

Committee on Export Strategy 1980's

FINAL REPORT—
DECEMBER 1980

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Ministry of Commerce
Government of India
New Delhi

COMMITTEE ON EXPORT STRATEGY

1980's

Appointed by the
Ministry of Commerce, Government of India

Interim Report — May 1980

Final Report — December 1980

New Delhi

C O N T E N T S

	Page
Chapter 1	1
2	5
3	47
4	63
5.	90
6	99
7	108
8	114
9	118
10	121
11	124
12	140
13	146
14	151
15	156
16	158
17	162
18	169
19	178

A P P E N D I C E S

Appendix 1	202
2	229
i.	
ii.	
iii.	
iv.	
3	295
4	303
5	310
6	313

CHAPTER 1

THE COMMITTEE - MEMBERSHIP AND TERMS OF REFERENCE

This Committee was constituted by Government of India, Ministry of Commerce, Civil Supplies & Cooperation (Department of Commerce) vide Resolution No. 4(23)79-EPL dated 28th June 1979 which reads as follows:

"During the last two years, Government have endeavoured to give a new orientation to India's foreign policies, recognising that exports have a vital role to play in the achievement of our development objectives and that export expansion on a stable and long-term basis is of immense important to the national economy. In the context of current developments in the international economy and especially the new complexities that are emerging in the world trading environment, it has become necessary to undertake an in-depth study of the future Indian export strategy. Accordingly, it has been decided to set up a Committee as follows to undertake this study and formulate long-term strategy as well as perspective plan for India's exports for the coming decade of 1980s."

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| 1. Prakash Tandon, Director General,
National Council of Applied
Economic Research, New Delhi. | Chairman |
| 2. GVK Rao, Member, Planning Commission,
New Delhi. | Member |
| 3. KS Krishnaswamy, Deputy Governor,
Reserve Bank of India, Bombay | Member |
| 4. Mantosh Sondhi, Secretary, Depart-
ment of Steel, Government of India,
New Delhi. | Member |
| 5. Romesh Bhandari, Additional
Secretary, Ministry of External
Affairs, Government of India,
New Delhi. | Member |

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| 6. Rahul Bajaj, President,
Association of Indian
Engineering Industry, New
Delhi. | Member |
| 7. DK Rangnekar, Editor, Business
Standard, Calcutta. | Member |
| 8. Amit Bhaduri, Professor, Centre
of Economic Studies and Planning,
Jawaharlal Nehru University,
New Delhi. | Member |
| 9. Mahendra G. Mehta, Chairman, Gem &
Jewellery, EPC, Bombay. | Member |
| 10. NCB Nath, Chairman, Ganesh Flour
Mills Co. Ltd., New Delhi. | Member |
| 11. Brij Nehru, Managing Director,
Tata Exports, Bombay. | Member |
| 12. A Hafeezur-Rahman, South East
Trading Co., Madras | Member Resigned
December 1980 |
| 13. Vijay L Kelkar, Economic Adviser,
Department of Commerce, Govern-
ment of India, New Delhi. | Member Secretary |

The terms of reference of the Committee will be as follows:

- (a) To work out scenarios for the developments in the world economy over the next decade.
- (b) To formulate export strategy including identification of dynamic export markets and commodities.
- (c) To recommend a suitable framework of national policies and steps required for creating an adequate production base and surplus for export in both manufacturing and agricultural sectors.

- (d) To recommend measures for developing the required institutional and physical infrastructure for effective export promotion and international marketing.
- (e) To recommend measures for strengthening the role of public sector in country's export drive.
- (f) To review the Export Policy Resolution and to suggest amendments thereto.

The Committee may consider, if necessary, any other aspect related to the above terms of reference.

The Committee will submit its report within a period of 12 months."

Following members were added to the Committee by the Government subsequently.

1. VP Punj, Chairman, Engineering Export Promotion Council, New Delhi.
2. RK Singh, Executive Director, Engineering Export Promotion Council, New Delhi.
3. Montek Singh Ahluwalia, Economic Adviser, Department of Economic Affairs, Ministry of Finance, New Delhi.
4. Rear Admiral Krishan Dev, Managing Director, Shipping Corporation of India, Bombay.

The Committee appointed sub-committees on the following subjects.

Banking and Infrastructure

Chairman: KS Krishnaswamy
 Members: Romesh Bhandari, Krishan Dev, Brij Nehru, Amit Bhaduri and Mahendra G Mehta.

Agriculture Exports

Chairman: GVK Rao
 Members: A Hafeezur-Rahman and NCB Nath.

Industry Exports

Chairman: Mantosh Sondhi
Members: DK Rangnekar, Brij Nehru, VP Punj,
RK Singh and VL Kelkar.

Economic Issues of Exports

Chairman: KS Krishnaswamy
Members: Montek S Ahluwalia, DC Rao,
VL Kelkar, DK Rangnekar,
Amit Bhaduri and NCB Nath.

Maritime Infrastructure

Rear Admiral Krishan Dev.

The Committee expresses its special thanks for the valuable help it received from V Agnihotri, ML Kapoor, ML Nayyar, MP Saxena and SK Mathur in the Ministry of Commerce; and MV Divatia and DP Bhatia of National Council of Applied Economic Research.

CHAPTER 2

RECOMMENDATIONS

Our recommendations are of three kinds.

- A few, the first to the fourth, are culled from the Export Policy Resolution 1970, because they are equally relevant and congenial today; in fact Government's recent announcements on Export Policy underline them.
- Some recommendations are general in nature; their acceptance would help to reorient policy, and action would follow later.
- Other recommendations, if they are acceptable would lead to now.

It is not easy to separate the second from the third perhaps we might illustrate the distinction with reference to technology policy. While our recommendation for freer import of technology for export production is meant for action now, the recommended reappraisal of what is appropriate technology is meant for policy consideration and its reorientation.

1. Export Production Capacity (Interim Report)

A steady increase in export earnings is dependent on the continuous development and expansion of export-oriented production.

- i. Our industrial policy will consequently be guided not only by internal requirements but also by the rising demand for our industrial products in overseas markets. Recent changes in industrial licensing policy provide facilities for fostering the creation of new export capacity. In implementing it, the aim will be to generate expanding surpluses of industrial products.
- ii. The main responsibility, for the task of further improving their (Indian industries) competitive ability naturally rests with producing units. Government will, however, provide the necessary assistance to build up efficient production.

2. Exporters' Access to Materials (Chapter 4)

It is essential to ensure that exporters have adequate access to raw materials and components of acceptable quality of international prices. Import control and the resulting non-availability of the high cost and poor quality of domestically available substitutes, puts exporters at a disadvantage in the highly competitive international markets. The present import policy falls short of this objective. There is scope for further extending some aspects of the present liberal policy for exporters, especially as far as the coverage and procedures of the duty exemption scheme are concerned and also the access to banned items and capital goods. Furthermore the policy must be kept under continuous review to ensure that any changes in the overall import policy implemented for Balance of Payments reasons do not lead to a deterioration in the position of exporters.

3. Exports Profitability (Chapter 4)

It is indeed essential to recognise that even if we create the technical and institutional conditions in which exportable goods of the required quality can be produced, exports will not take place if exports are less profitable than domestic sales. Export profitability is lowered by (a) undue bias towards import substitution in trade policy (b) higher relative rates of inflation compared to inflation abroad and (c) an inappropriate exchange rate. An effective export strategy must counter all these biases. It must ensure that over time the bias towards import substitution is progressively reduced and in the interim these disadvantages must be compensated. Macro-economic policy should ensure that aggregate demand pressures are contained within the potential for supply so that inflation rates are held down. Finally the exchange rate facing exporters must not be allowed to become unfavourable.

4. 100% Export-oriented Units (Chapter 4)

The export strategy for the eighties should not be based on the principle of limiting concessions offered only to 100% export-oriented units. There scope for these units and we endorse the concept

of extending to them privileges normally available only in Free Trade Zones. However, entrepreneurs cannot be expected to build up an export trade on the basis of exclusive reliance upon the export market. The system of incentives should extend to units in which exports are only a part of total activity.

