Advisory Committee. In addition to the Planning Commission, the Reserve Bank of India, GATT/UNCTAD and International Trade Centre also help in formulating the export promotion policies and motivating export promotion activities.

100 Per Cent Export Oriented Units:

The 100 Per Cent Export Oriented Units are closely related to the Free Trade Zones, which is initiated by the Government of India in December 1980 to encourage and mobilise domestic investment for export production. The scheme is required to manufacture in bond and carry an export obligation for a period of ten years in ordinary cases and for five years where the products are amenable to high degree of technological changes. These units enjoy the facility of duty free import for imported machinery and equipment, spares and components and raw materials and consumables. As on 1st January, 1987, 99 units had taken advantage of the scheme of 100 per cent export oriented units. Export under this scheme increased from Rs 104 million in 1981-82 to Rs 1,313 million in 1985-86.

The scheme of 100 per cent export oriented units is applicable to wide range of items including inter alia engineering goods, chemicals and allied products, plastics, leather and leather manufactures, sports goods, processed fruits and vegetables, marine products, tobacco manufactures, tea, coffee, readymade garments,
carpets, handlooms, handicrafts including gold and silver jewellery and hosiery products

Free Trade Zones

The first multiple product Free Trade Zone for 100 per cent export processing was set up in 1965 at Kandla, with the objective of increasing foreign exchange earnings. The second, a uni-product free trade zone known as Santacruz Electronic Export Processing Zone (SEEPZ) was created in 1974 for mobilising exports of electronics from the country. After a few years, four more multi-product zones, Cochin Export Processing Zone (CEPZ), Madras Export Processing Zone (MEPZ), Falta Export Processing Zone (FEFPZ) and Noida Export Processing Zone (NEPZ) have been set up to accelerate exchange earnings, generate employment, bring about regional development, attract foreign investment for stepping up industrial activity for export production, ensure transfer of technology and upgrade quality of production. Of late facilities in the SEEPZ are being extended to other sectors thus widening the scope of the zone.

Both the Central and State Governments provide some incentives to the Free Trade Zones, like duty free import of machinery and equipment and raw materials, waiver of licensing for import of inputs, exemption from customs and excise duties, complete reimbursement of central sales tax are important. The need of Free Trade Zone in India is to initiate through appraisal, eliminating the operational irritants, simplifying the procedural formalities, and streamlining the system so that a congenial atmosphere...
is created for the exporting goods to take advantage of this otherwise effective instrument of country's policy frame work.

**Joint Ventures:**

As an expression of the urgent need for export promotion, the Government has been encouraging the setting up of joint ventures abroad with Indian entrepreneurs supplying machinery, equipment and technical know-how as their share of equity capital. Establishment of joint ventures abroad is regulated by Foreign Exchange Regulation Act 1973 (FERA). As on 1st January 1987, Indian Joint ventures abroad numbering 187 were dispersed in 35 developed and developing countries of the world. The fields in which Indian businessmen have established joint ventures abroad are light engineering, textiles and related products and chemicals and pharmaceuticals. These are the sectors wherein the Indian manufacturers and exporters have developed high degree of competence and capability matching international technology.

Other areas which have been explored for establishing joint ventures by Indian companies include leather and leather related goods, oil seed crushing, pulp and paper, glass and glass products, rubber products, palm oil refining, processed foods, commercial vehicles, and cement products. A new dimension has been added in recent years in the establishment of joint ventures in the non-manufacturing services sector like hotel and restaurant, trading and marketing, engineering and construction, and consultancy. This medium term policy has greatly helped the country in stepping
up exports of capital goods, spares, components, and consultancy services

Export Information:

Unless we know the up-to-date knowledge about foreign market, the domestic country could not improve her export marketing effectively. Due to limitations of time, distance and resources, and active help of other agencies, the exporters can not be acquired such knowledge by themselves. Government has to inform through the available resources to the exporters. The information includes evaluation of export marketing strategy, determining the marketing mix of product, package, price, publicity, brand, promotion, place and channels of distribution and searching the customers abroad. Indian exporters have to depend upon the information supplied and published by the Export Promotion Councils, Commodity Boards, Indian Institute of Foreign Trade, Federation of Indian Export Organisations, Chambers of Commerce, Trade Representatives and Embassies, Department of Commercial Intelligence and Statistics, Directorate of Commercial Publicity. As a matter of fact, these institutions are not sufficiently equipped to meet the requirements of Indian exporters.

In addition, Export Oriented Licensing, Commodity Boards, Export Promotion Councils, Government Department Organization, State Trading Corporation, Recognised Export Houses, Board of Trade and other Advisory Bodies, Supply of Raw Materials, Cash Subsidy, Freight Concessions, Import Entitlements and Replenishment Licences, Bilateral Trade Agreements, Awards for export perfor-
mance, Trade Delegations and Market Studies, export publicity, trade fairs and exhibitions, delinking of rupee from the sterling, were some other measures that should also be considered.

Government Expenditure on export promotion comes to about 8.6 per cent of non-traditional exports and 33 per cent increase in total exports every year. Roughly speaking on an average 33 per cent of the F.O.B value of exports or 50 per cent of foreign exchange earnings is received by exporter by way of export assistance.

However, these measures and schemes have helped in diversifying export product wise and market wise Exports of non-traditional products have increased. Terms of trade have improved. Balance of payments difficulties and foreign exchange crisis have been solved to some extent. Imports have been liberalised and productive capacity has been enlarged. Export marketing has brought improvements in domestic marketing, and above all, a professional export consultancy cards has emerged in the country. Other benefits of export promotion schemes have been creating export consciousness, increasing export commitments, achieving plan targets, expansion of market, investments from abroad, a better image of developing India.

