CHAPTER – II

Economic and Trade Policy in India
Chapter 2

ECONOMIC AND TRADE POLICY IN INDIA

The international economics comprises of sovereign nations, each free to choose its economic policies. Unfortunately in an integrated world, economic policies of a country usually affect other countries as well\(^1\). Each and every nation of the world has its own foreign policy for the protection, stability and prosperity. Foreign economic policy of any country is that component of Government policy which monitors and formulates its economic dealings with the rest of the world. Its objective is development and also to correspond economic evolutions in the world in accordance with the country’s overall objectives. Economic growth and development of a country is very closely connected to its foreign trade policy. Foreign Trade is a necessary segment of a country's national economy, which contributes substantially to the economic welfare of the people and the development of resources. Economies of scale and global specialisation as also the fruits of technical and scientific development in the world become more easily accessible through the foreign trade. Trade policy of a country is a set of policies which help in the management of the external sector of its economy. Trade policies have either discernible or indiscernible impact on the trade performance and system of collection and regulations which relates to the trade of the country\(^2\). Trade policies form a significant part in the overall structure of the economic policy which is a parameter for measuring its success in the realm of external economic relations and as such they justify special attentiveness by the policy makers. The objective of trade policy is to facilitate a nation’s worldwide trade development more smoothly, by adjusting clear standards and destinations which can be understood by possible trade cooperative partners. In several regions, groups of countries work mutually to create constructive trade policies, which deal with the economic consequences of direct or indirect Government participation that purify the surroundings under which international business deals takes place. Trade policy also covers with the front runners and gainers


that arise from Government intervention in the markets. vested interests are at the heart of the trade policy. Things like import and export, taxes, tariffs, audit strategy, and quotas can all be part of trade policy of the nations. Several nations attempt to safeguard their domestic industries with trade policies which place a heavy load on importers, allowing domestic producers of goods and services to get further leverage in the market with lesser prices. Different countries have different trade Policies regarding merchandise safety, and when goods are imported into a country with inflexible paradigm. Principal governing body of that country may demand the right to scrutinize the goods, to confirm that they line up through the product safety principles which have been laid out. Safety is also an issue, with nations wanting to defend themselves from potential threats while maintaining good international relations with frequent trading partners. India’s trade policy is also one of the many economic instruments employed for conducting the objective of economic growth. There is proposition that trade policy can positively affect economic growth by increasing the efficiency of investment. In the contemporary world, India considers trade policy as an instrument to attain its overall economic policy objectives of growth, industrialization, development, and self-sufficiency. However, India has also been using trade policy to achieve short-term goals such as controlling inflation. The use of trade policy to attain short-term, nontrade related objectives may end up detracting from the stability sought, as constant fine-tuning of policies is required to attain these short-term goals.

The main objective of the India’s International Trade Policy has been to protect its market from International competition and encourage their exports. An important view of this shift is the change in India’s economic cooperation with global market.

These proficient changes in economic policy have occurred at a time when global economic and political dealings have also been restored significantly. The linkage between foreign policy and economic policy was openly accepted by the first prime minister of India, Jawaharlal Nehru. His government gave top priority to

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industries and chose mixed economy policy, which in his opinion was best suited to India. He crafted the post independence foreign policy and external economic cooperation. At the constituent assembly in a discussion about foreign policies in December 1947, the then prime minister Jawaharlal Nehru told the house that these were not just meaningless litigates on a chessboard. Eventually, foreign policy would include a set of the economic policies and India had appropriately evolved her economic policies.

2.1 Features of India’s Trade Policy

I. India’s trade policy used Import restriction through a judicious use of import licensing, import quotas, import duties and in extreme cases, even banning import of specific goods. This was essential to protect domestic industries and promote industrial development.

II. Mahalanobis strategy of economic development through heavy industries, which India adopted since second five year plan seems to have been guided the trade policy through the following:

- Banning or keeping to minimum the import of non essential consumer goods.
- Comprehensive control of various items of imports.
- Liberal import of machinery, equipment and other development goods to support heavy industry based economic growth.
- Prosperous climate for the policy.

III. Vigorous export promotion was emphasized after the second five year plan to earn foreign exchange to overcome the penetrating foreign exchange crisis.

IV. During 1970’s importance of export promotion was again emphasized because of mounting debt service obligations and the goal of self reliance (with zero net aid)

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2.2 Major Objectives of Trade Policy

The trade policies framework which has emerged from such a systematic appraisal of the past policies would be better than one that is adopted without such an appraisal. Objective of policies is the part of the system of policy making. Therefore, policy makers lay down clearly the objectives of the policies.

- To appreciate trade with other countries.
- To defend regional market existing in the country.
- To expand the export of specific product as this would facilitate in growing regional market.
- To preclude the imports of specific goods for giving safety to developing key industry or newborn industries etc.
- To promote the imports of capital goods for accelerating the economic development of the country.
- To hold and reverse the imports of goods which encourage unfavorable balance of payments.
- To manage the export or import of goods and services for attaining the preferred rate of exchange.
- To inscribe into trade settlement with foreign countries for steadying the global trade.

2.3 Phases of India’s Trade Policy

Five different phases of India’s trade policy could be demarcated. The first phase of India’s trade policy pertains to the period 1947-1952. During the first phase India could have liberalized imports but on account of the restrictions placed by U.K on the utilization of the sterling balances. The restrictions were a legacy of the period of war controls. In view of the fact that India’s balance of payment with dollar area was heavily adverse; a blue print was prepared to enhance export to dollar area. So as to bridge the gap. This also required that India devalue her currency in 1949 to promote exports. Usually the import policy had been defensive throughout this period. Besides this, limitation was also placed on imports due to domestic deficiency.8

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During the second phase (1952-57), Indian Government adopted liberalized foreign trade policy. Import licenses were granted with the liberal approach. Thus attempt was made to promote exports by liberating import controls. This liberalization policy increased the import but exports did not increase significantly. Therefore there was fast down slope in India’s foreign exchange reserves (FERs). This necessitated a reversal of trade policy. The third phase (1956-1966) started with the planned economic development. In this phase a self-protective import policy was implemented and the import controls further blocked out the list of imported goods. On the other hand a strong export promotion drive was getting underway. The trade policy concluded that surviving solution to the BOP problem prevarications was in the reformation of export. Not only should the export of traditional items be expanded, but export of fresher items also be promoted. Industries should also be promoted so that dependence on foreign countries to be pointed.

Third phase of India’s trade policy was exhaustively reviewed by the Mudaliar committee (1962). Whereas the fourth phase (1966-1975) was started subsequent to the devaluation of the rupee in 1966. During this phase the trade policy attempted to develop exports and liberalized import excessively. The export promotion measures could not be successful, and adverse BOP remained. Devaluation of the rupee was the most important step of Government of India to control import and boost exports. During the last phase (1975 onwards) the Government adopted a policy of import liberalization with the view to support export promotion. During the Janata party governance (1977-79) import liberalization was also adopted to increase domestic supply of necessary goods to control hike in price level, and intention of further economic expansion and export promotion via import liberalization. The framing of the import-export policy (1985) was based on the recommendation of Abid Hussain committee. The Abid Hussain committee highlighted that trade from the internal economy as exports are a means of transforming internal resources into overseas resources, which were essential to finance the process of development. It focused on export as engine of growth though it did not recommend an export growth policy and

12 *Ibid*
export promotion in the national economy\textsuperscript{13}. The first key attempt at the liberalization was made by former Prime Minister Rajiv Gandhi subsequent to the coming to the power in 1984. The initial liberalization process of 1985 attempted at policy changes in approximately all sectors of the economy, i.e. industrial, trade, fiscal and monetary sectors. As a consequence, in the four years from 1985-86 to 1989-90 export surged forward and this period witnessed a record average annual export growth of seventeen per cent in dollar terms. Unfortunately exports grew by only 9 per cent in 1990-91\textsuperscript{14}.

\section*{2.4 Autonomous Bodies for Export Promotions}

There do exist a number of autonomous bodies working under the guidance of ministry of commerce associated with the enlargement of export and export promotion activities. There are five statutory commodity boards established for the production, development and export of tea, coffee, rubber, spices and tobacco. Export Inspection Council Delhi is a statutory body which is responsible for enforcement of the quality control and required pre-shipment check up of various exportable commodities.

- **Indian Institute of Foreign Trade (IIFT) New Delhi**, a registered body. It has expertise in training of personnel in contemporary techniques of global trade, organization of research in problems of foreign trade, organization of marketing research area surveys, commodity surveys, and distribution of information arising from its findings from research and marketing studies.

- **Indian Institute of Packaging (IIP) Mumbai**, a registered body which was established on May 1996. It undertakes research on raw materials for packaging industries, organises training programmes on packaging industries, organizes training programmes proceeding packaging techniques and stimulates consciousness on the requirement for good packaging etc. There are 20 export promotion councils, out of which 11 are under the ministry of commerce. They are non-profit organizations registered under the companies Act/ society registration Act. They encourage and pump up the export of country. Every

\textsuperscript{13} Kunal Sen, *Trade Policy Inequality and Performance in Indian Manufacturing* (USA: Routledge, 2009), p 90.

\textsuperscript{14} C.P. Chandrashekhar, "Aspect of Growth and structural change in Indian industry." *Economic and Political Weekly* Vol. 23, no. 45/47 (November 1988).
council is liable for the advancement of a particular unit of commodities, project and services.