5. "Stop-go" Exports (Chapter 6)

"Stop-go" exports are considered abroad as causing much avoidable damage to the Indian export effort, one which can be avoided through

- A careful planning of supplies- where possible through buffer stocks - in the case of a new product and some sacrifice by domestic consumer in an unforeseen shortage; and
- A permissiveness towards the importers with valid contracts for fortuitous gains.

6. Delivery and Quality (Chapter 6)

- i. A reputable exporter, with an established record, should be allowed self-inspection, while others should compulsorily obtain a bank guarantee or give a financial bond to the concerned Export Promotion Council. In case of default the punishment should be exemplary and the party should be removed from the category of self-inspection.
- ii. Consideration should be given of cash incentive say an additional 10% to the normal assistance, to be handed over when the contract is complete, and the exporter submits an acceptance from the importer, a no-claim statement that the delivery and quality were according to the contract terms, no extension of LC. At the present level of cash assistance of Rs.300 crores, an additional 10%, Rs.30 crores should be an incentive worth trying. At the same time existing penalty rules should be enforced vigorously.

(A point of view was placed in the Committee that an incentive may have a negative implication of rewarding for something which in any case is the fundamental duty, moral or legal, of an exporter. On the other hand, as quality enforcement has not worked successfully and complaints are prevalent everywhere; at least on

an experimental basis; the Committee's recommendation may be tried to see if a nutritive instead of punitive measure, will produce better results).

7. Packaging (Chapter 6)

We should invite some competent packaging materials firms, from India and abroad, to develop and modernise appropriate packaging of international standards in quality, strength and cost.

8. Claims (Chapter 6)

i. For small claims it should be enough to receive a declaration from the importer and exporters; for large amount some supporting evidence from our mission or a public agency, or some institution abroad, such as chamber of commerce, a superintending agency or public analysts. For claims of large magnitude we could quickly agree with the exporter and the Export Promotion Council concerned on a procedure to suit the case. The essence of the new system should be to expedite claims, with a record maintained of the incidence nature, time taken, and to separate the grain from the chaff.

ii. Reserve Bank should also examine its own procedures to ascertain whether they in any way hamper a prompt and equitable settlement of claims.

9. Procedures and Regulations (Chapter 6)

A small group may be appointed to continually monitor and to simplify and streamline procedures, and offer exporters help to solve their procedural problems, especially of the small exporters.

10. Selectivity (Chapter 6)

A practical solution to a problem that has remained unsolved for long, despite complete agreement, would be to harmonise through some franchising system, the national exporters' interests and the small exporters' who have their production and enterprise, by linking them with larger exports, who possess the requisite technical and export marketing skill. This is elaborated later under a recommendation on franchising.

11. Export Production and Industry (Interim Report)

- i. Exportable surpluses Exportable surpluses do not always arise automatically. Sometimes when there is a shortfall in production or indigenous production on an adequate scale is yet to be developed, there tends to be a temporary conflict between domestic consumption and export. Since export markets once lost, can hardly be regained, a part of the production must always be made available to earn needed foreign exchange though, if necessary, temporary restraints on home consumption.
- ii. Export Investment - In order to encourage export orientation of production, the investor must have the assurance that export policies shall be reasonably stable and that production for exports would be advantageous to the producer. To this end, export policies should enjoy a degree of stability of at least over the period of the next plan.
- iii. Export Infrastructure There are of late growing inadequacies of the existing infrastructure of shipping facilities, railways, air freight, cargo complexes power, an export-import bank (new accepted) dry ports, bonded warehouses, free zones. All these have been the subject of much discussion and enough data and suggested solutions exist, which can be examined and implemented.
 - i. Production for Exports Prior Government approval for the unit to produce more for exports should not be necessary and it would be sufficient for the unit to only notify government.
 - ii. Although it has been accepted that there should be no constraints on an industrial undertaking to produce more for export, irrespective of the licensed capacity, this has not been translated into an appropriate amendment to the Industries (Development and Regulation) Act. On 15th February, 1975, government announced that the facility of recognition of export performance and capability should be made available to licensed undertakings and such undertakings were permitted to come up for recognition of enhanced capacity on the basis of additional production established in the past or claimed prospectively. This was a clear indication of government's readiness to recognise export capability and to have it endorsed on the industrial licence; and it is recommended that government should extend this facility.

- iii. In respect FERA companies and large houses, a special procedure will have to be followed by making an application to the administrative Ministry, who will consider the proposal in a Task Force and then place it before the relevant Approval Committee. If, however, the undertaking happens to be dominant according to the current definition, an order under the MRTP Act will have to be passed.
- iv. In order to facilitate this, the application made to the administrative Ministry should be deemed to be an application under the MRTP Act and the procedure for issuing a notice etc. should be dispensed with under the powers available under Section 5(5) of the Rules.
- v. A special, favourable view should be taken about industries located within metropolitan limits and standard urban area limits that are in a position to produce for export.
 - i. Definition of a 'New Article' in the Industries R&D ACT Once an industrial undertaking is licensed for a product under a generic description, any variation of the product arising from a change in the composition or otherwise should also be deemed to be covered under the licence.
 - ii. As long as the generic description covers the variations in the products, it should be sufficient that the same industrial licence should permit manufacture of the product under different names. The entries in the First Schedule to the I (R&D) Act, if necessary, may be so broadened that against each item, any other item(s) belonging to the same class are, by and large, covered.
 - i. Public Agencies State trading agencies monopoly functions should be reconsidered, with some natural or created competition by having
 - more than one agency in the same area.
 - perhaps a joint sector in export marketing, representing, say, 40% Central government, 20% state governments, 20% export houses in private sector, and 20% perhaps to public.
 - third country and offshore linkages.

- ii. This does not preclude a role for public agencies, as pacesetters and catalysts; in fact we would wish to strengthen it, particularly in new products and new areas where they can play an important development role, whose multiplier effect would be much more than in straightforward monopoly importing and exporting.
- iii. Each public enterprise with an export potential should prepare its own export plan. These plans should be put together sectorally and totally to make an export plan for the public sector.
- iv. Linkages between trading and manufacturing, and between manufacturing firms, should be planned to ensure that there is a common effort that avoids duplication of the public agencies appearing competitively in the same area.
- v. We should seriously review the role of public sector trading infrastructure of STC, MMTC, PEC, HHEC and others to take some basic decisions on whether international trading can operate effectively in an administrative culture of multi-tiered accountability, audit and control, where eight or nine agencies, may subject the organisation repeatedly to the same checks and questions and on the same issues, over many years?
- vi. Specific export targets of public sector enterprises should be fixed by the administrative Ministries concerned in consultation with the Ministry of Commerce and Bureau of Public Sector Enterprises and the enterprises should be made responsible for fulfilling them as a part of production and corporate planning.
- vii. An export division may be set up in the Ministry of Commerce for monitoring and evaluation of exports by public sector undertakings.
- viii. Public sector enterprises should be permitted to enter into technical collaboration and increase in capacity, even if it involves further investment, in order to diversify its operations for increasing their export earnings.

ix. Greater autonomy should be given to industrial enterprises in the public sector in investment decisions, for the purpose of increasing export earnings, additional investment upto Rs. 10 crores should be allowed to be made by such enterprises without approval by the Public Investment Board.