Evolution of Trade Policy:

The suggestions and recommendations of the export bodies are often further scrutinised by the Ministry of Commerce or the designated entities including committees set up for the specific
purpose to ensure that there does not remain any loose end in the policies so framed or modified, the basic thrust being the well being of the common man, trading community and the nation. Three important committees deserve special mention in the content of the changes of far reaching importance which have been introduced in recent years in country's trade policy frame work. These are Alexander Committee on Import-Export Policies and procedures in January 1978, Tandon Committee on Export Strategy for 'Eighties' in January 1980, and Abid Hussain Committee on Trade Policies in December 1984.

**Alexander Committee on Import-Export Policies and Procedures:**

Dr Alexander Committee reviewed the operations of the various policies and their implications and recommended a number of innovative measures to rationalize the trade policy regime. Its report was submitted and implemented in 1978. The Alexander Committee recommended simplification of export import policies by stating that import of goods could be classified into three categories, viz., banned, restricted and OGL, and it was suggested that the first two categories could be listed in the policy book and the last one could be left as an open-ended list without being fully mentioned in the policy book.

The licensing system could be replaced by a tariff structure in due course, which is considered desirable for the economy. Scientific criteria for rationalising the export subsidy schemes were enunciated. The scheme of canalisation had not served properly and as such it needed to be reviewed and totally revamped. The role
of the export promotion councils, TCA and other export services organisations were also reviewed and it was suggested that these organisations should become more effective in providing the required services.

The Committee noted that excessive protectionism without any scope for a competitive environment either in regard to domestic production or trade could be self-defeating and could lead to inefficient use of national resources. Having recognised that the Indian industry has reached the stage where it could withstand competition from other countries and also recognising that efficiency should be given greater weightage in the decision making process both in the Government and in the private sector, the committee recommended that the competitive environment should be increased and the list of items to be put on OGL should be expanded.

Tandon Committee on Export Strategy for 1980s

The Tandon Committee emphasised on export planning, export production, export competitiveness, and reorientation in export policies as well as strategies to meet effectively the requirements of the overseas markets. The need for identifying items with large export potential and concentrating the efforts of export promotion on such items instead of dissipating the resources on a large number of petty items was an important point brought out by this committee. The committee recommended additional cash incentive to the extent of 10 per cent to exporters who were
able to fulfil export commitments without extension of letter of credit and supplies being in accordance with agreed quality as well as strict delivery schedules.

The Committee also recommended supply of credit to small scale exporters on soft terms, a special scheme for them for medium term finances by EXIM Bank. Emphasis on improved and modernised packaging streamlining of procedural and documentation formalities for export, provision of additional facilities and incentives for export houses, trading houses and 100 per cent export oriented units, rationalisation of scheme of CCS, greater participation of State Governments in export drive, and development of professionalism in the Ministry of Commerce through creation of an Export Management Department were some of the other recommendations of this committee.

There were also committees to review the role of export houses the Arjun Sen Gupta Committee on Export Houses, the Tariff Review Committee (Sawhney), the GVK Rao Committee on Agricultural Exports, etc.

Abid Hussain Committee on Import-Export Policies

The Abid Hussain Committee was started to exercise reviewing the trade policies and submitted its report in the early part of 1985. The Committee's report appears like an endorsement of many of the recommendations and analytical points brought out in the Alexander Committee report. The additional points of recommendations were, the simplification of the import policy for export-
ters by the introduction of the pass book system, some reflections on the exchange rate policies, and the recommendations that the real effective exchange rate of the rupee should not be allowed to appreciate and should be maintained at a level considered appropriate for ensuring the competitiveness of exports. It has also been recommended that the canalisation of imports should be effected on a selective basis, based upon rational criteria. In order to replace the import licensing system by a tariff mechanism, it is felt that the tariff structure in terms of effective rate of protection should be such as to induce lower degree of tariff escalation. It is suggested that import substitution in bulk items should receive the highest priority. The report has also recommended that the present import replenishment system for export production should be reformulated along the lines of advance licensing system for the category of manufacturing exporters.

Recommendations offered by the three official committee reports were sought to be implemented in the annual and the Long Term Import and Export (LTMX) policy announcements/statements of the Ministry of Commerce (MOC) during the ensuing years. The first two long term policy statements covered the financial years 1985-86 to 1987-88 and 1988-89 to 1990-91 changes in the political regime at the Centre prompted the interruption of the ongoing policy by a new LTMX policy in March 1990, covering 1990-91 to 1992-93. A quick succession of supplementary short-term trade measures have also been announced, especially since July 1991 when a package of economic reforms was launched by the newly elected Congress-I Government in power.
The trade policy reforms initiated over the last few years, the recommendations offered by the three trade policy committees seems to have influenced the broad goals of the successive LTMX policies, announced respectively in March 1985, March 1988 and March 1990. A general move towards liberalisation of imports, especially of capital goods and raw materials, and the emphasis on export incentives seems to have dominated the major policy changes. Indications were clear that henceforth the OGL list of imports would expand, both with inclusion of new items and with transfers from the licensed list. Thus the government mooted a general move to confine the quantitative restrictions to a narrower range of importables. Second, the LTMX policy measures sought to liberalise, on a priority basis, imports of capital goods and raw materials, by shifting these to the OGL list and via tariff reductions. Both targets were prominent in the different LTMX policy measures, announced between March 1985 and March 1990.

Export drive and an appropriate orientation of trade policy were introduced as an additional goal in the LTMX policy of March 1988. The interruption of the ongoing long term policy by a new one in March 1991 adopted all three goals of the preceding LTMX announcement. The emphasis on export promotion, however, received relatively greater attention than in the earlier 1990 LTMX announcement.