- **Agriculture & Works Food Products Export Development Authority (APEDA)** came into existence in 1986. Its work proceed as central agency for agricultural exports and pays attention to the trade of processed foods in value added shape. It is also responsible for effective quality control measures.

- **Marine Products Export Development Authority (MPEDA)**, is a statutory body established in August 1972. It is responsible for the expansion and development of marine products industry with special reference to exports.

- **Federation of Indian Export Organisations (FIEO), New Delhi** is an apex body of most important servicing agencies. It is responsible for making available mandatory support to the Government recognized export houses and to make as the central coordinating agency in respect of export promotional efforts in the field of consultancy services in the country.

- **Indian Councils of Arbitration (ICA) New Delhi** has been set up under the societies registration Act. It promotes arbitration as a means of setting business-related disputes and popularizing settlement between traders, principally those engaged in the global trade.

- **Trade Development Authority (TDA)** was merged with the Trade Fair Authority of India (TFAI) to form an organization under the name of Indian Trade Promotion Organization (ITPO) in January 1992. The key objectives of the organization are to build up and encourage exports, imports and upgradation of technology through the organisation of fairs to be held in India and overseas. It is also to undertake back-up by the print and electronic media, to relieve Indian companies in meets, contract promotion programmes and integrated marketing programmes for particular products in particular markets.

- **Natural Centre for Trade Information (NCTI)** a particular organization utilizing modern methods of storage and collection of trade data was established in March 1995. The objectives of this organization are to build up linkages with expert promotion bodies and collection value, addition and division of trade data between interested participants. It interacts with Indian mission abroad and
2.5 Liberalisation Appraisals

The Government of India in 1991 realised the limitations of the regulative procedures. As a consequence, it took several steps between 1985 and 1989 to ease the formation of the controls. In order to diminish the mal effects of controls, the Government announced a number of measures since 1991. Liberalisation was initiated to reduce these restrictions and open up the respective sectors of the economy. Some liberalisation measures were introduced in 1980s. These were in areas of industrial licensing, export-import policy, technology upgradation, fiscal policy and foreign investment. However, the reform policies stimulated in 1991 were more comprehensive. In the post liberalization period, international trade policy has covered essential changes to correct the prior anti export unfairness. Exports and imports development has sprung up and the contribution of foreign trade to GDP has increased. Yet, during this stage import growth rate has been higher than export growth rates. Therefore, the Government’s policy has been more positive to export promotion strategy. However, a lot of pro-export policies have been in progress after liberalization. The export promotion plans in the post reform include following appraisals:

Duty Exemption Scheme

Under the exports promotion plan, duty exemption schemes facilitate on the account of the liberalization of imports through exemption of whole or part of customs duties for import of input required for export promotion. The basic feature of this scheme is that the duty chargeable on raw materials used in the manufacture of export product is waived off and is not collected at all. An advance licence is issued under the duty exemption scheme.

Advance Licensing Scheme: Advance licensing scheme introduced in 1976 is to provide duty free import of inputs, which is physically incorporated in the export products over the years. This scheme has developed into an important instrument for

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export promotion. This was important mechanism of trade policy mainly in Indian situation where tariff levels were high. The Government of India adopted the following steps for these schemes\textsuperscript{17}.

- The number of documents accompanying an advance license application were diminished from 9 to 3.

- Primarily the norms were approved for 540 items. This was then enhanced to over 1000 items by 31\textsuperscript{st} October 1991 and more items covered subsequently.

- Advance licenses were specially to be valued in free foreign exchange mutually for the determination of import and export. The currencies in which such values were designated would be restricted to those notified for this function by the Reserve Bank of India (RBI).

- The process for obtaining Bank Guarantee (BG) and legal undertaking (LUT) from separate categories of exporters were being streamlined and liberalized.

- The power of revalidation which was vested in the licensing committee at the headquarters was handed over to the licensing authorities.

- The process for taking into consideration advance license applications was customized. The advance license would be issued within 15 days of application in all subjects and where input-output norms had been inflexible the license would be issued within 45 days\textsuperscript{18}

**Improvement in Advance Licensing:** A new, value added based, advance licensing system was established in which duty free imports of raw material and mechanism were permitted up to a few percentage of declared export value. Self certified advanced licensing advantage was provided to export houses, commercial houses, star trading houses, and super trading houses. The export time ceiling under this advance scheme in export-import policy 1997-2002 was from 12 months to 18 months and still continues\textsuperscript{19}.

\textsuperscript{17} Monika Kothari, *Export Promotion Measures in India.* (New Delhi: Deep & Deep Publications Pvt. Ltd., 2007), p 89.

\textsuperscript{18} Kothari industrial directory of India, 40th edition, Kothari enterprises, Chennai,India,1996-97, p 84-88.

\textsuperscript{19} Ibid
Export Oriented Units (EOUs)

Since 1981, the Government familiarizes a complementary scheme of Export Processing Zone (EPZ), now EPZ converted into Special Economic Zone (SEZs). This scheme was initiated for promoting export units. Under this scheme the Government offers several inducement and incentives to create additional production capacity of these units so as to boost exports of the country. Over the years EOU scheme has seen various modifications and its scope has also expanded significantly as compared to initial scheme, which was essentially for manufacturing sector with some minimum value addition in terms of export earnings. Presently, the units which undertake to export their total production of goods are permitted to function as EOU. These units may be engaged in the development of software, repair, manufacture services and remarking, reengineering including of gold/silver/platinum jewelers and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, viticulture, poultry, sericulture and granitites. The EOUs can export all products/services except prohibited objects of export in ITC (HS). In the EXIM Policy (1997-2002) agriculture export has been given double weightage while deciding the effectiveness of export houses and trading houses. As on 31st December 2006, 2168 units were in operation under the EOUs scheme. These EOUs are concentrated in textile and yarn, food processing, electronics, chemicals, plastic and mineral etc.

Export Processing Zones (EPZs)

Export processing zones are playing significant role in promoting export of the country. These zones were formulated to develop such an environment in the economy which may provide capacity for facing international challenges. The export processing zones (EPZs) have been set up as enclaves, separated from the domestic tariff area by fiscal barriers. They were intended to provide duty free environment for export promotion. At present, India is having 8 export processing zones, one in private sector and seven in public sector. EPZ in private sector has been opened in SACHIN industrial area in Surat and seven public sectors are as follows:

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• Kandla (Gujarat)
• Santra cruz (Mumbai)
• Falta (West Bengal)
• Noida (Uttar Pradesh)
• Cochin (Kerala)
• Vishakhapattanam (Andhra Pradesh)
• Chennai (Tamil Nadu)²².

**Export Promotion Capital Goods Scheme (EPCG)**

The Export Promotion Capital Goods (EPCG) Scheme is one of the most oldest export promotion schemes currently in operation. The scheme grants licences to exporters to import capital goods at a concessional rate of customs duty²³. It was introduced on 1st April 1992 to facilitate the Indian exporters, who can receive capital goods at subsidised rates of customs duty against an obligation to export the goods manufactured via imported capital goods. In the beginning, the scheme had been restricted to manufacturers with preceding export performance. The Scheme allowed imports at 25 per cent duty against an obligation to export three times the CIF value of the imported goods to be achieved in four years. Consequently, a switch window was opened in 1992 in terms of which, the imports could be equipped at 15 per cent duty, subject to export obligation of four times of CIF value of imports to be fulfilled in five years. The 15 per cent window was abolished in the year 1993. But, a new zero duty window was initiated for Greenfield projects that visualize imports of ₹ 20 crores or more in 1995. Before this, scheme permitted import of only new machinery under the EPCG scheme. The provision was modified to permit recycled goods in 1993. However, in 1999 decision was taken not to permit recycled capital goods under EPCG scheme. Now, from 2003, recycled capital goods are again permitted to be imported under EPCG scheme. In the Present EPCG scheme, even spares for existing machinery, spare refractories, catalyst and consumables can be imported. The

contemporary changes have made the scheme very attractable as businesses can set up new capabilities or modernize their facilities at lower costs\(^{24}\).

**Special Economic Zone (SEZs)**

Special economic zones are engines of growth that are designed to boost manufacturing, augment exports and provide employment. SEZs have also advantage of special privilege duty free enclaves of development and are considered as foreign territories for the purpose of trade, duties and tariff. SEZs are also exempted from federal regulation regarding taxes, quotas, FDI restrictions, labour law and other defensive laws in order to make the goods manufactured in the SEZs internationally competitive in price\(^{25}\). India began moderate reforms in its Export processing zone (EPZ) on the Chinese SEZ model from 1 April 2000. Initially, the legislation governing SEZs was under the trade policy\(^{26}\). The Government of India offered a long term and steady outline with minimum regulation and approved the SEZs Act 2005. This Act provides lawful framework, covering entirely significant lawful and regulatory characteristic of SEZs deployment as well as for unit operating therein\(^{27}\).

**Incentives Facilities to SEZs Units**

- 100 per cent income tax exemption on export income for SEZs and 50 per cent for next five years, thereafter and 50 per cent of ploughed back export profit for the next five years.
- External commercial borrowing by SEZ units up to US $ 500 million in a year without any maturity restriction though recognized banking channels.
- Exemption from central Tax
- Exemption from service Tax
- Single window clearance for central and state level approvals.
- Exemption from state sales tax and other levies as exercised by the respective state Governments\(^{28}\).