12. Industrial Exports (Appendix 2(ii))

- i. Since February 1973, a total of 807 items were reserved for production in small scale sector. The reservation policy should not be applicable to the export-oriented units. In theory, the present policy is supposed to be flexible. However, the experience has shown that in actual implementation, there have been inordinate delays. The delays have already affected exports and have been a contributory factor in poor quality standards. Hence, it is necessary to have an expeditious system of permitting capacities in the items even if these are in the medium sector or large scale sector as long as these capacities are aimed at enlarging export production. Notwithstanding reservations for small scale sector, additional capacity should be licensed on the basis of 100% export of production, arising from such capacity.
- ii. Since September 1975, a list of 15 industries was allowed automatic expansion in registered or licensed capacity to the extent of 5% per annum or 25% in a Five Year Plan period. The list should be enlarged so as to cover all exporting units which export more than 10% of their production except in the case of MRTP and FERA companies which should be subject to task force discipline.
 1. Engineering Goods. Exports and the possibility of foreign demand should be an integral parameter for the creation of additional industrial capacity. This approach is of equal relevance to investment and project planning in public enterprises.
 - ii. Export production should be encouraged in industrial undertaking, including MRTP companies, notwithstanding the restriction in terms of licensed capacity; the licensed capacity restriction should be applicable only in relation to domestic production and distribution. The Industrial Policy Statement of July 23, 1980 has recognised the need for expansion of the existing units exclusively for export and for allowing higher production for exploiting fully the emerging export opportunities. Follow-up action to implement this, decision should be expedited.

- iii. The present facility of allowing separate endorsement for export production and capability has not been adequately publicised. This should be done and even the MRTTP Companies should be allowed to avail of the facility and necessary amendments to the MRTTP Act be brought about.
- lv. While determining the dominance of undertakings, production for export should be kept out, and for this purpose appropriate revision of the definition in the MRTTP Act should be made.
- v. The Industrial Policy Statement of July 23, 1980 envisages that where a larger production base would increase the competitiveness of Indian industry abroad, Government will consider favourably the introduction of advanced technology and will permit creation of capacity large enough to make it competitive in world markets provided substantial exports are likely. As this involves value judgement and may be difficult to implement, more liberal treatment for the import of latest technology should be extended to all exporting industries. Import of latest technology should be freely allowed for export industries wherever it is without foreign equity participation. In other words, in such cases involving no foreign equity, technology imports should be on Open General Licence.
- vi. As projects exports are going to become important for engineering exports in the 1980s, and as such exports require large financial resources, some special financing arrangements will have to be considered. Such arrangements could avail of the Euro-dollar markets where India enjoys high creditability. The proposed EXIM Bank should be equipped to meet the financial requirements of projects and services exporters adequately.
- vii. At present on all bought out items required for project exports, excise duty has to be paid for which refund can be claimed later on. This is not only a time-consuming process, but also adds to the total cost of the export project. As such, it acts as a serious constraint. Sub-Group is strongly of the view that in the case of bought out items also, the same procedure should be followed as in the case of manufacture exports wherein a bond furnished by the manufacturer exporter is accepted and payment of excise duty is to be waived.

- viii. Since our main thrust in the 80s will have to be on project exports, we will have to ensure quick and smooth transportation arrangements. Higher priority should be given in the allocation of wagons including special type of wagons required for project exports.
- ix. Urgent action should be taken to explore new markets, particularly for project exports in Africa and Asia. Our technology and experience is particularly relevant to some of the developing countries in Africa. Oil rich countries in the Middle East have thrown up unlimited opportunities in the field of construction activities and our achievements in this regard have been only marginal so far. India's participation should be both directly as well as indirectly through reputed companies of the developed countries.
- x. Public sector undertakings, including railways, producing engineering products should pay urgent attention to increase their marketing abroad particularly of heavy equipment, consultancy, turnkey jobs and construction on the basis of pooling their experience and resources.
- xi. One of the important pre-requisites for encouraging exports of engineering projects and services in an up-to-date information system. While TDA, FIEO and EEPC can continue to collect information relevant to their activities, it would be necessary to make use of organisations like MECON, EPI, NIDC, Railways, FCI and BHEL to collect the specialised data and information for heavy engineering exports, consultancy, turnkey projects, joint ventures, etc. The expenses on this account could be met from MDF.
- xii. Following the pattern of developed countries, we should encourage our consultants to take up preliminary studies free of cost to the recipient countries which are considered potentially rewarding. Indian consultancy organisations, where they feel it necessary, should be encouraged to establish links with similar organisations in advanced countries.

- xiii. Our capabilities in the field of design, consultancy and engineering should be publicised abroad by preparing a roster of top level experts and specialists, both public and private sectors, and by publishing a brochure on consultancy services obtainable in the country, with detailed reference to work done by them in India and abroad.
- xiv. Considering the comparatively small requirement of power by engineering industry, the power cuts as applicable to them should be less severe and should be applied by stipulating a ceiling on maximum demand for energy. Export-oriented engineering units who wish to set up their own generating sets should be allowed to do so with a subsidy, and they should be assured of adequate supply of diesel oil, for the operation of the generation sets for which the allocation should be made by the Central Government on the same analogy as the allocation of furnace oil for DGTD industries. This procedure could be further extended for essential inputs like coal, coke and pig iron required by exporters.
- xv. The restrictions on setting up of industrial units in the vicinity of urban areas for a population of more than 5 lakhs should be relaxed for export-oriented industries, exporting more than 10% of their production. Such units should be accorded special facilities in respect of availability of inputs, finance etc. The Industrial Policy Statement of July 23, 1980 has recognised that it would not be in public interest to permit licensing procedures or a rigid location policy to stand in the way of maximising production.
- xvi. Industrial units which export more than 25% of their production continuously over a period of three years should be allowed to import duty-free capital goods. In the case of 100% export-oriented industrial units, all imports requirements, including capital goods, raw materials and fuels, should be allowed to be imported duty free under bond, as in the case of Free Trade Zones. All licensing formalities in case of all such units should be streamlined and Ministry of Commerce should be made responsible for clearing all the licensing for these units.

- xvii. In order to enable engineering industry to launch an aggressive export drive, entrepreneurs should be encouraged through financial and other assistance for participation in exhibitions, delegations, study teams and other promotional activities. It is also necessary to ensure that all displays in the exhibitions held in foreign countries should project a total image of our manufacturing capabilities and therefore in all cases include sophisticated and high-technology items. To ensure this Ministry of Commerce might consider some assistance from Marketing Development Assistance or through similar agencies. The Sub-Group was also informed that items of display when they are reimported into this country from abroad are subjected to different levels of countervailing duties. This should be done away with.
- xviii. As new capacity for export-oriented industrial projects is hampered by rising investment costs, the Committee recommends the following fiscal concessions for encouraging investment in export production units.
- Prior to March 31, 1970, tax credit was allowed to the extent of increase in export earnings in corporate sector. This should be revived.

In the Finance Act, 1976, the scheme of development rebate and additional depreciation allowance was replaced by a scheme of investment allowance @ 25% of the cost of new plant and machinery. According to the modification effected in 1977, investment allowance in respect of machinery and plant is allowed to all small scale industrial undertakings. However in the case of other industrial undertakings it is available only in such cases where the machinery and plant installed for the purpose of construction, manufacture or production of any article except certain articles of low priorities listed in Appendix I. The appendix contains a number of articles like tobacco, electronic goods, aerated water, electric fans, furniture, sanitary-wares, glasswares, detergents, pigments and colours, etc.

which have a high export potential. New units in all such industries, which are important from the point of view of exports should be deleted from the appendix and made eligible for investment allowance.

- The Jha Committee has brought out the seriousness of cascading effects of excise duties on raw materials and intermediates on the finished products. Some method should be devised to rationalise the indirect tax structure on the export-oriented units so that they are exempted from the incidence of excise duties on raw materials and intermediates.
- To encourage joint ventures abroad, taxation of dividends received in India by Indian participants should be exempted from income tax. To take care of escalation of investment costs the Group is of the view that the current limit of allowing equity participation of Rs. 2 million in joint ventures should be raised to Rs. 5 million.

1. Electronics. A large part of the export target for electronics will have to be fulfilled by the Santa Cruz Electronics Export Processing Zone. The facilities available at the Zone are far below the facilities offered by other similar zones in the neighbouring countries. The major areas in which incentives and facilities need to be upgraded are on-the-spot delegation and centralisation of decision making authority on all matters pertaining to setting up of units such as imports production and exports. The Zonal Authority should be competent to give all clearance on-the-spot including central customs and excise matters.