Impact on Trade:

Dwelling on the recent statistics in India's imports and

exports, it is possible to argue that the move towards import liberalisation, initiated since mid 80s, was responsible for an inflated import bill as a ratio of GDP during these years. Moves towards import liberalisation included both expansions of the OGL list and absolute increase in the limits fixed as ceilings on specific categories of import licences. The more recent drive towards liberalisation includes the removal of the 'actual user' condition in October 1991, initially from the OGL route and later from the EXIM scrips route. The step implied that unless in the banned list, imports were no longer linked to the needs of production.

The impact of the import liberalisation measures on the domestic economy includes, apart from the immediate effect on the external sector of the economy, a wider set of consequences, covering technology, investment plans, growth performance and economic stability. Since import liberalisation has of late been identified as an integral component of the IMF/IBRD style stabilisation package, it is interesting to explore the relation between the former and the state domestic economic stability.

Looking at the records of India's import regulations over the last few years, we came to the conclusion that policies were subject to an adhocism, influenced by the immediate short run exigencies arising in the foreign exchange front. Thus the LTMX policy, remodelled in March 1990 to incorporate the emphasis on the export link to import liberalisation failed to lend a direction to many a short-run changes, initiated on grounds of an imminent
external economic crisis, we have documented and analysed the
implications of these short and long term package of import-export
policies

**EXPORT IMPORT BANK IN PROMOTING INDIA'S EXPORTS**

Export-Import Bank of India is a service institution set
up in January 1962 to serve the foreign trade sector and could
act as a focal point for all aspects of the country's export and
import trade viz., providing long-term credit, offering export
risk covers, exploring markets, financing promotional activities
and further developing foreign trade of India. It has both deve-
lopmemtal and financial functions.

In order to develop India's export trade, EXIM Bank should
identify the export-oriented industries and carry out project apprai-
sals and evaluation. It could provide consultancy services on both
financial and non-financial aspects to export firms and industries.
It could provide investment finance to export-oriented projects
and extend to them deferred credit facilities for exports. It can
also play the role of 'acceptance house' for medium and long-
term export bills with the effect that these bills will find a ready
market among potential investors in India or abroad.

There are two types of operations by EXIM Bank, namely
funded and unfunded operations, involve financial outgo while non-
funded operation include various types of guarantee such as advance
payment guarantee, performance guarantee, etc.
Since commencing operations in March 1982, till June 30, 1982, the EXIM Bank has extended assistance to the tune of Rs 133 crores consisting of Rs 24 crores of medium and long term loans, guarantees amounting to Rs 32 crores and rediscounting of export bills aggregating Rs 77 crores. During this period, EXIM Bank cleared 99 bids valued at more than Rs 3,700 crores in respect of construction contracts, turnkey projects and supplies which would involve the total commitment of Rs 852 crores for the exim-bank. The interest rates charged by Exim Bank vary from 9.25 per cent to 12.5 per cent. Where there are unspecified the rate of expected to be at competitive international long term rates. Currently, long-term lending rates range around 14 per cent to 15 per cent. Moreover, under the exchange control regulations, Indian importers are permitted to avail credit up to 180 days from the date of shipment, from their suppliers abroad. Interest on such credit is also allowed to be remitted.

During the first 10 months of its operation, Exim Bank registered a profit of Rs 6.28 crore for the year ending 1982. This profit is net of the provision for depreciation and other usual provisions and also after a transfer of Rs 2.02 crore to provide for possible loan losses. After the payment of dividend of rupee one crore to the Union Government the balance of Rs 5.28 crore from profit has been taken to the reserve fund. Exim Bank has introduced three new lending programmes, i.e., finance for technology and consultancy services exports, exports bills rediscounting.

facility for commercial banks and overseas. The total outstandings of funded and unfunded assistance as at end December 1985 stood at Rs 554 crores and Rs 466 crores respectively. Of the total assistance under both the heads construction projects accounted for a major share. The Exim Bank continued to play a pivotal role in promoting projects exports such as construction projects, turnkey projects and consultancy services. During 1989-90 its sections rose by 12.4 per cent to Rs 955 crore from Rs 850 crore in 1988-89.

**IMF POLICIES AND CONDITIONALITIES**

India is a founder member of the Fund and actively participated in IMF operations since 1947 when they were started. India has drawn IMF credit under most of its schemes to tide over temporary balance of payments deficit. The main Fund facilities are (1) permanent policies for general balance of payment purposes (the tranche policies), (2) permanent policies for specific purpose (compensatory financing facility (1963), the Buffer Stock Financing Facility (1969) and Extended Facility (1974), (3) Temporary facilities (The oil facility, 1974), Supplementary Financing Facility (1979), The Compensatory and Contingency Financing Facility (1986), and the Policy on enlarged access to the Funds resources. The Compensatory and Contingency Finance Facility (CCFF) came into effect in August 1988. It supersedes the Compensatory Financing Facility, while preserving its basic features. The CCFF continues

---

to provide financial support to measure experiencing temporary export shortfalls of increase in cereal import costs. In addition, the CCFF provides contingency financing to protect members' economic programmes from the effects of adverse movements in key external economic variables that account for a large portion of members' current account balance.