\(^{27}\) Ibid

\(^{28}\) Op cit no. 2 , p205.
Export Trading Houses and Star Trading Houses

To improve the profitable effectiveness of exports the Government presented the concept of exports trading houses and star trading houses. These components provided some exclusive facilities and profits by the Government. The new policy continued to give special recognition to exporters exhibiting a high export performance.

The concept of specified recognition to such exports on the basis of the net foreign exchange earning has been continued in the policy as well. However, the procedure for computing the net foreign exchange earnings has been simplified, considering the problem that the exports were facing problems due to the procedure laid down in the earlier policy. On 31\textsuperscript{st} March, 1998, 7 super trading houses 46 star trading houses, 431 trade houses and 2801 export houses were working in India. Since 1\textsuperscript{st} April 1994 the Government added one new unit named golden super star trading house for those who have the highest average annual foreign exchange earnings. On 31st March 2001 there were 4 golden super star trading houses working in the country\textsuperscript{29}.

2.6 New Export Promotion Scheme

The new strategy recognized the significance of export processing zones, export oriented units and EPCG Scheme for ensuring a more effective export oriented promotion ground. An innovative strategy scheme to speed up growth of exports called “target plus” was familiarized in 2004-2009 foreign trade policy but it had been complemented by trade policy 2006-2007. Exporters reaching a quantum growth in exports were permitted to duty free credit based on incremental exports under the scheme. Significantly more than the comprehensive literal export targets fixed for incremental growth of over 20 per cent, 25 per cent and 100 per cent, the duty free credit are 5 per cent, 10 per cent and 15 per cent value of incremental exports respectively. One more new scheme called “Vishesh Krishi Upaj Yojna” was established to enhance the exports of fruits, vegetables, flowers, minor forest produce and their value added products\textsuperscript{30}.

Growth in export of services is to be speeded up so as to create an influential and unique brand to be recognized and respected the world over. The previous duty free export credit (DFEC) scheme for services has been restored. To make India into a worldwide trading hub a new scheme to establish free trade and warehousing zones (FTWZs) has been introduced to set up trade related base for the advantage of import and export of goods and services with exemption to trade transactions in convertible currencies. Besides allowing FDI up to 100 per cent in the maturity and establishment of these zones, each zone was to have lower limit outlay of ₹ 100 crores and 5 lakh sq. mts. built up area. Units in FTWZs also qualify for all other benefits as applicable for SEZs units. In supplementary foreign trade policy 2006-7, two new schemes “focus product” and “focus market” have been introduced for encouraging employment opportunities in rural and urban areas.\(^{31}\)

### 2.6.1 Strategy for Export Promotions

The trade promotion policy of a country comprises of programmes and measures that promote and build up trade with other countries. It takes account of all regulatory policies that would increase exports. Trade promotion policies are component of the overall foreign trade policy, under the trade promotion policy, Ministry of commerce, Government of India announced on 2\(^{nd}\) January 1998, a medium term export strategy for attaining annual export targets of US $90 billion by 2002. The measures adopted under this new strategy were:

- Removal of infrastructure obstacles of export promotion.
- Minimize the cost of export credit.
- Developing new specific products.
- Extension of markets.
- Under the new strategy 11 products were identified for export promotion. The new strategy recognized the significance of strengthening export processing zone, export oriented unit and EPCG scheme for ensuring an improved export oriented production base.\(^{32}\)

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\(^{31}\) *Ibid*

2.6.3 Liberalization of Gold Import Policy

Prior to 1992, gold was reported to be brought into the country through illegal channels. This happened because of excess internal demand and low national production along with a prohibition on import of gold under the Gold Control Act, 1968. Government of India announced liberalization of gold import policy in 1992. Under the gold import liberalised policy, Government of India allowed import of gold by certain nominated agencies viz., State Bank of India, Handicrafts and Handlooms Export Corporation, Minerals and Metals Trading Corporation, State Trading Corporation, and other agencies authorised by the Reserve Bank of India. Under the gold import policy 1992, Government of India gave approval to NRIs and Indian visitors coming from abroad to bring gold up to 5 kg. On December 31, 1996 the Government again liberalised this gold import policy and increased the upper limit of gold import up to 10 kg. An import duty was levied on gold in foreign exchange at the rate of ₹ 400 per 10 grams which was moderated to ₹ 250 per 10 gram in Union Budget 2001-2002. This provision made accessible only to those persons who stayed abroad for at least six months. The import duty on gold biscuits and coins was reduced from ₹ 250 per 10 grams to ₹ 100 per 100 grams in budget proposal of 2003-04. Since the depression of 2008, Indian government applied controlled gold import policy for checkmating the trade deficit. Under the union Budget 2012-13, the customs duty on standard and non-standard gold has been doubled in order to control imports of gold and other precious metals.

- Customs duty was increased from 2 per cent to 4 per cent on standard gold bars, gold coins of purity beyond 99.5 per cent and platinum.
- Customs duty was increased from 5 per cent to 10 per cent on non-standard gold.
- Customs duty was increased from 1 per cent to 2 per cent on gold ores and concentrates for utilization in the manufacture of gold for refining.
- Excise duty was increased from 1.5 per cent to 3 per cent on refined gold.

34 Ibid
The Government of India had to impose a series of controls on the gold imports in the year 2013. The control included increasing Customs duty from 2 per cent to 10 per cent. The Reserve Bank of India (RBI) also imposed restriction on gold imports on the 80:20 bases. This mandated export of 20 per cent of the gold imported and remaining 80 per cent to be used for domestic purposes.\footnote{The Economics Times, "Restrictions on gold imports to be reviewed by March-end: Finance Minister," January 28, 2014. available at http://articles.economictimes.indiatimes.com/2014-01-28/news/467350201_gold-import-current-account-deficit-gold-smuggling (accessed March, 2014).}

2.7 India’s Investment Policy

Foreign investment involves transfer of pecuniary resources such as finance, technology and other skills from one country to another country. Prior to independence, British Government in India had no specific policy regarding foreign capital. Capital invested by the Britishers had been given preference over the other countries. After independence, the first industrial policy resolution of 1948 recognized the sharing of foreign funds and enterprise that would facilitate interest of foreign capital in a satisfactory amount to increase domestic savings for more rapid economic developments and also secure scientific procedural and industrial skills.\footnote{Industrial policy of India, Indian investment centre, (New Delhi, 1997)\textsuperscript{37}} On 6 April 1949, late Prime Minister Jawaharlal Nehru clarifying the policy relating to foreign capital told that India heartily welcomes economic backing and technical cooperation from rest of the world. It was also clarified that no discriminatory policy will be exercised against foreign capital.\footnote{K.L Gupta and Harvinder Kaur, \textit{New Indian Economy and Reforms}, (New Delhi: Deep & Deep Publications, 2004), pp 119-121.}

2.7.1 India’s Foreign Investment Policy 1949

Main elements of Foreign Investment Policy, 1949 are as follows.

- Entry of foreign capital will be allowed in Manufacturing and infrastructure development activities.
- As a consequence of foreign capital efficiency, exports were likely to increase and imports were likely to decrease.

\footnote{http://contents.dnb.co.in/Special_Reports/Union_Budget_analysis_2012_13.pdf (accessed July7, 2013).}
• Once foreign capital is allowed entry into India, it will enjoy all those facilities which are available to indigenous capital.

• Foreign investors will be allowed to remit profit of their investment to their respective parent countries.

• In the event of nationalization of any foreign enterprise, fair compensation will be paid.

• Foreign capital may be subject to control if the national interests so warranted.

• Preferences will be given to Indians while making appointment of key personnel in foreign enterprises. Proper provisions will be made to impart technical training to Indian employees by the foreign experts.

• Maximum limit of foreign capital in any enterprises would be 40 per cent.

• Maximum limit of the payment of royalty on foreign technology agreement was fixed at 5 per cent on domestic sales and 8 per cent on export.

• Period of foreign collaboration would vary from 5 to 8 years.

• Foreign investment will be encouraged in export oriented industries.

• No foreign company could either borrow or receive deposits without the prior approval of RBI.

• In order to control foreign capital, foreign exchange regulation act (FERA) was enforced in 1973.  

2.7.2 India’s Foreign Investment Policy 1991 Onwards

The Government of India introduced the new industrial policy in 1991 to facilitate the Indian economy in general and industrial participation in particular to achieve international competitiveness. It led to the implementation of radical change in India’s foreign Investment policy. The policy duly recognized the role and importance of foreign capital and technology in industrial development of India. Foreign investment policy of 1991 was very liberal and it lifted the ceilings of inflow of foreign investment.

Features Of Foreign Investment Policy 1991

- Liberal Approach: the entry of foreign capital was permitted with liberal approach in consumer goods as well as capital goods, including high industries, and approval for different investment projects. The share of foreign equity capital in Indian industries has been allowed up to 100 per cent.

- Foreign Equity Participation: It appeared in the form of foreign direct investment as well as portfolio investment.

- Tax concession to NRIs: To attract foreign capital from non resident Indians, Government of India announced a number of tax concessions and tax holidays for certain period on profits of new industrial undertakings. Lower tax rate for NRIs in short term as well as long term capital gains was also included.

- Foreign Investment in small scale industries: Under the new small scale industrial policy, foreign entrepreneurs were permitted 24 per cent share capital in small trade industries without any prior approval.

- Export Promotion: Government of India allowed 100 per cent foreign equity participation in the export oriented sectors with the intention of export promotion.