As SEEPZ units have little or no domestic markets in the hinterland, where profits are high, and also the fact that the exports from the Zone do not qualify for cash compensatory support, it is necessary to extend more incentives should be in form of tax holiday, accelerated depreciation provision of

at least 30% each year, abolition of service charges, exemption from levies other than Central Customs Excise Duties such as Central & State Sales Tax, octroi and electricity duty etc. In several other directions like export credit finance, market development grants for export promotion, travel and publicity etc. the zonal units should at least be treated on par with exporting units in the hinterland. Similarly, in procurement of supplies of domestic raw materials like cement, steel communications etc. facilities should be provided to the zonal units without delay.

- ii. For increasing the exports of consumer items like radio receivers, tape recorders, cassette players, TV and public address systems, design changes should be encouraged, adequate production and testing facilities provided, and quality and technology be upgraded all along the line.
- iii. There is a large scope for promoting joint ventures in the developing countries in electronics with or without cooperation from Third Countries in the developed world. The system of clearance of joint ventures in the electronics should be entrusted to a separate board. This is necessary because of the need to have an integrated organisational approach to the growth of electronics industry, which differs from other industries in many respects.
- iv. As regards the hinterland units, although some incentives and facilities like import replenishment of components, cash compensatory support, duty drawback, packing credit are available, incentives and facilities to hinterland units should be augmented through raising of the cash compensatory support, liberal duty drawback rates, simplification of duty, free imports for committed exports, flexibility in import replenishment and additional facilities for market development and packing credit.
- v. Special arrangements should be made to ensure standardisation and quality control in the exports of electronics items. This should be done through pooling of the existing testing facilities available in the country and by making available to the industry codified reprints of standards and specifications.

- vi. For a concentrated export drive in electronics, which offers tremendous scope, there should be a distinct and separate export promotion council, consisting inter alia of representatives of the Ministry of Commerce and the Department of Electronics.
- i. Leather & Leather Goods. There should be optimal utilisation of domestic hides and skins and liberal imports should be allowed to improve availability of raw materials.
 - ii. The import of latest machines, chemicals and technology for leather should be encouraged to achieve higher unit value realisation and a quantitative shift for production of superior grade of finished leather,
 - iii. An accelerated thrust should be made to explore new markets by continuous process of identification of fast changing fashions and designs.
 - iv. In order to supplement the supply of finished leather to exporting units, the sale made by finished leather units to export-oriented units of leather manufactures should be set off against the export obligation of the former.
 - v. Liberal and concessional finance should be made available to the industry for stimulating the conversion of the industry for production of high value leather manufactures.
 - vi. In view of the high demand and prices of reptile skin and crocodile skin in Italy and other international markets, export of non-reptile skins in processed form may be allowed on a limited basis.
 - vii. The reservation of manufacture of footwear by small scale sector should not be applicable to large exporting units and export obligation may be introduced in a phased manner so as to allow such units to come up to full capacity.

viii. Export of sophisticated products like fashion shoes, leather garments, leather woollen garments, jackets, overcoats and fashion textile garments etc. should be encouraged through foreign technical collaboration and marketing arrangements. The emphasis on higher unit value items of export is necessary to circumvent the present restrictive measures which are aimed at restricting quantities and not the value of imports by developed countries.

i. Gem and Jewellery

Alternative Sources for Raw Material Availability.

Liberal treatment in imports should also be extended for import of machinery, testing apparatuses, synthetic stones etc., required for export production.

ii. Market Surveys and Research. Specific market surveys on a continuous basis should be conducted to identify market potentials for different gem and jewellery products in carefully selected markets. Some of the important markets which need to be surveyed by the professionals are the USA, Canada, Japan, Western Europe, Eastern Europe, Middle East, Hongkong, Singapore, Taiwan, Korea, Brazil, Egypt and Argentina. This should be supplemented by market research to be conducted by the professionals within the country of the production and quantity available of different products for export markets. Market orientation teams consisting of professionals and small as well as medium exporters should be sent to important overseas markets.

iii. Organising Exhibitions and Participation in Trade Fairs. India should organise jewellery exhibitions in important world markets atleast once in every three years as they have become effective instruments to project the technological development and higher standards of manufacturing achieved. The major regions suggested for such exhibitions are: the USA and Canada, Japan, West and East Europe, Middle East, South East Asia, North Africa, Latin America, Australia and New Zealand. Similarly India should annually participate in important international jewellery trade fairs.

- iv. Design Development Centre. Design Development Centres should be established to study the fashion trends prevailing in foreign countries and creating oriental designs to suit foreign buyers. A centre for development of international trading and marketing should also be set up. Jewellery Market Research and Monitoring Centres should be set up at London, New York, Tokyo and Kuwait. A National Design and Technology Institute should also be set up at Bombay or Delhi.
- v. Training Programmes. Training programmes for artisans should be organised to apprise them with the latest techniques and designs of manufacture. The ultimate aim of such a training programme should be to set up a 'Ratnalaya' in every district of the country. Such training programme should be started at five levels:
- Massive training programme for Artisans of Lapidary Crafts (Diamonds, precious stones and semi-precious stones).
 - Jewellery manufacturers' training programme.
 - Training in gemmology.
 - Apprenticeship training.
 - Upgradation of skills.

Development of a senior technical cadre is also essential to modernise the industry. No trained technical cadres are available at present. Sending 100 persons or more abroad for training in various fields of diamond cutting and polishing, pearls, precious, semi-precious stones, designing, gold jewellery etc. for a year or more would prove to be very helpful. They can, on return, change the face of the future industry and impart training to many more within the country.

- vi. Hall-marking, gem testing and diamond grading. With a view to standardise the product and to give proper boost to gold jewellery exports in particular, hall-marking institutions should be set up at Bombay, Jaipur, Delhi, Madras and Calcutta. Such hall-marking institutions should be modelled after the hall marking institutions working in England and

other European countries. Machinery and expertise for this purpose should be imported from these countries with the assistance of ITC/SIDA etc. while special techniques should be developed for Indian enamelled gold jewellery.

Gem testing laboratories on the lines of Delhi and Jaipur should be set up at various important supply centres of the country. Similarly for certification of bigger diamonds and their classification diamond grading laboratories should be set up at Bombay and Surat. Equipments and expertise for this purpose could be imported with the assistance of ITC/SIDA.

vii. Schemes for Gold and Silver Jewellery Exports.

Suitable schemes should be revived for exports of gold and silver jewellery with minimum value added stipulation and provisions for import of gold. Provision for covering the order with gold at the reigning price should be made and export should be allowed on that basis. Fluctuations in the price of raw-gold should not be an impediment for jewellery exports and the policies followed by the leading jewellery exporting countries like Italy, Spain, Hongkong, etc. should be studied in depth for implementation in India. Tremendous potential exists in metal jewellery exports with a low added value of 15 to 20% including articles, particularly for the West Asian and South East Asian markets, which should be suitably reimbursed by quantity of value whichever is higher.

Government of India Mint should evolve various modern alloys such as white gold, coloured gold and other purities (Karat contents) of gold as required by the jewellery fabrication industry.

viii. Co-ordination amongst Principal Agencies. Presently there are a number of Government agencies like the Gem and Jewellery Export Promotion Council, All India Handicrafts Board, Handloom & Handicrafts Export Corporation and the State Trading Corporation which handle the export of gem and jewellery. There is an urgent need for the demarcation of their respective areas of activity. These

activities should, however, be coordinated by one single committee of agency to put every thing in proper perspective.