While granting loans to member countries the IMF insists that the countries concerned must fulfill certain conditions. These conditions vary from country to country. The IMF offers some policy prescriptions which the borrower members have to implement. They are known as "conditionalities." The IMF prescriptions cover ten major areas, viz., monetary, fiscal and budgetary, internal resource, mobilisation, industrial, agricultural, price reform, foreign investment, foreign trade, external borrowing and exchange rate management. Till 1992, India borrowed assistance from the IMF with adjustments of the country by these prescriptions. International aid from IMF as well World Bank to a country is based on many factors like per capita income, per capita tax effort, the domestic rate of savings, the domestic rate of capital formation, the rate of population growth, the rate of literacy, the proportion of primary and secondary sectors in aggregate output, the domestic laws on private foreign investment, the country's exchange rate policy, the degree of its political stability, its progress towards self-sufficiency in food and raw materials.
RECENT CONDITIONALITIES OF THE IMF

The IMF feels that India is in bankruptcy though India initiated measures in 1980s that were most sensible to throw open the economy to the competitive structure of trade. Perhaps the results from these measures would materialise in due course. Mean while to overcome the temporary payment problems, India has decided to approach the IMF and abide by its wishes. The heavily indebted nation has to accept the medicines that are good for it to overcome the ills and make the body economic show its dynamism. Hence India has to adopt the conditionalities of IMF. The conditionalities of the IMF covers five areas in which further action is required, when the Executive Board of the IMF has authorised an additional dose of over $2 billion, balance of payments support for India under a stand -by-arrangement in recent period (1991).

1. "Expenditure reduction" aimed at reducing the fiscal deficits to less than 4 per cent of GDP,

2. "Tax reforms" aimed at reducing dependence on customs duties and shifting the burden to exercise duties (lower tariffs and a VAT at home),

3. "Industrial reforms" a committee has been appointed to suggest what needs to be done, and

4. "Trade reforms" implying import liberalisation (removal of quantitative restrictions and phased reduction of tariff rates), and
5 "Public enterprises reforms" including closure of side enterprises privatisation, elimination of budgetary support for public enterprises and so on

India's present economic situation urgently needs the loan from IMF to put the Indian economy back on its track. Accepting IMF conditions, loan may be available, but the problems of poverty and unemployment will remain untouched. The steps taken till now are the devaluation of rupee, changes in foreign trade policy, stopped subsidies, and selling transferring of 46.9 tonnes of gold and declaration of economic and industrial policy to satisfy the IMF and the World Bank.

The reduction in Government expenditure has been achieved in the two budgets of 1990-91 and 1991-92, largely by reduction in capital expenditures. Actually the revenue expenditure for the budget year 1991-92 went up by 14 per cent and in 1992-93 it is estimated to go up by 7 per cent over the previous year. Against these two figures, the capital expenditure went up by 7 per cent and 10.2 per cent respectively. Critical areas like health, education and rural development have in the budget for 1992-93 shown a reduction in real terms compared to earlier years.

There has been a near elimination of subsidies and assistances to exports. However, despite an increase in fertilizers prices in 1991-92, there has not been in rupee terms, a reduction in fertilizers subsidies. There has been a real cut in defence expenditure reduction of subsidies to state governments and public enterprises. Thus it can be said that there has been reduction in
some revenue expenditures but it has not been enough to meet
the requirements of the fiscal deficit targets and as a result
capital expenditures and expenditures on the social sectors have
had to suffer. It must be hoped that the situation will correct
itself in the coming years with a restructuring of the government
expenditures. As a result there must be a significant improvement
in the expenditure on the social sector.

The taxation system in the country, both direct and indirect,
have become extremely complex and cumbersome. There is an urgent
need to broaden the tax base, improve the realisation of revenue
from re-organised tax system and to make the system as simple
and transparent as possible. A committee under the Chairmanship
of Dr. Raja Chelliah has gone into these matters and the report
is submitted to the Government for review and implementation.

Importance of Trade Policy

The trade policies have always played an important role
in the development of countries. A policy which restricts imports
provides a sheltered market for the development of domestic industries. The present day advanced countries like Germany, Japan,
the USA in their initial stages of development did use import
tariffs to create opportunities for the development of their industries. Exports too are significant for providing foreign finance
and markets for domestic goods.
NEW TRADE POLICY

The Government of India has announced a new export and import policy which has come into force from 1st April, 1992. The duration of the new policy is for the five years as against the current policy which was for a period of three years (1990-1993). The New Policy which foresees a regime of substantial freedom would run for the whole of the Eighth Plan period. Major changes in trade policy were announced by the Central Government on 4th July 1991 and 13th August 1991 and the new policy reinforces, the direction set by these trade policy reforms.

These policy changes aimed at strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression. Essential imports of sensitive items (such as POL and fertilizers) were fully protected, but other imports of raw materials and components were linked to export performance through enlargement and restructuring of the replenishment licensing system. The system of cash compensatory support was abolished consequent upon the change in the exchange rate and other measures of reform which provided substantial incentives for exports across the board. The major policy changes introduced are highlighted below:

1) A large part of administered licensing of imports was placed by import entitlements linked to export earnings. These import entitlements, renamed Eximcrps, are freely tradeable.

and attract a premium in the market. For most exports a uniform rate of 30 per cent of Eximscripts was made applicable, though some exports were entitled to higher rates.

i) Eximscripts could be used to import any item in the limited permissible list, the non-sensitive canalized list, all OGL items for actual users and non-OGL capital goods which were not in the restricted list.

ii) The Advance Licensing system for exports was simplified so as to improve exporters' access to imported inputs at duty-free rates.

iv) Permission to import capital goods was given without clearance from the indigenous availability angle provided this import was fully covered by foreign equity or was upto 25 per cent of the value of plant and machinery subject to a maximum of Rs 2 crore.

v) Export and Trading Houses and Star Trading Houses were permitted a larger range of imports 51 per cent foreign equity is also now allowed in Trading Houses.