- Technological Collaboration: The new foreign investment policy granted various concessions to technical collaboration agreements for promoting the inflow of modern technology. In selected high technology and high priority areas, it allowed cent per cent foreign equity participation. It included power, drugs and pharmaceuticals, airport, internet service providers etc.

- Foreign Institutional investors: The investors could invest under the portfolio investment. Earlier these FIIs were not permitted to invest beyond 24 per cent of paid up capital of an Indian company. On the other hand under the new economic policy, approval of shareholder of the company by special reclusion, FIIs can invest up to 100 per cent of paid up capital. It was to result in significant boost up in foreign investment. But individual FII could not purchase more than 10 per
cent paid up capital in a company. In the year 2006-07 registration fee for foreign investors was hiked from US $5000 to US $ 10000\(^{41}\).

The Government of India introduced a number of policy measures to achieve an annual target of foreign investment worth US$ 10 billion. They were as following.

- 48 high priority industries of the country were given the self approval facility for foreign equity investment up to 51 per cent. Three industries related to mining and 9 other capital intensive infrastructural industries were allowed to have foreign equities up to 50 per cent and 74 per cent respectively.
- Non resident Indians (NRIs) were granted investment permit with 100 per cent equity for reportable in high priority industries.
- Reserve Bank of India granted permit to foreign nationals of Indian origin for acquiring housing assets without any prior permission of Reserve Bank Of India.
- The condition of installing new machinery was also moved out for capital investment.
- The FERA conditions were liberalized with effect from January 8, 1983 and subsequently FERA was substituted with FEMA.
- The portfolio investment by foreign institutional investors in primary and secondary market was increased from 24 per cent to 40 per cent of issued share capital of any company. This limit was further raised to 49 per cent in 2001-02.

The Government has permitted all the industries except a few (only 6 industries that is electronics, aerospace & defense, industrial explosive and hazardous chemical medicines, alcoholic drink cigarettes and cigars) where foreign direct investment can be made without approval from foreign investment promotion board\(^{42}\). The unprecedented liberalization of the foreign investment policy in India in the 1990s gave an overall new image to the country regarding the investment destination for foreign investment. Even the actual inflow of direct investment has progressively

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gone up after economic reforms. At present India attracts foreign investments from as many as 80 countries across the world. These include America, Europe, Middle East, Africa, Australia and part of Asia. Thus, India has been experiencing a significant increase in the magnitude, origin and direction of foreign investments.\(^{43}\)

### 2.8 Exchange Rate Policy Liberalization

Exchange rate policy in India has sprung up from the rupee being pegged to the market associated system (since March 1993). The exchange rate is mainly determined by market demand and supply setting directly. “The objective of exchange rate management has been to make sure that the peripheral value of the rupee is realistic and reliable as expressed by a sustainable current account insufficiency and manageable foreign exchange situation. In addition to these existing objectives, the exchange rate strategy has been guided by the need to reduce overload instability, the emergence of destabilizing approximate manners, maintaining adequate level of reserves, and to develop a systematic foreign exchange market. The system of forex exchange rates, also known as the Bretton woods system, was abandoned by the most countries in 1973. The Government of India too abandoned it and pegged Indian rupee to a basket of currencies of the countries which were major trading partners. Under this floating exchange rate system, the rupee started to slide visa-vis dollar and other major currencies of the OECD countries. By the end of 1990, one US dollar had become equal to ₹ 18.07. The rates Per SDRs, was ₹ 7.58 in 1970. Rupee was devalued in early July 1991 by Government of India, which managed downgrading of the Indian rupee against the five major international currencies by roughly 22 per cent.\(^{44}\)

#### 2.8.1 Partial Convertibility of Rupee

The former finance minister Manmohan Singh declared the liberalized exchange rate mechanism system (LERMS) in the budget for 1992-93. This initiated partial convertibility of rupee. Under the previous system dual exchange rate was operating under which 40 per cent of exchange earnings were to be surrendered at the official exchange rate while rest 60 per cent were to be converted at a market determined rate. Alternatively speaking, partial convertibility of rupee indicates

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\(^{43}\) op. cit no. 42, p129-33.

\(^{44}\) Report on currency and finance. Reserve bank of India, 1998-99, p 1x-4
devaluation of Indian currency equivalent to the differences between the market exchange rate and official exchange rate. This means that import from hard currency area would be costlier, though for the export earning realization in the rupee terms would be higher. The partial convertibility is consequently designed to provide a boost to our export and for efficient import substitution. Globalization not only requires growth of export but also a free access to import. Consequently import duties have been significantly reduced. Peak tariff by creating a high cost industrial structure had negatively affected the Indian competitiveness. The foreign exchange surrendered at official rate was to be used for the import of necessary items (like crude oil, petroleum products, fertilizers, life saving drugs etc) and the foreign exchange converted at the market rate was to be used to finance all other imports. Since the official exchange rate was lesser than the market rate, this system meant taxing the exporters to subsidize the Government’s bulk import. The implicit export tax was between 8-10 per cent and was highly resented by exporters45.

Full Convertibility on Trade Account

The 1993-1994 budgets initiated full convertibility of rupee on trade account. As a consequence, the dual exchange rate system was dispensed with and a unified exchange rate scheme introduced. Under the unified exchange rate regime, the 60-40 ratio was extended to 100 per cent conversion. The 100 per cent conversion was extended to:

I. Approximately the total merchandise trade transactions.

II. All receipts, whether on current or capital account of Balance Of Payments (BOP), but not all payments. Side by side, the official RBI rate also stayed on for the conversion of items not permitted under the unified market rate i.e. more than half a dozen of invisible items of current account and also capital account. In addition several exchange control norms of Reserve Bank remained in operation all along, albeit with various relaxation of provisions46.

46. Ibid
Full Convertibility on Current Account:

Current account convertibility is defined as the self-determination to buy or sell foreign exchange for the succeeding worldwide transactions. The current account convertibility include the following:

I. All the payments payable in linkage with foreign trade, current business including routine and short term banking and credit services.

II. Payments payable as interest on loans and disposable income from other investments.

III. Payments of moderate amount of amortization of loan or for reduction of direct investments; and

IV. Moderate remittances for family living expenses.

In February 1994, the Reserve Bank of India took numerous steps towards achieving such convertibility when it announced reduction in payment restrictions for a number of invisible transactions and liberalization of exchange control system up to particular limit relating to

- Exchange Earners’ Foreign Currency (EEFC) accounts
- Basic travel quotas
- Studies abroad
- Gift remittances
- Donations
- Payments of certain services provided by foreign participant.

India attained full convertibility on current account on August 19, 1994 when Reserve Bank of India (RBI) further liberalized invisible payments and accepted responsibility under article-viii of the International Monetary Fund (IMF), under which India is dedicated to quit the use of exchange limitations on current global transactions as a mechanism in managing the balance of payments. Many other relaxations of limitations on current transactions were declared in 1995-96, 1996-97 and 1998-99. These include major relaxations in exchange rate control; more important indicative ceiling for release of foreign exchange by Authorized Dealers (ADs) for basic travel quota, studies abroad, medical expenses, casual (gift)
remittances, donations, release of exchange for persons proceeding on employment abroad; greater flexibility in the Exchange Earner Foreign Currency (EEFC) accounts held by exporters; gigantic flexibility for remittances in favour of purchase of foreign services by residents etc. After the country moved to a separate market determined exchange rate system in March 1993, the rupee exhibited good strength and for over two years after March 1993, the rupee-dollar exchange rates remained steady at about ₹ 31.60. However, the exchange rate of rupee vis-a-vis the dollar depreciated from the monthly average of ₹ 31.6 in August 1995 to ₹ 36 in February 1996. RBI efficient involvement helped in obtaining stability and exchange rate of the rupee per US dollar which recovered to ₹ 34.2 in April 1996. After reasonable stability enduring the period of about eighteen months the Indian rupee in August 1997 experienced a harmonious attack of the contagion emanating from currency instability in East Asia. Beginning with the second week of November 1997 the exchange rate of the rupee against the dollar came under renewed downward pressure. The rupee depreciated to a low of ₹ 40.36 per dollar by January 16, 1998, but recovered to ₹ 39.49 on March 10, 1998. Since September 1998, the rupee revealed suitable stability up to the end of March 1999. From April onwards the exchange rate had been responding to the improbability linked to political developments followed by the kargil episode. Against the backdrop by the end September 1999, the rate had touched ₹ 43.60 per dollar compared with ₹ 42.51 per dollar on April 6, 1999. The exchange rate displayed reasonable stability and at the end of January 2000, the rate was ₹ 43.64 per US dollar\footnote{Economic Survey, Delhi: Government of India, 2001-02.}. The Normal Effective Exchange Rate of Rupee (NEER), which was a weighted average of exchange rate vis-a-vis the currencies of major trading partners, showed a depreciation of 23.7 per cent in 1998-99 in normal items since 1993-94 (five country index of NEER with base 1995=100 was 110.21 in 1993-94 and 84.04 in 1998-99). Yet, with the inflation in India being higher than in major industrial countries, the Real Effective Exchange Rate of Rupee (REER) appreciated by 10.1 per cent in 1997-98 as compared to 1993-94 (the five country index of REER with base 1995=100 was 105.19 in 1997-98 and 95.51 in 1993-93) this adversely affected the competitiveness of India’s export in the international markets.
2.8.2  Capital Account Convertibility

The convertibility on capital account is usually introduced only after the lapse of a certain period of time after the introduction of current account convertibility. Capital Account Convertibility (CAC) generally brings up to the openness of convertibility of local financial assets into foreign financial assets and vice versa at market rate of exchange. In 1997 a committee under the stewardship of S.S Tarapore submitted its report on capital account convertibility which provided the primary roadmap for the liberalization capital account transaction\(^{48}\). Taking the lessons from international happening, committee suggested a set of preconditions to be accomplished prior to liberalization of capital account. It was the moment when banking sector reforms were also initiated on the proposition of Narasimhan committee. Finally in year 2000 Foreign Exchange Regulation Act (FERA) was scrapped and a new act Foreign Exchange Management Act (FEMA) came into existence. Till now, all the rules pertaining to foreign exchange are governed by FEMA. All the current account transactions are legalized under FEMA and no prior permission of RBI is required for any such transactions, while there remain limitations on capital account. Under FEMA several capital account transactions are completely permitted, some are totally prohibited while some are permitted within a fixed ceiling. Sectoral rules have also been formed and imposed with FEMA rules. On the sensation of the measures adopted, the issue of capital account liberalization was re-examined by Tarapore committee II, Setup in year 2006 it was an expansion of the previous committee. It also did not recommend unlimited gateways of capital account but preferred a phased liberalization of controls on outflows and inflows with a comprehensive review of the actions taken\(^{49}\).