- ix. Product Diversification. Incentives should be provided to the entrepreneurs for diversifying their production so as to encourage them to make use of expensive and better quality of diamonds. In case of precious and semi-precious stones caliberated production with the help of latest technique and machinery should be encouraged. Cultured pearl farming should be undertaken within the country and if necessary foreign assistance should be sought in this respect. Alloy and plating technology should be developed with respect to pure metal jewellery. For giving export orientation to our jewellery products modern equipped factories on a pilot basis should be set up.
- x. Exporting Artwares. Items like utensils, plateware, silverware, cutlery gold, and silver chains for ornamental purpose, watch straps and other ornamental articles have a tremendous potential in export markets which need to be exploited. There is also a large potential for export of synthetic stones, imitation jewellery and costume jewellery to the overseas markets.
- xi. Data Bank. A Data Bank should be set up for the trade and industry which should be like a Central Pool of information regarding raw material availability at mining countries competing countries' capability and monitoring research and developments the world over, designs etc.
- xii. Foreign Exchange Accounts. Fluctuations in exchange rates have been detrimental to exports of gem and jewellery because of high input content. This could be avoided if exporters are permitted to have foreign currency accounts.
- xiii. Import Licensing. Replenishment import licences are presently being issued on the basis of Bank certificates as produced by the exporters of their foreign exchange earned of the exported products. Procedural delays could

be minimised and such issue of REP licences can be made sooner if the Bank certificate format could be redrafted and the bank remittance received certificates in itself be made valid as an Import Licence for import remittance and customs import formalities.

- xiv. Bombay is becoming an important international procuring centre for gems and jewellery and diamonds in the Eastern Hemisphere even over Hong Kong.

Antwerp is the Western Hemisphere as the international trading centre has a turnover of \$ 6 bn annually with a large infrastructural base.

The next decade should visualise the development of International Trading Centre and Internal Market base at Bombay, buyers from world over coming to Bombay and growth of a Fem Exchange in the Eastern Hemisphere.

- i. Chemical and Chemical Products. There is large potential for increasing exports of chemicals and drugs to developing countries in Asia, Africa and South America provided more attention is paid to research and development of natural products. As regards dye stuffs and intermediates, highly developed countries like Japan, USA and Western European countries are vacating the manufacture of these items because of labour shortage and problem of pollution. The industry is labour intensive and its exports to developed countries can be pushed up on a selective basis particularly in respect of varnishes and dye intermediates.
- ii. In regard to perfumes, cosmetics and toiletries, their exports can also increase appreciably by improvement and diversification of products and research and development.
- iii. A number of items particularly rubber manufactured products (including footwear), wooden furniture and plywood, fireworks, cement tiles, refractories material and books and publications offer excellent scope for rapid expansion in exports within a short span of time provided basic raw materials are made available at international prices, improvement of quality, augmentation of infrastructural facilities and modernisation of production units.

- iv. In the case of paints and varnishes, large manufacturing units with foreign collaboration and idle capacity could be persuaded to take active interest in the development of exports, as also in the case of drugs and pharmaceutical units.
- v. In view of the large export possibilities, publishing should be declared as an industry without qualifications, trade discount should be liberalised and air cargo rates on exports of books and publications rationalised.
- vi. Items like spectacle frames, fountain pens, plastic electrical accessories, helmets etc. and linoleum have good export potential but they are suffering mainly because of high cost and low quality.
 - i. Textiles. There is a virtual ceiling on weaving capacity in the organised sector of the industry. The creation of additional capacity and specific export targets may be considered. Public sector NTC mills should be geared to play a more important role in promoting exports of textiles as the rising prices of synthetic fibres in the wake of hike in oil prices has tilted the balance of advantage in favour of natural fibres, specially cotton.
 - ii. Imports of wide/^{width}looms, terry looms and other sophisticated processing machinery of width between 60" and 100" for production of such varieties are canvas terry towels, pillow covers, bed sheets and other made ups and fabrics for which there is a very large demand in the international market, should be allowed exclusively for the purpose of export.
 - iii. Import duty on raw wool should be abolished or reduced to encourage the export of woollen textiles and woollen carpets.
 - iv. Adequate yarn at reasonable prices and of right quality should be made available to handlooms which export more than 10% of their production either in the form of cloth or made-ups.
 - v. The ban on creation of additional powerloom capacity and recognition of existing powerloom should be removed provided they export more than 10% of their production.

- vi. Recent market surveys of the Textile Committee show that there is a large potential for increase in exports of blended fabrics which are fast replacing the use of pure cotton fabrics in the international market. Given the supply of raw materials at international prices, export of blended fabrics can increase annually at the rate of 16%. The supply of man-made fabrics to handlooms and powerlooms at reasonable prices for export production should be improved and beginning may be made for the introduction of polyester khadi for export.
- vii. The development of export based silk textiles industry should be encouraged by augmenting supplies of silk through increase in domestic production, import of silk and blending of silk with artificial fibres.
- viii. There are five Export Promotion Councils for the promotion of exports of textiles - Apparel EPC, Cotton Textile EPC, Handloom EPC, Wool and Woollen EPC and Silk and Rayon Textiles EPC. In addition export effort in the field of silk and silk products and hand knitted carpets are supplemented by Central Silk Board and All India Handicrafts Board. The need to reduce multiplicity of the agencies should be examined, as also the need for better coordination of their export activity. The formation of an apex body, with subsidiary agencies should be considered.
 - i. Sports Goods. The production base of the industry is organised and strengthened by modern large scale production with due attention to quality.
 - ii. Supply of all the necessary raw materials to the industry and improvement of marketing arrangements.
 - iii. Arrangement of specialised displays, exhibitions and publicity abroad.
 - i. Fabricated Mica. Exports can increase appreciably if quality of processed and fabricated mica could be improved according to international requirements with high value-added items. A Committee was set up in July, 1980 by the Department of Mines to consider the problems of mica industry. The Committee should particularly look into the steps that should be taken to improve the quality and value of mica exports.

- ii. Apart from the export possibilities of manufactured goods mentioned above, the two other areas which hold large promise for exports are the handicrafts and processed food industries. Training programmes, improvement in technology, wider publicity and intensive market services can result in large increase in export earnings of these labour intensive industries which do not require large capital.
- i. Locational Policy. Industrial Policy Statement of December 1977 has pronounced certain decisions regarding location of industries in metropolitan areas, standard urban limits and municipal areas limits. These decisions are sound and need to be implemented; but an outright rejection on the ground of location may be counter-productive, such as the following which need careful consideration.
- Certain sick units wishing to expand or take up a new line of production for the sake of their survival.
 - A unit wishing to increase the shift for the purpose of viability.
 - Diversification for a new product or a line of manufacture within the existing infrastructural facilities.
 - Induction of new technology which would increase production and upgrade the technological level of production.
 - Diversification or even allowing marginal investment in machinery or addition to employment without serious pollution problems.
 - The economy of expansion compared with setting of a new unit elsewhere.
 - The strategic location of the ancillary industries catering to the mother industries located in the forbidden limits.
 - Where licensed capacity is expressed in monetary terms and increase is necessitated on account of cost escalation.

- i. Quality Control. The concept of self-certification should be accepted and its scope gradually enlarged depending upon performance of each unit and the systems which have been established for in-house inspection and quality control. There should, however, be no question of any further export inspection where the product carries ISI certification. Small scale sector should also be rendered necessary assistance in quality control through consortia approach or other mechanisms like transfer of technology and common testing facilities. In this respect, the Sub-Group suggests that the proposed Franchising corporation for small industries have an important role to play.
- i. Market Intelligence. Concerted efforts are required to improve our market intelligence abroad through improvement in quality and magnitude of our representation abroad and dissemination of necessary information to exporters, particularly in selected countries where greater export potential exists.
- i. Export Obligation. Export obligations, although considerably diluted over the past three years, are still cumbersome and in certain cases the exports have been effected at uneconomic prices because of obligation. Since exports is a specialised activity, more emphasis should be laid on basic policy incentives to lay a more solid foundation for a satisfactory rate of growth.
- i. Complementarity of Production. A stage has now also been reached where greater complementarity of production between the developing countries using their national resources endowment should be attempted. A good illustration of this would be the proposal which is now under consideration whereby pellets produced in India based on our large iron ore reserves would be converted into sponge iron in Indonesia using their natural gas to be used both in India and Indonesia for the growth and development of their steel industries. This in fact, if implemented would provide a tripartite arrangement where the natural resource endowments of two countries would be used to their mutual advantage using sophisticated technology from a developed country. Regional cooperation of this type amongst the developing countries must grow rapidly as the Brandt Commission puts it in this context,

there is a vast potential for special economic relations, exchange of know-how and reduction of dependence (between the developing countries). In fact a stage has now been reached when exchange of complete technology packages including know-how, training facilities, supply of equipment, consultancy as well as project management and after sales service would become a regular feature of trade among developing countries.