vi) The scope of canalization for both exports and imports was narrowed.

vii) Actual user requirements for the import of capital goods, raw materials and components under OGL was removed.

viii) Established exporters are now permitted to maintain foreign currency accounts and to raise external credits to finance their trade transactions.
ix) Exports generated from the General Currency Area (GCA) and the Rupee Payment Area (RPA) will enjoy the benefit of import replenishment for use from the GCA and the RPA, respectively.

x) The scope of export services has been enlarged and the rate of replenishment of service, exports has been increased from 10 per cent to 30 per cent of net foreign exchange earnings.

xi) The system of Supplementary Licences has been discontinued and the category of unlisted OGL abolished and all these import requirements will be met through Exim scrips.

xii) The new REP scheme gives maximum incentives to exporters whose import intensity is low. For e.g., agricultural exports which earlier had very low replenishment rates of 5 per cent or 10 per cent will now gain considerably.

xiii) In 3 to 5 years, the rupee will become fully convertible on the trade account.

For several decades, trade policy in India has been formulated in a system of administrative controls and licences. As a result, we have a bewildering number and variety of lists, appendices and licences. This system has led to delays, waste, inefficiency and corruption. Human intervention described as discretion at every stage, has stifled enterprise and spawned arbitrariness.

The first major attempt at liberalisation was done by the Rajiv Gandhi Government. As a result, in the 4 years from 1986-87...
to 1989-90, exports surged forward and the period witnessed a record average annual growth of 17 per cent in dollar terms. Unfortunately and unaccountably, this declined to 9 per cent in 1990-91 and to only 4.4 per cent in April 1991, when compared to April 1990.\(^{10}\)

**The Exim Policy for 1992-97**

Some of the major changes of the export-import (EXIM) policy of 1992-97 announced by the Commerce Minister of India Mr. Pranab Mukherjee in Parliament on 31st March 1993 are furnished herewith. It has been effect from April, 1993. The changes are based on the interaction with trade and industry and the experience that has been gained in implementing the policy over the last one year.

**Agricultural Sector**

In the revised policy, special attention is being paid to the growth of exports in the agriculture and allied sectors. The Government attaches high priority to encourage the establishment of Export Oriented Units (EOU) in the sector. Units engaged in agriculture, aquaculture, horticulture, pisciculture, poultry and sericulture to avail the benefits of duty-free imports under the Export Oriented Unit (EOU)/Export Processing Zone (EPZ) scheme even if they export only half of their production, they can sell the remaining 50 per cent in the domestic market as against the limit of 25 per cent permitted for non-agricultural sector.

\(^{10}\) Chidambaram, P., Minister of State for Commerce (India), delivered on July 4, 1991
Definition of 'Capital goods' widened to cover capital goods used in agriculture and allied activities so as to enable units engaged in this sector to avail of the Export Promotion Capital Goods (EPCG) scheme for importing their equipment at a concessional rate of duty.

Inputs and materials needed by the farm sector such as Prawn, shrimp and poultry feed, edible wax for waxing fresh fruit and vegetables, grape guard paper, dipping oil for treatment of grapes, wheat gluten, fish meal in powdered form and grand parent stock (poultry) removed from the negative list of imports.

Services sector Export Promotion Capital Goods scheme for the services sector unveiled to enable import of capital equipment at a concessional rate of duty of 16 per cent. Beneficiaries include architects, artists, chartered accountants, consultants, doctors, economists, engineers, journalists, lawyers and scientists. This scheme also open to other services such as hotels and restaurants, travel agents, tour operators and diagnostic centres. The exports obligation to be achieved by them will be in the form of the foreign exchange earned by them, regardless of whether the services are rendered in India or abroad.

Capital goods For existing Export Promotion Capital Goods (EPCG) scheme applicable to other sectors, the window of import of capital goods at the concessional rate of customs duty of 15 per cent being kept open, while the other window of import at 25 per cent duty being deleted in view of the general lowering of customs duties in 1993-94 budget.
Negative list. A total of 144 items removed from the negative list of exports. On items excluded from the negative list but where it is necessary to attach certain terms and conditions on the exports like the minimum export price and the like, a separate notice to be issued. But no export licence is required for their exports.

Trading houses. Criterion for recognition of export houses/trading houses/star trading houses to be based on their FOB (Free on Board) value of physical exports and not on net foreign exchange (NFE) earnings. The scheme for special import licences for these houses as well as for the electronic sector to be based on the FOB value of the physical exports instead of the NFE.

Rep Eximscripts: In case of exporters who completed their exports before March 1, 1992 and who had not exchanged their Rep/eximscripts before February 27, 1993, a further chance to surrender the eximscripts and to obtain the premium of 20 per cent of them to be offered. A centrally sponsored scheme for assisting the states in the establishment of industrial parks, with high standards of infrastructural facilities to be formulated.

In conclusion Pranab Mukherjee said that the performance on the export front held the key not only for the management of India's balance of payments position, but also for orderly economic development. It needs to build a strong export culture in the country that prevades not only trade and industry of India, but also the Government departments, institutions and infrastruc-
tural agencies. The Export and Import Policy is an important instrument to enable and to realise one's full potential on the export front.

New Industrial Policy Reforms

In order to consolidate the gains already achieved during the 1980s and to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced in Industrial Policy. The new industrial policy of 24 July 1991 sought substantially to deregulate industry so as to promote the growth of a more efficient and competitive industrial economy. Industrial policy reforms should be seen as being complementary to those undertaken in trade and fiscal policies and in the management of the exchange rate and the financial sector. The central elements of these reforms were as follows:

1) Industrial licensing was abolished for all projects except in 18 industries where strategic or environmental concerns are paramount or where industries produce goods with exceptionally high import content. With this 80 per cent of industry has been taken out of the licensing framework.