2.9  Export-Import (EXIM) Bank of India

The Export-Import (EXIM) Bank of India is a public sector financial institution. It was established by an Act of Parliament on January 1, 1982\(^{50}\). Since its

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beginning, Export Import Bank has developed a leadership in import and export financial backing. The bank’s proficiency in this field has been aimed at providing the essential linkage between domestic trade and exporters and importers. Bolstering the bank’s substantially remunerative and valuable financing strategies have been the bank’s effective attachment in financing procurance, processing and packing of a variety of export crops, such as coffee, cashew and cotton amongst other cash crops with non-traditional crops such as sesame and pulses. Financing of procurance and allocation of fertilizers and other agricultural inputs to farmers is routed through fund based and non-fund based assistance. The bank was started with an authorized capital of ₹ 200 crore, which improved to ₹ 500 crore. Its primary paid up capital amounted to ₹ 50 crore, which was raised to ₹ 147.50 crore, absolutely subscribed by the Government of India. The main focus of EXIM Bank’s procedure has been on export credits for the exports in the medium term and long term period. Whenever a consumer of India’s exported goods and services follows for deferred payment, an export credit arises. It is categorized into goods in group A which is suitable for term credit beyond two years and group B which qualifies for credit up to a maximum of two years. Such credits may be in the outline of buyer’s credit or supplier’s credit. Suppliers credit arises when an Indian exporter extends credit to the International buyers and finances him through EXIM Bank. The deferred export permits becomes buyer’s credit. Export-import includes three broad programmes of financing. These are: Loans, rediscounting and Guarantees (non-funded assistance). The lending and rediscounting programmes are classified into nine groups as mentioned below:

- **Provide financial assistance to exporters**: This facilitates the Indian exporters to extend term credit to an international importer so that they can purchase Indian capital goods exported from India. The export takes account of equipments, machinery and related services, project export, turnkey projects, construction projects etc. Export of these characteristics arises when the Indian


52 Ibid
company is able to win supply agreements for the supply of equipments and also gets project export agreement concerning the setting up of a textiles mill, sugar plant, powerplant etc.

- **Technology and consultancy services**: Indian corporation is able to borrow funds from EXIM Bank and affords deferred credit to other countries’ buyers of Indian technology or consultancy services.

- **Overseas investment financing**: The bank extends financing to an Indian company to establish a joint venture overseas, and requires funds in the direction of equity participation.

- **Pre-shipment credit**: This loan of credits is given to the companies that have succeeded in getting an export contract for capital goods and requires finance to manufacture the goods which involves a fabrication period beyond six months.

- **Overseas buyer's credits**: This is provided mainly to foreign importers who wish to import Indian capital goods and essential services with repayment term spread over a period of ten years depending upon the capacity of the overseas buyer to generate cash.

- **Lines of credit to foreign Governments**: Lines of credits are offered to overseas Governments and overseas financial institutions. Such facility provides durable finance for import of Indian capital goods and associated services.

- **Relending facility to overseas bank**: This provision to foreign bank is made available to make possible for them to provide term finance to the importers for facilitating import of Indian capital goods. The foreign bank will make easy for the foreign buyer, the EXIM Bank, and supplier to take advantage of these facilities.

- **Export bills re-discounting**: This lending programme is presented to commercial banks in India who are authorized to deal in foreign exchange. These banks rediscount their short-term export bill with the EXIM Bank. EXIM Bank provides funds for 90 days time period under this programme.

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• **Refinance of export credits:** Under this programme, the Indian commercial banks who are authorized to deal in foreign exchange, are free to obtain from EXIM Bank 100 per cent refinance of term loans in extensive support of capital goods export. Such credit is limited up to ₹ 1 crore. For contracts above ₹ 1 crore commercial banks are required to obtain financial participation under EXIM Bank’s other programmes.

• **Guarantees (Non-Funded Assistance):** This guarantee programme is obtainable in the circumstances of construction and a turnkey contract. Construction contracts include erection, civil work and commissioning. A turnkey contract for setting up of a textile mill or supply of equipment accounts for the major contract values. In such contracts an Indian exporter habitually requires deed bond, advance payment guarantees, performance guarantees, guarantees for retention money, and guarantees for borrowing abroad. Export-Import Bank share with commercial banks in India in the matter of guarantees. Guarantees available are advance payment and performance guarantees, retention guarantees and guarantees for boosting international finance.\(^{54}\)

### 2.10 Export-Imports Policy 2002-07

The commerce and industrial minister of the government of India announced the export-import policy 2002-07 on March 31 2002. This policy was for a period of five years (2002-07). It was to be co-terminus with tenth five year plan. This policy would make a transformation from import liberalisation phase of the past to the purely recent export oriented phase. The quantitative restrictions on exports have been one way except on few items relating to national security. In order to make capable of competing efficiency in the increasing competitive international markets, government of India granted many facilities and concessions to exporters. This policy was announced when India’s exports in 2001-02 had recorded low growth of 1.6 per cent only. Thus to increase growth rate of exports had become inevitable for the Indian economy\(^{55}\). In short, the EXIM policy 2002 was exports oriented but this policy was

\(^{54}\) op.cit no. 51, p114.

again replaced by new foreign trade policy (2004-09) with the change in government in the year 2004\textsuperscript{56}.

2.11 Foreign Trade Policy 2004-2009

On August 31, 2004 the Government of India announced a new foreign trade policy substituting the previous EXIM Policy for the period 2004-09. This policy was proposed to use foreign trade as a tool for promoting growth in Indian economy. Its strategy has been to take an integrated approach to the development of foreign trade in India. It essentially provides roadmap of new markets for Indian exports. In its 2004-09 Foreign Trade Policy (FTP), India concentrated the need to expand trade. Two objectives were set. First, to double India’s share in global merchandise trade by 1.5 per cent over the next five years with emphasis upon those sectors having prospects for exports promotion and Second is the use of trade policy as a meaningful device of economic enlargement with potential employment generation. The Government targeted sectors like agriculture, handlooms, handicraft, gems, jewellery and leather with new sectoral strategies. A new scheme by the name of Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme) was introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Under this scheme, exports of these products are qualified for duty free credit entitlement (5 per cent of FOB (Freight On Board) value of exports) for imports. Other constituents for agriculture sector include duty free import of capital goods under the scheme of Export Promotion Capital Goods (EPCG). These measures were expected to improve competitiveness in the international market and in further increasing the reach of Indian exports. First time an equal thrust was given to both export promotion as well as import liberalization in the foreign trade policy. The reform in the trade policy continued on the line of liberalization, transparency and globalization. In short the present trade policy is liberal, progressive with, low custom duty and export promotion orientation\textsuperscript{57}.


2.12 India’s Trade Policy 2009-2014

For India to become one of the prime traders in world trademarket, an all inclusive vision is essential for the complete development of the country’s global trade. Trade should not be an end in itself, but it should be a means to economic growth and national development. Rationality and steadiness among trade and other economic policies is crucial for maximising the role of such policies in development. Subsequently, integrating the existing procedure of enunciating a stable Five Year Policy, it is essential to go much beyond and take a holistic approach to the developmental needs of India’s foreign trade. The year 2008-09, witnessed one of the most severe global recessions in the post-war period. All the countries across the world were affected in varying degrees and all major unprecedented economic performance like trade capital flows, industrial production, investment, consumption, and unemployment took a beating. The IMF estimates project forecast a decline of over 11per cent in the global trade. Although, India was not affected like other world economies during that phase, but since October 2008 India’s exports have faced a decline due to contraction of demand in the traditional markets. It is in this context and background that the current Foreign Trade Policy (2009-14) was announced on 28th August 2009 with strategies and policy measures which would catalyse the growth of exports. The trade policy 2009-14 strives to provide stable policy environment conducive and friendly to the foreign trade and enhanced insurance coverage and exposure for exports with the help of ECGC Schemes. This policy also endeavours to achieve diversification of products and markets through the operation of rationalization of incentive schemes which includes the enhancement of incentive rates that have been based on the perceived long term competitive advantage of India in a particular product group and market and with special focus given to enable competitive exports in the markets of emerging countries. Indian policy makers feel that in the period of global competitiveness, there is an urgent need for Indian exporters to uprate their technology and reduce their costs of production. Accordingly, an important element of the Foreign Trade Policy should be to help

exporters in achieving technological upgradation. The strategy adopted for has been technological upgradation of exports by promoting imports of capital goods for various sectors under EPCG at zero per cent duty. The interim objective of new foreign trade policy has been to overturn the diminishing trend of exports and to provide supplementary support for recession affected sector of the economy. It was recognized in the policy that increase in export is of great significance but at the same time authorities have to facilitate import also which is energy sustaining for the economy. This policy has presented a number of new procedures for the promotion of export to increase India’s share in the global markets, and given emphasis on exports of agriculture, handicrafts, handlooms, gems and jewellery, leather goods, Marine sectors, sports goods and service sectors etc. Various measures projected to practical simplification of foreign trade and enhancement in infrastructure related exports would be promoted. This policy also supports technical upgradation by providing duty free imports of capital goods and technology, for the diversification of exports to new markets. Although this policy did not reflect major differences from earlier five year EXIM policy 2004-09, but focus was on making Indian export comprehensive, competitive and promoting economic growth through foreign trade.