- ii. Developing countries must also now gradually shift from the export of raw materials to their value added derivatives. Kundremukh was a good example of this, as a concept, though this project has now run into difficulties which no body could have foreseen when this project was first conceived. A better and more recent example of this is the aluminium plant to be set up in Orissa based on our large east coast bauxite deposits with French technical and financial assistance. This fully integrated aluminium plant with a capacity of 800,000 tonnes of alumina and 218,000 tonnes of aluminium will be set up with French assistance with a comprehensive financial package based on Government credits on preferential terms as well as bank loans. The total investment in this project will be Rs. 1,400 crores to be financed mostly through the export of alumina. This adds a new dimension to our strategy for resources mobilisation to be paid for through exports, in this arrangement financing of local costs is also taken care of at least partially. We should think of many more of such projects which are based on mutuality of interests between a developing country and a highly developed country. Recent discussions with Kuwait and some other countries at the highest level augur well for this type of economic cooperation.
- iii. We should also try to export our know-how on the exploration and development of mineral resources to other developing countries, in this we are very well placed with the G.S.I. which has a tradition which goes back to 125 years. A systematic and determined approach in this area is necessary so that the burden of non-oil producing developing countries due to high energy costs in the years to come can at least be partly alleviated through the development of mineral resource base; this may help them to artially muffle the blow.

- i. Duty Drawback Scheme. It is essential to streamline and simplify the procedures and practices relating to the fixation of drawback rates and also to simplify the settlement of drawback claims of the field level. There should be a mechanism to ensure automatic and expeditious adjustment in the rates of drawback on the basis of changes in customs, excise duty and prices of imported components.

12. Small Manufacturers/Exporters (Chapter 7)

- i. Their capital needs, both for the fixed and working, to be specially met, to avoid their recourse to high cost private borrowings and help them expand their production and export business. In view of this, it is recommended
 - A window should be opened for small scale sectors for medium term finances in the new EXIM Bank, while for short term lending the Bank can offer refinancing facilities through exporters' commercial bank.
 - EXIM Bank may have a special scheme for helping small scale sector to give an access to international short-term capital market.
 - We have recommended elsewhere a franchising scheme, under which large exporters may also help with financing of production which they buy from small exporters.
 - Credit to small exporters may be considered on softer terms.
- ii. Books and Periodicals. Indian publishing industry and trade have made much progress of late, and their exports now amount to Rs. 8 crores. World imports of printed matter have been going to 16% annually, reaching \$ 5 bn in 1978. India currently is the third largest English books producing country, accounting for 16,000 titles out of a total 591,000. Given suitable encouragement with incentives, simple procedures, visits of study and sales team, through the help of the State Trading Corporation, the Trade Development and the Trade Fair Authorities, and our missions abroad, Indian books could gain an important position abroad, especially in

the neighbouring South Asia and African countries. In due course this position could be enlarged from English language books to printing books in other languages, offering our advantages of general skills and cheaper costs. General development, financing and training facilities through the formation of a National Book Development Board may be considered.

13. Banking (Appendix 2 (iii))

- i. Necessary steps should be taken to make the banks interested in export financing, so that no worthwhile export proposals suffer for want of adequate credit facilities.
- ii. Exporters may be allowed, on a selective basis, to raise finance abroad.
- iii. The periods for concessional pre-shipment credit allowed at present may be reviewed in the light of the prevailing situation.
- iv. Provide direct finance, in collaboration with commercial banks, in respect of medium and long-term exports, both at pre-shipment and post-shipment stages.
- v. Provide refinance facilities to commercial banks in respect of medium and long-term export credits.
- vi. Provide investment finance for export oriented projects and export promotion e.g., for product development, setting up quality control measures or upgrading technology.
- vii. Provide term credit to finance overseas equity investments by Indian promoters in their joint ventures abroad.
- viii. Provide overseas Buyer's Credit. The financial aid provided by India to various developing countries may also be routed through the Export-Import Bank.
- ix. Issue bid bonds and guarantees for supply of goods

on deferred payment terms, turnkey projects, and construction contracts abroad.

- x. Identify exporters, products and markets, and help the generation of exportable surpluses.
- xi. Handle payment arrangements in respect of countries with which India has bilateral payment arrangements.
- xii. Counsel exporters in preparing their offers, negotiations with overseas importers, and drawing up contract documents.
- xiii. Collect and disseminate economic and commercial information on importing countries and importers.
- xiv. Handle financing of import trade, particularly the imports financed by foreign aid and loans.
- xv. Undertake any other functions in the interest of export promotion.
- xvi. Even when the proposed EXIM Bank is set up, the Working Group may continue to coordinate activities of commercial banks, ECGC, RBI and the EXIM Bank, since the RBI will continue to control the exchange control functions and the commercial banks the financing of export transactions.
- xvii. A "One window" clearance of export proposals by an institution like the proposed EXIM Bank would very much benefit exporters and, therefore, steps should be taken to progressively evolve a mechanism under which export proposals are cleared by the EXIM Bank in conjunction with and on behalf of the concerned institutions.
- xviii. The Reserve Bank of India should take steps to simplify the procedures, including the audit requirements, for the payment of interest subsidy to banks.

- xix. The Reserve Bank of India (Exchange Control Department) may examine the possibility of devising a suitable scheme for exporters on a selected basis to book forward contracts for lump sum amounts with discretion regarding currencies and timing of deliveries of foreign exchange under the contracts, with necessary safeguards and penalties for transgression.
- xx. Progressively, the extent of cover, presently between 2% to 35% may be increased and the rate of premium may be reduced from the present 40 paise per Rs. 100 per annum.
- xxi. The existing Blanket Permits may be issued on the basis of annual budgets submitted by the exporters.
- xxii. The establishment of overseas offices to provide consumer advice, after-sales service, and off-the-shelf delivery of engineering and non-traditional goods should also be encouraged to stimulate export growth.
- xxiii. The present system of pre-shipment inspection by the agencies of the Government of India should be reviewed as it has not been able to effectively settle the problem of complaints by overseas buyers about the inferior quality of goods being shipped. Perhaps, a time has come to formulate a new approach of which two important aspects may be self-inspection and the bank guarantee covering the prompt payment of claims with exemplary punishment in cases of default. For late shipments which may be due to delays in manufacture, as a result of shortage of essential inputs, the Committee believes that at least some of the constraints on the availability of inputs could be solved through constant monitoring at Government level with the assistance of the various Export Promotion Councils and Commodity Boards.
- xxiv. Exporters may be allowed to meet their commitments made before the imposition of an embargo on exports.

- xxv. Apart from avoiding claims in lieu of specific performance, such a concession will avoid damage to goodwill between exporters and importers. If necessary, outstanding contracts could be registered within brief specified period with an approved government body.
- xxvi. The Reserve Bank of India may undertake a study which may look into the present procedures to ascertain whether they are in any way hampering the growth of merchanting trade.
- xxvii. The rates of commission and the relevant procedures for payment thereof may be reviewed periodically in the light of the prevailing circumstances.
- xxviii. The simplification and standardisation of documents should cover not only shipping documents but also documents that exporters are required to submit to banks, customs authorities, Reserve Bank of India (Exchange Control Department), etc.
- xxix. A Working Group may be constituted to examine the desirability of adoption of the set of documents as finalised by the IIFT, to standardise documentation practices of commercial banks, and to review the customs documentation.

14. Export Processing Zones (Chapter 11)

The Kaul Committee made a number of recommendations, of which we notably feature the following:

- i. Unless some safety clause is provided, 100% export obligation would mean performing of a "circus act without the essential safety net" and would continue to deter the new units from coming to the Zone. One such safety net is to permit these units to sell a part of their production in domestic market, of course on payment of duty. Such a measure would remove a great psychological block preventing new entrepreneurs from coming to Kandla Free Trade Zone.
- ii. The Kandla Zone should be declared a Custom House, and the customs appraisers and examiners, incharge of clearing the import consignments, should be placed under the administrative control of the Development Commissioner.