2) The MRIP Act was amended to eliminate the need for prior approval by large companies for capacity expansion or diversification. This will enable Indian firms to become large enough to compete effectively in global markets.

11. Financial Express, Madras, April, 1993, pp.1 & 11
12. Government of India, ibid, p 12
iii) The requirement of phased manufacturing programmes was discontinued for all new projects

iv) Areas reserved for the public sector were narrowed down, and greater participation by private sector was permitted in core and basic industries. In the place of the 17 areas earlier reserved for investment by the public sector, only 8 such areas are now reserved. These eight are mainly those involving strategic and security concerns.

v) Government clearance for the location of projects was dispensed with except in the case of 23 cities with a population of more than one million.

vi) Small scale enterprises were given the option to offer up to 24 per cent of their share holding to large scale and other industrial undertakings. This will provide them with greater access to capital and technology.

vii) Loan agreement of the financial institutions with privately managed firms were earlier required to provide for the right of the financial institutions to convert the loans into equity.

viii) A National Renewal Fund has been set up with a corpus of Rs 200 crore to ensure that the costs of technological change and modernisation of industry would not be borne by workers. It will be used to provide a safety net to workers in sick and nonviable enterprises, and to finance their retraining and redeployment.
ix) Freedom for Indian companies to float convertible debentures and equity issues in foreign capital markets

x) Encouragement of private sector mutual fund

xi) Opening up of more sectors to foreign investments and permission to use brand names

xii) Privatisation of public sector units and opening up of more areas to private sector. Now only 8 areas are reserved for public sector.¹³

Along with a reform of industrial policies, steps were also taken to facilitate the inflow of direct foreign investment. These non-debt creating inflow will reduce reliance on fixed interest debt and also bring in new technology, marketing expertise and modern managerial practices.

De-regulation will reduce the role of Government regulatory agencies. They will be re-organised and their staff re-deployed. For the economy as a whole, delays in project implementation will be greatly reduced. The full outcome of the industrial policy changes will materialize after some time, but the early results are already visible. The response to the new industrial policy has been very encouraging. The number of investment approvals given in 1991 has risen to 5538 from 3335 in 1990. The figure for 1991 includes 3095 industrial entrepreneurs which would have earlier required letters of intent or industrial licences. 3897 investment proposals were cleared between the announcement of the new

policy on 24 July 1991 and 31 January 1992. During the same period, 505 foreign technology import agreements were also approved.

In 1991, a total of 244 cases of foreign equity participation with a proposed equity investment of 504 million was approved. In the previous three years, 1988, 1989 and 1990 the total inflow of private foreign equity was $95 million, $120 million and $50 million respectively. The increase in domestic investment activity and inflow of foreign capital will strengthen our industrial capabilities and contribute to exports.

Recent Devaluation of the Indian Rupee

Devaluation of the currency of a country is an ultimate measure to check the imbalances in the external economy. Although it is short term but inevitable measure to reduce external payment of debt. The recent devaluation of Indian rupee was necessary in the present context due to a number of reasons. Downward adjustment of the exchange rate of the rupee is one of the instruments among others for resolving these problems. A situation of continuing depletion of foreign exchange reserves generates destabilising market expectations. In the immediate short-run, the exchange rate adjustments help to reverse market expectations and there by stem the outflow, inflow. Over the short and medium-term, the downward adjustment becomes an instrument to improve the country’s international competitiveness and to correct the imbalance in the trade and current account deficit.\(^\text{14}\)

The recent devaluation was made on 1st and 3rd July, 1991 by which the rupee value was decreased by 20 per cent in terms of select basket of currencies. Consequently the value of hard currencies increased as shown in the Table below.

In a dynamic economy we cannot expect a stagnant currency rate. Because the balance of payment position and foreign exchange reserves position do not remain static. The recent devaluation was in fact the result of adverse external economic position.

The Value of Hard Currencies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dollar (USA)</td>
<td>21.14</td>
<td>23.14</td>
<td>25.95</td>
<td>23.07</td>
</tr>
<tr>
<td>2</td>
<td>Pound (UK)</td>
<td>34.36</td>
<td>37.47</td>
<td>41.59</td>
<td>21.04</td>
</tr>
<tr>
<td>3</td>
<td>Mark</td>
<td>11.75</td>
<td>12.80</td>
<td>14.15</td>
<td>20.78</td>
</tr>
<tr>
<td>4</td>
<td>Yen (Japan)</td>
<td>15.31</td>
<td>16.86</td>
<td>18.68</td>
<td>23.33</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>3.47</td>
<td>3.78</td>
<td>4.18</td>
<td>20.55</td>
</tr>
<tr>
<td>7</td>
<td>Lira (Italy)</td>
<td>0.1577</td>
<td>0.1724</td>
<td>0.1889</td>
<td>20.02</td>
</tr>
</tbody>
</table>


On the whole, devaluation should produce an expansionist impact on the economy. True, there will be a tendency for prices to rise in the wake of devaluation, but if there is supporting fiscal/monetary action, prices should get stabilised before long at the higher levels, reflecting and relative supply/demand forces.
in the country and abroad. So the industrial system must be such as to respond promptly and adequately to the stimulus of higher demand.