Features of trade policy 2009-14

- Increased support for market and product diversification.
- Technical upgradation.
- Export promotion capital goods (EPCG) scheme relaxation.
- Support for green products and products from north-east.
- Stability/continuity of the foreign trade policy.

Objectives of new foreign trade policy 2009-2014

- To control and overturn the declining progress in export and provide additional support to such sectors which have been hit badly by the then financial crisis in developed world. This was the short term policy objective of this trade policy.
- To strive to achieve an annual export growth of 15 per cent for first the two years with an annual export target of US$ 200 billion up to March 2011.

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60 op. cit no. 56
• To strive and achieve an annual growth of 25 per cent during the remaining period of the policy, i.e., up to 2014.
• To double India’s share of export of goods and services in global exports from the 2009 level of 1.64 per cent by 2014.
• To use international trade as a device of economic growth.
• To generate more employment by focusing on employment oriented sectors.
• To simplify the procedures, outline and documents of international trade.
• To smooth the progress of technological and infrastructural upgradation of all the sectors of Indian economy by unproblematic import of capital goods and technology.
• To set up towns of export excellence in the country.
• To strive to double India’s share in global trade by 2020. This is the long term policy objective of this trade policy\(^\text{62}\).

**Strategy of foreign trade policy 2009-14**

To achieve the declared objectives of new foreign trade policy the strategy of the Government of India includes the following.

• Fiscal incentives to the exporters and importers in term of tax concession, reduction of restriction etc.
• Modification in the institutional arrangement for the exporters and importers. It involves each and every structural change that helps in increasing the flow of goods and services worldwide.
• Rationalization of procedures for the exports and imports for easy movement of goods and services between India and other partner countries.
• Enhancement of open market of different goods and services. That is increase in number of importable goods and services.
• Diversification of export markets to increase our market share in particular country with respect to specific goods and services

\(^{62}\) op.cit no. 39, pp 370-80.
The new Foreign Trade Policy 2009-2014 has different schemes for elevation of exports and growing new markets. Some of the policies are categorized below:\textsuperscript{63}

I. **Facilities for Agriculture and Village Industry**

Since India’s agriculture sector has the capability of generating employment and rural area’s development. A special package has been declared in support of agriculture sector under new trade policy 2009-2014.

- Vishesh Krishi Upaj and Gram Udyog Yojana have been further improved to support export of agriculture goods, Gram Udyog products and forest based product.
- Capital goods imports for packaging, transportation and storage of agriculture goods will be liberalized.
- Agri-Export Zone set up in the early EXIM policy will be further strengthened. Special tax concessions and incentives are provided to these Agri-Export Zone.
- Agriculture inputs import of for instance planting material, pesticides, seeds, has been further liberalized.
- The limit of designated towns of export excellence has been reduced to ₹150 crore for agriculture export.

II. **Facilities for Handlooms and Handicraft Sectors**

- Additional funds have been allocated for market deployment assistance (MDA) and market access initiative (MAI) scheme to support exports of handicraft and handlooms.
- The limit of designated town of export excellence has been reduced from ₹250 crore to ₹150 crore by any town in a year. It will get the status of town of export excellence and hence will get special back up from Government of India in the form of infrastructure enhancement, liberalized import of capital goods and inputs for manufactured goods.
- Machinery and equipment for waste treatment have been exempted from custom duty for handicraft and handloom sector.

\textsuperscript{63} op. cit 55, pp 367-72.
• All exports of handicraft items will be treated as special focus products and are entitled to benefit under special focus product scheme.

• Sports goods and toy export will be permitted.

• Status holder exports having exports of ₹ 15 crore or more in a year will be entitled to particular concession.

III. Facility for Gem and Jewellery Industry:

• Exporters of gems and jewelry can import/procure duty free input for manufacturing jewelry such as gold, silver, platinum, rough gems, precious and semi precious stones, unprocessed pearls, diamonds etc.

• Special efforts will be made to create India international trading hub for diamond.

• To support gems and jewelry products exports, the value limits of personal carriage have been increased from US $ 2 million to US $ 5 million for participation in overseas exhibition.

• Jewelry parcels up to US $ 75000 can be exported through foreign post office also.

• Import of commercial samples of jewelry up to ₹ 3, 00,000 will be exempted from tax.

• Time limit of 60 days for re-import of exported gems and jewelry items for participation in exhibitions has been extended to 90 days in case of USA.

IV. Facilities for Leather Goods and Footwear

• Tax free import entitlement up to 3 per cent of value of exports of leather goods is permitted. It means the traders can import 3 per cent of these products and these imports will be exempted from customs duty.

• Machinery and equipment for effluent treatment plants will be exempted from custom duty.

• Leather goods will be treated as special focus products and will be entitled to reimbursement under focus product scheme.
Re-export of unsold imported raw hides, skin and semi-finished leather will be permitted on payment of 50 per cent of appropriate export duty.

V. Incentives for Marine Sectors:

- Marine goods will get all concession as are specified in Vishesh Krishi and Gram Udyog.
- Under export promotion capital goods (EPCG) scheme, fishing sectors has been exempted from export obligation.

VI. Special Scheme for Export Promotion:

- Vishesh Krishi Upaj and Gram Udyog Yojna: This scheme was initiated in the earlier EXIM Policy 2004-2009. This scheme has been further intensifying. This scheme plans at promoting exports of agriculture products, forest based products, Gram Udyog products and other products as notified from time to time. In this scheme, exporter is allowed duty free import up to 5 per cent of this exports. On the exports of flowers, fruits, vegetables, additional duty credit to 2 per cent of export allowed over and above the general rate of 5 per cent is levied under this scheme.

- Focus Market Scheme: This scheme was introduced in the earlier EXIM policy 2004-2009. This scheme aims at finding new international markets for Indian goods. Because of low demand in developed nations. The new foreign trade policy focuses on Indian exports diversification to market located in, Africa, Latin America and part of the Asia. In the new scheme policy, 26 new markets have been added under focus market scheme; these include 16 new markets in Latin America and 10 in Asia- Oceania. The duty credit incentives offered under this scheme have been raised from 2.5 per cent to 3 per cent of total exports turnover.

Market diversification under focus market scheme

The objective of the scheme is to correct high freight cost and other externalities to choose global markets with a view to boost up India’s export competitiveness in these nations. This policy highlights continuous diversification of
Indian exports towards other markets, principally those situated in Latin America, Africa, parts of Asia and Oceania.

To attain diversification of Indian exports, following programme have been devised under this scheme.

- New 26 countries have been added within the range of Focus Market Scheme.
- The incentives offered under Focus Market Scheme have been enhanced from 2.5 Per cent to 3 per cent.
- There has been a substantial increase in the expenditure under ‘Market Linked Focus Product Scheme’ with the inclusion of supplementary markets and products. This ensures backing for exports to entire African countries as well as Latin America\(^{64}\).
- Market linked focus product scheme: It is a combination of focus product schemes. It is applicable on 153 specific items. Of these 13 are exported to specific markets. Duty credit of 2 per cent of total export turnover is provided under this scheme. Served from India: To give a boost to the service of India in the foreign markets, a special brand ‘served from India’ has been promoted world over. The individual service providers, who earn foreign exchange reserves of at least ₹ 5 lakhs in a year, can apply to Government of India for using this brand name. The Government of India has reserved the right to identify the type of service entitled for this brand, i.e. Government can give the permission to any service provider to use this brand name or cancel the permission.
- Advance authorization scheme: under this scheme, duty free imports are permitted. Which are used in manufacturing of exports goods or intermediate goods for export items. If export unit adheres to 15 per cent value addition norms then it will be entitled to advanced authorization for duty free imports of inputs. Value addition means difference in the value of output and input.

### VII. Developing Export Infrastructure

Assistance will be provided to state Government for developing export infrastructure. It aims at making new export promotion industrial park and promoting

\(^{64}\) R Muthuraj, "Foreign Trade Policy," *Yojana*, February 2012.
facilities in the existing parks/zone. It aims at constructing roads, for linking
production centres with ports, setting up container freight stations, common waste
treatment plants etc.

VIII. Market Access Initiatives (MAI)

Financial assistance is provided for export promotion activities under Market
access initiatives scheme. These include conducting market studies/ surveys in the
foreign countries. Participation in international trade fairs, brands Promotion in other
countries, assistance for checking dumping etc.