- iii. To avoid second checking of the export consignment at Bombay port, containerised truck service should be introduced between Bombay and Kandla.
- iv. The Development Commissioner Kandla may be authorised to recommend waiver of bank guarantee upto 100% at the time of movement of imported goods between Bombay and Calcutta.
- v. A general notification to grant exemption from central excise duty on goods brought into the Kandla for production of goods or for use by or on behalf of the importer in connection with the production of goods meant for exports should be issued.
- vi. Kandla units should be permitted by the Development Commissioner to make semi-finished products out of the Zone for processing, and bring them into the Zone without submitting each case to the Kandla Board for approval.
- vii. Air service to Kandla is an important facility for the development of the Zone, together with an air cargo complex.
- viii. The policy with regard to import of capital goods, raw materials etc., under the Open General Licence Scheme in Free Trade Zone, should be on a permanent footing so that there is no uncertainty on this score.

15. Export Houses (Chapter 14)

Two of the major recommendations of the Jain Working Group on Export Houses are reiterated.

- i. Setting up a High Powered Committee or Board consisting among others, Chief Controller of Imports and Exports, Export Commissioner, Development Commissioner (Small Scale Industries), Representatives of FIEO etc. to oversee the entire scheme of Export Houses and lay down the minimum requirements to be fulfilled by an Export House before it qualifies for renewal of its Export House Certificate.

- ii. The Export Houses which are identified as being highly satisfactory by the above body should be given liberal support for their expansion plan, including long-term capital from Market Development Grants and other special facilities and recognition at the national level.

16. Trading Houses (Chapter 14)

- i. There should be created a new category, the Trading Houses, which should combine the franchising function of the Franchising Corporation, recommended elsewhere, and a highly specialised export marketing capability. Export Houses, Franchising Corporation, and Trading Houses are all an upgrading of our export instruments, to keep up with the growing demands of world trade, in our peculiarly large and mixed exporting community. A three-tired system would therefore be specially advantageous under our diverse conditions.
- ii. The facilities extended to Trading Houses, to the extent they are relevant, should also be made available on a selective basis to manufacturing exporters whose export performance justifies this.

17. Compensatory Support (Chapter 16)

- i. In the interest of simplification of effectiveness of cash assistance to exporters, and to obviate external objections, different elements of cash assistance may be merged/augmented with other components of compensatory support to exporters as suggested below.

- Cash compensatory support is provided on exports of specific products, primarily with a view to compensating the exporter for the unrefunded taxes, imports and levies which he has paid on the exported goods and

on the inputs in the manufacture of such goods. This becomes necessary because under the Duty Drawback Scheme exporters are allowed a refund a part of the indirect taxes, namely custom duties and central excise on materials - comprising raw materials, components used and packing materials - used in the manufacture and packing of export products.

The Jha Committee on indirect taxes has pointed out the cascading effects of excise duties and sales tax at various stages of production which lead to a multiplicity of taxes. There are a number of indirect taxes at the Central State and Municipal levels, including that on energy and transport, which have a cascading effect on the end product. The need for cash assistance in the case of residuary indirect taxes will disappear if the Duty Drawback Scheme provides for a comprehensive refund of all the indirect taxes through a revised and enlarged scheme. The revised scheme may be designated as Tax Remission Scheme for exporters.

- ii. In regard to compensation for freight and other cost differentials, exporters should be made eligible for concessions at the source. In the case of compensation for differentials in interest rates, the interest rate on working capital needs of exporters should be brought in line with the international interest rates - e.g. Euro-dollar market, an average of interest rates prevailing in principal financial markets of its world. The interest rates on working capital for exports should not be related to the interest rate structure in the domestic market. Similarly freight disadvantage for exports from distant places in the country should be provided for by concessional rates on freights charged at the source, thus eliminating the need for a separate provision under this head under 'Cash Assistance'.

- iii. The Marketing Development Assistance at present provides for grants-in-aid to Export Promotion Councils and other Export Promotion organisations for the development of exports, for meeting the expenditure on export promotion councils, and for projects for development of foreign markets for Indian products and commodities. The scope for this fund should be enlarged so that expenditure on 'initial promotional expenditure for new products and in developing new markets', which at present is being financed through cash assistance, is met through the Marketing Development Assistance. The Fund should provide for all types of Export Development Services on a continuing basis.
- iv. The existing fiscal relief to exporters in the form of direct taxes is cumbersome and inadequate to meet the exporters' handicaps, specially small exporters in marketing and tendering in competitive export markets. Prior to March 1970, tax credit was allowed to the extent of increase in export earnings in corporate sector. It is recommended that exporters should be allowed a relief in direct taxes on income or profit in proportion to the income or profit derived on export sales as a percentage of total income/profit. A suitable scheme should be devised on these lines to afford direct tax concessions to all types of exporters.
- v. To the extent that subsidies are meant to compensate for the higher costs, it would be better for the exporter to be rebated as each cost element is incurred, in relation to some international price norm, rather than to be paid a lump sum at the end - and that after delay. The exporter would then not be subsidised, strictly speaking but charged a lower price for the inputs comparable with his export counterparts abroad pay. It would have the merit of its realisticness, especially abroad, where a subsidy has always the appearance of a "bonus", which infact some small exporters share with the importers through price cutting usually undercutting other exporters. In any case the importers abroad can work out our prices from the subsidies available.

18. Agricultural Products (Appendix 2(i))

- i. It would be desirable to create a revolving fund through control budgetary support or other means at the level of the National Bank for Agricultural and Rural Development (NABARD) to provide soft loans to export-oriented crops. A separate Wing for agricultural and rural development to exclusively attend to export-oriented crops in all respects should be set up in the new NABARD.
- ii. There is need for setting up of a Spices Board to plan production and take an integrated view of demand and supply to push up exports.
- iii. Separate Corporations should be set up for development of plantation crops, particularly tea and coffee, in North Eastern States. The entire equity capital for the corporations may be provided by the Central and the re-finance assistance by the ARDC/NABARD.
- iv. In regard to plantation corporations in other States, equity capital may be shared between the Centre and the States on 50:50 basis and re-finance assistance upto 90% may be provided by the banks.
- v. Regular surveys of the Persian Gulf and Middle-Eastern countries should be undertaken, and effort should be made to meet the entire demand of agricultural goods of these countries, particularly foodgrains, poultry, mutton, etc.
- vi. Import policy and procedure for imports of seeds and other agricultural imports should be liberalised and simplified.
- vii. The development of animal production should be properly organised. It may be desirable to set up a Meat Board for regulating domestic production, marketing and export of meat.

19. Tea (Appendix 3)

The following issues concerning tea should be carefully examined.

- i. The comparative benefits of foreign exchange

earnings from tea against the internal tax revenue it produces

- ii. Examine the comparative tea price structure of India and Kenya, our most important and growing competitor to see
 - What is Indian Tea Industry's competitive strength abroad; and
 - Its capacity to generate the required surpluses for replanting and new growth.
- iii. As still the world leader, tea's annual research spend at about Rs. 2 crores on a Rs. 800 crores turnover is woefully inadequate, especially as it is spread over two research centres, in the north and the south, both working more or less independently and therefore duplicating its effort, at least in part.
- iv. As a result, although our agronomic research has made considerable headway, we still provide little international leadership. Moreover in product research and formulation, we have played virtually no role - instant tea, tea bags, tea drinks have all been developed abroad by the consuming countries. Infact tea chemistry is a subject that our research has barely touched.
- v. The story of jute is repeating itself in tea; but we hope not with the same consequences.
- vi. We should therefore consider an apex autonomous research body, independently funded, under the aegis of Tea Board and associating itself with CSIR, tea industry and its two R&D centres at Tocklai (North) and Cinchona (South).
- vii. Tea research should be extended from agronomic and product to market and consumer research, combined with economics, statistics and a data bank for the industry.
- viii. A Plantation Board or Corporation may be formed to foster, coordinate, plan and prepare projects, and priorities the plantation crops' interests of research and development both agro-economic, processing, packaging and marketing at home and abroad; identifying new areas and their

allocation, planting, inplanting and replanting; production and exports of tea, coffee, cardamom, spices, rubber, cashew, cocoa, etc. The large added financing, which in total over the next decade, would amount to over Rs. 1,000 crores, would draw for equity upon the Centre, States and the industries concerned, for grants needs of expansion and replanting upon the financial institutions like Agriculture Refinance and Development Corporation (ARDC) and National Bank for Agricultural and Rural Development (NABARD) while the working capital needs would continue to be met by the commercial banks. There may be parallel boards and corporations in the States, as at present.