Devaluation will also produce adverse effects, which it will take sometime to work off. The burden of external debt for the government and the corporate sector, including development finance institutions, will increase significantly. Government has no means to protect itself against the larger burden. It makes imports dearer. Replacement of plant and machinery will also become costlier. The high cost spiral erodes competitiveness in foreign market. The increase in wage and salaries cost of raw materials and other inputs increase the production cost of manufactured goods. In the home market, after a short period, prices of all essential and productive commodities tend to increase. The cost of living increases.

The exports of India may not increase as expected level through devaluation due to disruption to rupee trade with the disintegration of Soviet Union, modest growth in world economy and trade, domestic supply bottle-necks and high cost of production, continued lack of real export interest among most leading industrial houses, which continued to be net users of foreign exchange.

Monetary Policy

The monetary policy was tightened to counter inflationary pressures in the economy. The movement, the Government knew...
that customs revenue was not doing well because of the reverse import squeeze, a generalised cut of 5 per cent was imposed on government expenditure. Of the Rs 2,500 crores to be raised through disinvestment in the public sector, Rs 1,400 crores have already been collected by December 1991. The remaining is collected by March, 1992.

The credit policy is announced on April 12, 1991 raised the rate of interest on bank deposits of maturity of three years and above by one percentage point to a historically high level of 12 per cent. Simultaneously, the minimum lending rate for large borrowers was raised by one percentage point to 17 per cent. The incremental non-food deposit ratio excluding exports was fixed at 45 per cent. Subsequently, an incremental cash reserve ratio of 10 per cent was imposed in addition to the average ratio of 15 per cent. A limit was also set on the amount of drawing that large borrowers can make during the first half of the year.

Along with these measures, certain other steps directly aimed at import containment and accelerated export realisation were also taken. Cash margins were prescribed with respect to the imports of certain categories. These margins now range between 50 and 200 per cent. However, imports related to exports have been given a concessional treatment and there is an exemption from cash margins in general against such imports. The cost of import finance has been increased with the imposition of 25 per cent interest rate surcharge while the rate of interest on post-
shipment exports credit beyond 90 days has also been increased sharply to accelerate export realisation 15

Gold Import Policy

The Union Budget for 1992-93 has introduced bold measures at reform the Indian economy which includes import of gold on certain conditions and the Gold Bond Scheme in allowing import of gold by NRIs and returning Indians, the Government has taken a revolutionary step in the form of the external sector of the country's economy, the main plank of which is the partial convertibility of the rupee. The Gold Bond Scheme appears to be aimed also at bringing atleast a part of the parallel economy into the mainstream, besides providing a cushion to the balance of payments 16

The mobilised gold should be used for meeting the requirements of exporters and for bolstering the country's foreign exchange assets. If the gold is used for financing export-linked projects, the return could be higher. It is proposed that the exporters could be provided advances to remove their foreign exchange constraint with the stipulation that it would repaid with interest at commercial rates in foreign exchange.

The internal estimates made by RBI show total stock of gold in the country at the end of 1991 was 7,565 tonnes. This

16 Mahesh Prasad, "Gold Import and Gold Bond Scheme", Yojana, Vol 36, No 8, May 15, 1992, p 12
figure has been arrived at by taking into account official trade statistics which show that a net 3,700 tonnes of gold was imported into the country between 1831 and 1931. Net exports between 1931 and 1940 amounted to 1,400 tonnes reducing the gold stock at the 1940 to 2,300 tonnes. Between 1941 and 1950 there was a net import of another 311 tonnes. Imports of gold were banned at the end of 1940s resulting in unauthorised imports in the subsequent period. Between 1950 and 1957, unauthorised imports were estimated at 653 tonnes bolstering the total gold stocks about 3,264 tonnes at the end of 1957.

In the subsequent years, illegal imports increased at a faster rate. The annual average for 1951 to 1991 is put at 1,074 tonnes per year. The stock of accumulated gold at the end of 1991 stood at 7,214 tonnes. If the gold stock of 351 tonnes held by RBI is also included the total stock would be total 7,565 tonnes. This is considered to be a sizeable quantity estimated in value terms at about $87 billion. Even if the government should also mobilise part of it, the addition to the foreign exchange reserves would be substantial.

Under the proposal Gold Bond Scheme, returning Indians and NRIs could import 5 kg of gold per passenger on payment of import duty of Rs 450 per ten grams, provided the passenger concerned has stayed abroad for six months and the gold as well as the import duty is financed from foreign exchange earned abroad. According to Dr. Manmohan Singh, Finance Minister of India under the scheme, citizens could obtain gold Bond is to return for gold.
The Bond would be issued for a period of five to seven years and could be liquidity by return of gold, or equivalent value, at the point of the holder. It would enjoy a small interest, which would not be subject to income tax. The bonds will also be free at wealth tax and gift tax. But these facilities are not available in the earlier schemes. 17

The main purpose of the Government decision to allow legal import of gold, i.e., to put an end to smuggling, is ultimately to be achieved because of the nexus between drugs and gold. This is apparent from cases of seizure of gold at airports even after the presentation of the budget. If at all, smuggling may only be reduced, smuggling will end only if the difference between domestic price and international price is minimal in which case it may be safer to pay for the drugs in foreign currency. The biggest criticism of the scheme is that it puts a premium on tax evasion and rewards dishonesty.

PARTIAL CONVERTIBILITY OF RUPEE

The year 1992-93 budget has made a revaluationary provision of partial convertibility of rupee which is an indicator of a qualitative change in the foreign exchange regulation regime prevalent in India since 1939. Under the new provision only 40 per cent of the foreign exchange remitted in India from abroad or earned through exports would have to be compulsorily converted into Indian rupees on official exchange rate under Liberalised Exchange

Rate Management System (LERMS) and the remaining 60 per cent part could be converted into Indian rupees on the basis of open market rate determined by demand and supply forces. Out of this 60 per cent, 15 per cent can be retained by maintaining accounts with banks or authorised dealers of foreign exchange.