Export Promotion Capital Goods (EPCG) Scheme: This scheme is mainly of two types:

- Zero duty EPCG Scheme: It permits import of capital goods at zero per cent
custom duty with the condition that an export obligation equivalent to six times
duty saved on capital goods imported under this scheme. This export
obligation is to be fulfilled for six years. This scheme is applicable on engineering
goods, electronic products, chemical, textiles, handicrafts and leather goods.

- 3 per cent Duty EPCG Scheme: It permits the import of capital goods at 3 per
cent custom duty with the condition of an export obligation equivalent to eight
times duty saved on capital goods imported under this scheme. This export
obligation is to be fulfilled in eight years. This scheme is applicable on those
capital goods which do not fall under duty EPCG scheme.

IX. Export Oriented Units (EOUS). Electronic Hardware Park
(EHTPS), Software Technology Parks (STPS) And Bio-
Technology Parks (BTPS):

This unit which undertakes to export their entire production may be setup in
EOUs, EHTPs, STPs, and BTPs. Trading units are not covered under this scheme.
These units can import all types of capital goods including capital goods required for
their activities without payment of any custom duty. The units set up as EOUs or set
up in any of the above forms are entitled for following concessions:

- Reimbursement of Central Sales Tax (CST).
• Exemption from payment of excise duty.
• Refund of service tax paid.
• Exemption from payment of income tax till March 2011.
• Exemption from industrial licensing.
• Export proceeds for such units can be realized within 12 months; whereas, for other units, this time period is 6 months.
• These units are not required to furnish bank guarantee for imports provided their annual turnover is more than ₹ 5 Crore.

X. **Additional Facilities to Special Economic Zone (SEZs)**

The special economic zones established to boost export from these areas will be further strengthened. In these zones infrastructure of quality will be setup. Units setup in SEZs will continue to get income tax concession, custom and excise duties, exemption. Etc. This special economic zone bill was approved by parliament in June 2005. So far 350 SEZs have been notified by the Government, out of these 105 SEZs had become fully operational by 31st December 2009.

XI. **Free Trade and Warehousing Zones (FTWZs) Reinforcement**

Government of India initiated a scheme named free trade and warehousing zones in EXIM Policy 2004-2009. This scheme was planned to make India a global trading centre. 100 per cent FDI (Foreign Direct Investment) is allowed for setting up these warehousing zones. Each zone shall have a minimum outlay of ₹ 100 crore and build-up area of 5 lakh square meters. In these zones, there is freedom to carry-out import and export transactions. These zones qualify for all benefits offered to special economic zones. Under this scheme an Indian trader can buy goods from any country, store them in a warehouse in FTWZs and sell these goods to buyers anywhere in the world. In these zones, import and export will be duty free. The new foreign trade policy aims at strengthening FTWZs. By establishing these free trade and warehousing zones the image of India will improve at the international level. It will give a boost to India’s foreign trade.

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XII. **Procedural Simplification**

- The number of returns and forms used in foreign trade has been reduced and these forms have been simplified.
- For the speedy redressal of grievances, a new mechanism for grievance – redressal has been formulated. It will substantially reduce litigation time of exporters and importers.
- The percentage of physical examination of export cargo has been reduced to less than 10 per cent to build trust among exporters, i.e. only up to 10 per cent of goods meant for export will be physically examined.
- Online verification of documents under various export promotion schemes has been started.
- Fee for obtaining exporter-importer code number has been reduced.
- A single set of common form called “Aayaat Niryaat” form has been launched. This form can be used for both exports and imports.

XIII. **Other Provisions**

- Duty entitlement pass book scheme launched in the previous EXIM policy was extended till 31\textsuperscript{st} December, 2010.
- Market Development Assistance (MDA) is provided to exporters for developing markets in the nations covered under ‘focus market scheme. Under this scheme, financial assistance is provided for attending international trade fairs, seminars, conferences etc.
- Duty free import Authorization scheme launched in the previous EXIM Policy has been continued in the new EXIM Policy also.
- Import of second hand capital goods has been permitted without age-restrictions, i.e., old machine can be imported irrespective of age of the machine.
- Status holder exporters i.e., exporters who have exports of ₹ 15 crore or more in a year, will be entitled to duty credit of 1 per cent of exports made during the year 2009-10 and 2010-11. These exporters will also be entitled to incentives
and concessions provided to them under earlier EXIM Policy. Approximately 60 per cent of India’s goods exports are contributed by status holder exporters.\(^{66}\)

### 2.13 The WTO and Indian Trade Policy

The Indian future trade policy is bound to be determined by the obligations arising from membership of the World Trade Organization. India has most of its foreign trade with those countries who have obtained membership of WTO. India’s Tariff, non tariff, subsidies and other economic policies are indirectly determined by World Trade Organization.

#### 2.13.1 GATT Connections with WTO

The General Agreement on Tariff And Trade (GATT) came into existence in 1948 in Geneva with the objectives facilitating free trade in order to encourage growth and development of all the member countries. The main purpose of GATT was to ensure the competition in commodity trade through the removal or reduction of trade barriers.\(^{67}\). The Uruguay round of GATT (1986-93) gave the birth to World Trade Organization. The members of the GATT signed an agreement of Uruguay round in April 1994 in Morocco for establishing a new trade organization named World Trade Organization (WTO).\(^{68}\) From 1\(^{st}\) January, 1995 GATT was replaced by WTO under the Marrakech agreement. The World Trade Organization holds a great promise for the entire world economy in respect of international trade. The WTO is the legal institution of the multilateral trading system which deals with regulation of trade issues between participating countries. The ministerial conference is the chief decision making body of the WTO. For ministerial conference it is mandatory to have a meeting at least every two years. The key functions of WTO are to manage the WTO trade settlement and provide opportunities for the trade negotiations. It is also responsible for handling trade dispute settlement procedures, monitoring national trade policies and cooperation with other international organization like IMF and World Bank. It is in order to achieve greater homogeneity in spheric economic policy preparation. The WTO aims to encourage development and economic reform among the member countries with economic transition participating in the

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66 Ibid
68 Ibid
international trading system. The WTO agreement picks out the need to protect the
environment and encourage sustainable development.

2.13.2 WTO and India’s Trade Strategy

International trade and WTO, by and large have become synonymous. Currently, the WTO has 160 members, accounting for more than 90 per cent of the world trade, covering both goods and services. India has been a founding member of both GATT and WTO. After the establishment of WTO, India’s trade policies have changed periodically at par with the WTO’s guidelines and directions. India’s future trade is bound to be determined by the obligations arising from India’s membership of WTO. During, April 2011 Trade Policy Review Body (TPRB) of the WTO attempted the assessment of India’s Trade Policy. Prior to this the assessments of India’s Trade Policy by the apex body on world trade took place in 2006-07. Yet, with the limitation of the GATT to WTO, the latest review by the TPRB also took account of the “new areas” of service trade and trade associated with intellectual property rights. Due to its strategic importance, India takes it seriously to maintain protection and provides this sector greater tariff protection than others. The TPRB has brought up precipitous tariff simplifications undertaken by India between 2006-07 and 2010-11. The simple average of MNFs (Multinational Firms) tariff rates has been reduced to 12 per cent in 2010-11 from 15.1 per cent in 2006-07. This is observed in the line of both agricultural and industrial average tariffs, because of India’s shift towards lower tariffs. But, average tariff protection on agriculture (33.2 per cent) remains much higher than on manufactured goods (8.9 per cent). Further, India's WTO bound tariff levels have been prevailing at higher than the applied rates, especially for many agricultural products. These gaps have forced the Indian Government to modify tariff rates in response to domestic and international market conditions. India also maintains the price support system for basic commodities with other agricultural support programmes at the central and state levels. Imports to India may also face non-tariff barriers including prohibitions, licences, and restrictions, as well as packaging, quality, and sanitary requirements. Import restrictions may also be applied on grounds of, health, safety, moral and security reasons, and for self-sufficiency.

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However, the TPRB remarked that since the preceding review, India had completed significant process in the reduction of non tariff barriers as well. Thus India’s free economic policy principally assorted to support the Indian economy with international economies.  

2.13.3 Advantage Of India’s Trade Policy Under WTO

India’s trade negotiators under WTO have played a prominent role in shaping the outline of the multilateral trading system as it exists today. Some of the significant advantages apparent to accrue to India by WTO agreements are as follows:

- **Increase in Foreign Trade**: Being a member of WTO, India has trade relations with 152 countries. WTO continued to help India in its foreign trade development through the special and differential treatment provisions by permitting the developed countries to treat India more favourably than the other WTO members. It has helped in reducing tariff and non tariff barriers and this has resulted in advantage for India in several markets. Consequently, India’s global trade in goods as well as in services is growing at a very fast rate.

- **Increase in Agriculture Exports**: As a result of reduction in subsidies on agriculture goods given by developing countries demand for variety of Indian food grains will rise in international markets. It will bear opportunity for India to boost up agricultural products exports. WTO has recommended a cut in custom duties and reduction in import limits on agricultural products. It will also promote agriculture exports from India significantly.

- **Decrease in Inflow of Foreign Investment**: as per TRIMs government has removed all the barriers to foreign investment. It has attracted foreign investment in India. Many MNCs have setup their branches in India like Sony LG, Samsung, etc. It has improved the level of investments in the economy with increased investments and employment generation.