Most importantly, partial convertibility has introduced a self-balancing mechanism for managing our balance of payments. It makes exports an attractive one for Indian Industry and at the same time put the pressure on Indian Industry to modernise and compete effectively in the international market. Moreover, it is designed to provide an efficient import substitution. The foreign exchange surrendered at the official rate will be used to import essential items such as oil, edible oil, fertilizers, life saving donors, etc. Excessive outgo of foreign exchange will automatically generate a premium on foreign exchange in the market. This will moderate imports and simultaneously provide a greater incentive to our exporters and also attract greater inflows of remittances and other capital resources.

Since the partial convertibility experiment was a success, the Reserve Bank and the government became confident that the rupee can be allowed to float to a greater extent. In a step by step operation the government had slowly prepared the ground for introducing full convertibility. The government found that all the three conditions which have been mentioned by Rangarajan, Governor of RBI, more or less satisfied in February 1993 and the situation was favourable for making the rupee convertible.
The conditions are brought down the inflation rate from 14 per cent to 7 per cent, reduced the import duties to avoid inflation and the country must possess enough foreign exchange reserves at least $10 billion.

1993-94 Budget Proposals

Perhaps, for the first time in the history of independent India, there are no fresh imposition of taxes in direct or indirect form during the recent budget proposals of 1993-94. Further, the Finance Minister of India, Dr. Manmohan Singh recommended massive cuts in customs duty and excise duty which, in aggregate amount to Rs 4,522 crores, again perhaps, an all time record. On top of these, the Finance Minister comes out with the lowest budgetary deficit of the decade amounting to Rs 4,314 crores and also announces (i) Full convertibility on trade account, (ii) Reduction in interest rates on bank lending and deposits, (iii) Increased budgetary allocations on infrastructure, particularly, power, communications and surface transport, (iv) Tax-holiday for the power sector and computer software and hardware export sector and (v) Tax concession to foreign institutional investors on their short-term capital gains by reducing the rate from 55 per cent to 30 per cent. 18

Full Convertibility of Rupee

Full convertibility of Rupee on trade account has become a necessary evil in order to take India closer to the global econ-

18 Janak, M. Shah, Financial Express, Madras, April 7, 1993, p 6
nomies. Despite temporary problems calling for adjustment, a unified rate is always better than a dual rate, which is a system of taxes and subsidies, leading to complacency/hardships and all kinds of rigidities.\(^1\) Out of all measures, perhaps, full convertibility on trade account has received maximum acclaim. The government has used this mechanism, along with other minor incentives, to achieve a spectacular export growth. Indian exporters will no doubt have an additional advantage of higher exchange price for hard currency exports.\(^2\)

As a result of full convertibility on trade account, a large part of remittances, now flowing into the country through havaliroute, would come through normal channels and that would strengthen the rupee. Taking the example of remittance of $1,000, the foreign remitter will now get Rs 31,500 as against Rs 29,500 before the budget. An approximate gain of 7 per cent. The unification of the exchange rate would not lead to increase in price, since bulk of the imports already are made at the market rate of exchange. There was no threat of immediate increase in petroleum prices since the international prices were ruling easy at present. With the measures being taken now, the current account deficit should begin to decline in 1993-94. There would be need for exceptional financing of about $2.5 billion or so next year and "we would like to enter into new exceptional financing arrangements."

---

19 Simha, S L N., "Central Budget - Good but not enough", Southern Economist, Vol 31, No 21, March 1, 1993, p 1

20 Tiwari, A C., Financial Express, Madras, March 15, 1993, p 6
The current stand-by arrangements with the IMF will end in April and the last instalment is expected to be released in May this year.

Whether the measures will indeed push up the exports to the required level will be known only after sometimes. But care has to be taken to ensure that full convertibility should not result in free fall of rupee.

However, full convertibility by itself may not help the country to overcome its balance of payments problem. Also, fiscal deficit of the Government may go up in case of full convertibility of the rupee. Though the government can pass on the increase in prices of items like petroleum products and fertilizers to the consumers to offset the effects on the fiscal deficit, the defence expenditure may have to increase and that would push up the fiscal deficit. The Government will, therefore, have to think of either cutting its expenditure or to increase the revenue, if it has to maintain the fiscal deficit at the level stipulated by the IMF. The Government, in any case, will have to ensure enough foreign exchange for imports. The growing level of fiscal deficit will demand more rupees to finance imports which will also move up after full convertibility is achieved. In the absence of adequate free foreign exchange reserves, the country may be forced to borrow either from the IMF or from the capital markets to support the foreign exchange rate at an unsustainable level.
Conclusion

During the first two Five Year Plans, India placed emphasis on inward oriented trade strategy, but it turned into outward oriented strategy from the beginning of the Third Five Year Plan and it followed by import substitution to support export promotion since 1975-76. The government had offered a package of direct and indirect export incentives to infant industries producing selected non-traditional commodities to make them economically feasible for international co-operations. The Cash Compensatory Support (CCS) Scheme, the Duty Drawback and the Import Entitlement Scheme were introduced by the Government during 1970s, revised some in 1980s and looked upon as pre-requisites for export expansion. The new export optimism was evident in the Cabinet Committee Export Policy Resolution of 1970s which emphasised the possibility of achieving export growth through better efficiency and cost effectiveness, liberalisation of the trade regime, lowering of tariffs, dual exchange rate. Again it changed into unified exchange rate, devaluation of rupee are the important implications, which has been taken by the Government of India to reduce the crisis of balance of payments.