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70 WTO Review in India: TPRBs; September,2011; p57.
• **Improvement in services:** By including trade in services sector under WTO proposals, developing countries like India stand to gain. According to WTO, developing countries ascertain massive amount of trade and services like business outsourcing, banking, insurance, information technology, hotel and transport etc. despite allowing MNCs to setup their service establishment in the country. Conversely, healthier services will be accessible in India and on the other hand, millions of Indian unemployed youth will get sufficient employment opportunities. It will check India’s immigration to overseas countries due to enhanced employment opportunities within the country and may also resolve the problem of brain drain\(^\text{72}\).

2.13.4 Disadvantage of India’s Trade Policy Under WTO

WTO is a strong advocate for India’s multilateral trading system. India’s trade policy under WTO has played a prominent role in shaping India’s trade with the world. But India’s trade policies under WTO negotiations has some disadvantages also. Some of the disadvantages are:

- **Disadvantages of Agriculture Sector:** It has been doubted that by including agriculture in WTO, Indian farmers would become hostage dependent on multinational companies for improved seeds and agriculture technology. Farmers would have to pay huge amounts to MNCs for branded seeds, fertilizers and pesticides. Also, only farmers would be able to take advantage of costly farm technology. The eventual effect of all this would be that small farmers, who are large in number, would be forced to sell their land. This would be further aggravating the problem of employment in rural sector. This would harm the Indian agriculture.

- **Loss of Domestic Industries:** According to WTO agreement, India would not impose any restriction on foreign investment. Multinational Corporation would have a free entry in the Indian markets. This would adversely affect the domestic industry, as the domestic industry would not be able to compete with MNCs. The small scale sector will be worst hit as it has poor marketing and

technological capabilities in comparison to MNCs. As a consequence domestic producers will be outcompeted of their own markets.

- **Effects on Prices**: If patents for common products, like medicine, foods grain, chemical etc. are recognised, then developing countries like India would have to pay very large royalty to the patent holders. It would result in price rise. Indian pharmaceutical industry is expected to be hit hard by patent agreements.

- **Loss of the Regional Groupings**: With the promotion of multilateral trade, the regional groupings e.g, SAARC, NAFTA, ASEAN, etc have declined in their importance. Regional groups promote trade at regional level within a few countries, whereas WTO Promotes trade among all the nations. So the role of regional grouping has reduced.

- **Impact on Employment**: WTO stands for the free flow of imports of goods in developing countries. MNCs use capital intensive technique of production which creates less employment opportunities. Moreover, because of the liberal imports, domestic production in developing countries is expected to decline. Less production activity would eventually result in less employment opportunities.

2.14 India’s Trade Policy Towards Iraq

Indian trade policy towards Iraq has been with the long term perspectives. Prior to 1990-91 Gulf crises, Iraq was one of the friendliest countries in west Asia for India. India had very considerable share in commodity import of Iraq. Indian companies like BHEL, IRCON and others had very significant presence in Iraq. Indian immigrant workers were also present in a significant size in Iraq. The gulf war between Iraq and United States and its allies posed a difficult choice for Indian policy makers. Their economic interests and end of the cold war were pushing them toward closer United States. However, sanctions imposed by United Nations resulted in loss of Iraqi markets to Indian exporters, loss of contracts for the Indian companies and stoppage of worker’s remittances inflow to India. Consequently economic sanctions on Iraq and its economic strangulation resulted in substantial

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losses to Indian economy as well, a loss which would be very difficult to be compensated. By the time of US intervention in Iraq in 2003, ties with the United States had become a pillar of Indian foreign policy. However, India cannot neglect Iraq who will always remain in her vicinity. In addition to goodwill of Iraqi people, Iraq’s oil wealth and Iraq’s needs for Indian goods, services and personnel will remain key factors in Indo-Iraq relations for an immeasurable period of time. For reasons of real politics and also of moral-legal standards in international affairs, India cannot afford to be regarded as a staunch supporter of the continuing US violation of Iraqi sovereignty.

During the new regime India’s economic interests in Iraq have been restored slowly. Bilateral trade under oil for food programme was approximated at $1 billion and state owned ONGC had signed agreement of exploration in southern oil field. As Iraq shaped new Government, India re-established economic ties with Iraq. In the post Saddam regime, multibillion dollar contracts for the Iraqi reconstruction have principally been awarded to American companies. The residual was awarded to American Allies. Iraq has again become major oil supplier, accounting for about 9 per cent of India’s oil imports in 2006-07. Two Indian oil companies, the public sector ONGC and the Reliance remained active in Iraq’s oil sector after the U.S. intervention. The Indian companies were expected to get subcontracts essentially because of their practice and exposure in Iraq and their charges being much lower than the charges of their counter parts from other countries. India’s expatriate population in Iraq, once substantial, has diminished to virtually nothing. In response to the escalating, the Indian Government in 2005 banned agents hiring people for Iraq. The damage to Indian business and remittances in Iraq during the period of UN sanctions in Iraq and subsequently has been enormous. Foreign Minister Salman Khurshid’s visit to Baghdad on 19-20 June 2013 has been an attempt to revive venerable ties of friendship with Iraq. As the National Democratic Alliance (NDA) Government in India repudiated to accept President Bush’s pressure to send Indian troops to north Iraq. India had separated itself from the U.S.-backed democratic experiment in Iraq. The hijacking of Indian truck drivers in 2005 in Iraq put on clutch any feelings of Indian companies playing a role in the reconstruction of Iraq devastated by wars.

would be insignificant, but possibly correct, to say that the principal aim of former India’s Minister of External Affairs Salman Khurshid’s visit was to appear for crude oil supplies settlement. Iraq and Iran supplied major portion of India’s oil needs prior to 1980. Iraq supplied 24.5 million tons in 2013, becoming India’s second largest supplier after Saudi Arabia. Although, India curtailed oil imports, to eight per cent since 2010 from Iran because of UN sanctions. Iraq’s Maliki Government’s approach shows that India is considered as non-polarizing factor in Iraq’s foreign trade policy and India’s relations go beyond oil. The two countries now have to re-establish on the mutuality of their interests in the region and the world. A come back to the pre-1980 position is an objective to work towards for the benefit of both countries. But the contemporary scenario has been different. Iraq’s total dependence on its oil revenues, the deficiency of an agreement between the provincial Kurdistan Government and Iraqi central Government on oil royalties and contracts, and the Iraqi Government’s persistence on re-examining all oil exploration contracts to production-sharing contracts, have been a limitation on India’s existing and new contracts, including OVL’s Block No. 8 and Tuba contracts, and Reliance’s contract in Iraqi Kurdistan. The 17th meeting of the India-Iraq Joint Commission in July 2013 was likely to boost economic engagement through joint venture in the hydrocarbon sector, and partnership in downstream and fertilizer projects. It would provide a boost to acknowledged projects in water resources, pharmaceuticals, education Medicare, agriculture, and IT. India and Iraq share universal regional concerns on the volatile situations in Syria, Iran, Egypt and Turkey, as well as on Palestine. In the centre of partial sectarian conflicts, the Iraqi Government’s participation in the Syrian civil war, Iran’s significant influence on the Iraqi Government, and Maliki’s oppressive tendencies, did negatively influence the stability of the Iraqi Government. Iraq’s relations with the GCC countries have not been very cordial. However, India’s relations with the GCC have become very closer in the preceding decade.

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76 Rajendra M Abhyankar, "India finally reconnects with Iraq." June 28, 2013.
This chapter can be summed up to claim that it examines the policies of Indian government regarding its economic and foreign trade policies. The discussions in this chapter reveals that each and every nation of the world has their own economic and trade policies for their protection, stability and prosperity. Foreign economic policy of any country is that component of government policy which monitors and formulates its economic dealings with the rest of the world. This contributes substantially to the economic welfare of the people and utilisation of the resources. In the contemporary world, India has been a strong votary of the multilateral trading system and trade policy is considered as a device to achieve its overall economic policy objectives of growth, industrialization, development, and self-sufficiency and containing inflation. However, India's trade policy objectives are clearly stated in its Foreign Trade Policy and such schemes may contribute to the complexity of India's trade. The main objective of India’s International Trade Policy has been to protect its market from International competitiveness and encourage their exports. An important view of this shift is the change in India’s economic cooperation with global market. These proficient changes in economic policy have occurred at a time when global economic and political dealings have also been restored significantly. From the comprehensive study of this chapter it is found that prior to independence, India did not have clear trade policy, though a few import restrictions were adopted since 1923 to protect selected domestic industries against foreign competitors. After independence, the import policy had been usually defensive during 1947-1952. During 1952-57, India’s liberalized foreign trade policy attempt was made to promote exports by liberating import controls. This liberalization policy increased the import but exports did not increase significantly. Although, self-protective import and strong export promotion was drive of the India’s trade policy during 1956-1966. With the devaluation of Indian rupee in 1966, India’s trade policy attempted to develop exports and liberalized import excessively up to 1990. In the post globalisation period, international trade policy has covered essential changes to correct the prior anti export unfairness. Exports and imports development has sprung up and the contribution of foreign trade to GDP has increased. Yet, during this stage import growth rate has been higher than export growth rate. Therefore, the Government’s policy has been more positive to export promotion strategy. However, a lot of pro-export policies have been in progress after liberalization. India’s liberalised trade policy after 1990 focused on
openness, transparency and globalisation. It has been characterized by a number of duty remissions and exemption schemes. These are implemented to facilitate exports. Tax holidays are also provided to investors through export processing zones and export oriented units. But the export promotion measures and improving competitiveness could not be fully successful and adverse balance of payment remains till date.