20. Marine Infrastructure (Appendix 2(iv))

- i. Our infrastructure facilities need urgently to be improved and strengthened to meet the requirements of the growing new types of trade and its handling, taking into account the new technology that is emerging for transportation of cargo at sea. It will require large investments by port trusts to introduce structural and organisational, and also the many corresponding changes, to ensure that Indian merchant marine keeps pace with international trade needs, both qualitatively and quantitatively. For instance:
 - Our ports will need to be modernised in all aspects - sheds, equipment, administration, and most importantly, productivity.
 - We must provide facilities for inter-modal form of transport.
 - We should improve container handling facilities both at ports and in the interior.
 - Customs and ports procedures and regulations should be updated to fit in a more practical manner with today's cargo handling requirements.

- ii. One of the joint ventures in which India can participate is shipping. The country has developed adequate 'shipping' management skills/knowledge in all its facets whether relating to carriage of general cargo, tramping, bulk cargo (both liquid and dry). S.C.I. for example has a joint venture with Iran - called Irano-Hind and is working fairly successfully. Similarly it has lent personnel to foreign shipping and companies like Libya's Tanker Co. With the advancement of technology, greater movement of cargo in containers, which necessitates consortium approach, increasing spread of multimodal transport concept etc. are pointers in this direction. India should therefore fully exploit this situation, enter into more joint ventures, provide greater manpower to man foreign ships and explore the possibilities of fully exploiting multimodal concept by institutionalizing loose arrangements.
- iii. It may be mentioned that where National Shipping Lines are required to provide a promotional service, and adequate cargo is not initially available, some compensation should be provided to the shipping line concerned so that the export trade of the country does not suffer for want of shipping.

21. Tourism (Appendix 4)

- i. The Tourist Industry, public and private, may be asked to prepare a 10-year Plan for 1980-1990, showing the costs and earnings, in rupees and foreign exchange; and if the tourist industry can make the substantial contribution it feels it can, it should be given such assistance and incentives as would help achieve the targets.
- ii. Tourism has an obvious commercial viability but Government may, through the Ministry of Tourism examine the benefits of foreign exchange earnings together with the domestic cost-benefit.

- iii. Tourism should be given the status of industry to enable it to qualify for such benefits, fiscal and others, as are granted from time to time to domestic and exporting industries.

22. Transnationalisation (Chapter 11)

- i. We should begin to look ahead with our own new transnationals and plan their contribution to our exports and foreign exchange earnings. They are concentrating so far mainly on the neighbouring countries of South East Asia and Africa, where we have excellent scope for inter-developing countries trade, but they are also beginning to look further afield, and especially at the developed world. While in the next decade a substantial part of our exports would continue to come from our own enterprises from public and private sector, we also recognise that in selected products and markets transnationals in India can contribute to our export expansion, provided our policies are carefully framed. Their world-wide connections and international marketing culture should be utilised to our export advantage, especially in sophisticated sectors, and where they have developed new technology and products, for both owned and bought-out products. It would be useful to invite some to prepare a five-year plan for the best they can do in exports, especially in new directions, and the circumstances in which they could do it. If the terms involved cost less than the potential benefit, on cost-benefit consideration alone, we should consider their proposals.

ii. Manpower

- Selection and training of skilled workers and craftsmen may be undertaken to meet the varied and changing demand.
- Suitable agreements should be negotiated in the interests of the expatriates and host country, in regard to regulations and restrictions.
- Reasonable and attractive facilities should be given to encourage them to

save and remit, as also for the personal purchases they bring home out of their savings rather than encourage them to spend abroad.

23. Export Management (Chapter 13)

Exports have been directed instead of managed, and wherever there is slippage there is at best a management by crisis rather than a long-term planning, implementation and monitoring. The following frame is suggested for consideration.

- i. An export management department in the Ministry of Commerce should be formed with ten divisions, each responsible for a generic group of export industries, offering a single point treatment.
 - Plantations; Tea, coffee, cashew, cardamom, spices, coir, etc.
 - Steel, metals, engineering and machinery.
 - Services, advice, consulting education and science.
 - Food products, agricultural dairy and horticultural produce.
 - Textiles and fibres.
 - Handicrafts, garments, leather, gem and jewellery.
 - Chemicals, pharmaceuticals and drugs.
 - Tourism.
 - Shipping, ports and air.
 - Miscellaneous.

The Divisions and their respective industries will work closely together in a five step exercise.

- First** Certain basic policies will be developed and announced, derived from the long and short-term compulsions and within social and economic parameters, to which government will stand committed normally - to some for a period of three years and others for one year. These policies will relate to both basic and operational issues, so that the exporting community will know where it stands on matters that are outside its own decision-making.
- Second** Each Division will prepare, in conjunction with industry, and its units accounting for 80-90% exports in that area, in the manner of an ABC analysis, a detailed three year base plan, phased down to a one year period, stating the objectives constraints, assistance needed, and casting it into an agreed annual plan, with budgeted financial and other resources employment and the targeted performance. The group sectors plans will be consolidated into a total export plan, which will be placed before an inter-ministerial seniors committee and finally be approved by a Cabinet Exports Committee.
- Third** As backup support to the Export Plan, there will be careful planning of production capacities required to create the needed export surpluses, and if inputs of raw materials and services to ensure the planned exports.
- Fourth** Monitoring of implementations is most important, and the desks and their industries will prepare a quarterly progress report, which the two committees, the seniors and the Cabinet's will receive and review. The report will state progress, compare it with the annual plan, examine and explain any deviations and shortfalls, suggest remedies, make mid-course corrections, re-estimate performance, and thus generally help to keep the original plan on an even keel.
- Fifth** The Division desks will meet industries' representatives quarterly to review progress and help solve problems.

The National Export Plan will also

- i. Relate domestic production and supply possibilities of product groups to a market segment in the world, South-East Asia, Middle East, Latin America, South and West Africa, etc.

- ii. Specify the national cost of net earning of foreign exchange in each group in terms of subsidies and cost of incentives, and cost of imports of inputs and technology.
- iii. Starting with the current position, move to a five-year forecast, whose linkages can be changed with altered circumstances and developments.
- iv. Assign priorities for assistance on the basis of likely earnings of foreign exchange and outgo with a view taken on the long-term prospects.

24. State Governments (Chapter 15)

- i. State Governments should assist in the export effort by forming an Export Promotion Board or Corporation, acting directly and in liaison with other State Corporations in agriculture and industry. The Corporation will help small exporters in areas where they are handicapped.
- ii. Lack of understanding of export trade and attitudes, which continue to be aligned with internal trade in a seller's market.
- iii. An inability to cope with the sophistications of export trading abroad and the multifarious procedures and regulations at home.
- iv. Ready access to inputs at the right time, quality and prices.

It would offer the following facilities.

- Identify expanding and exportable surpluses and accessible markets abroad.
- Disseminate information to producers and industrial and agricultural associations and corporations.
- Assist producers with infrastructure inputs - power, transport, raw materials, finance, warehousing, subsidies, drawbacks, etc. so that the small producers are assured the requisite inputs at the right time, quality and price.

CHAPTER 3

NEW EXPORT POLICY RESOLUTION

During the last decade of 1970s, the Foreign Trade Sector of the Indian Economy has shown considerable dynamism. During the 10 years 1969-79, exports expanded at a compound annual rate of about 16% in value terms and over 7% in real terms. The increase in the rate of growth in exports during the last decade has also been accompanied by a substantial diversification both in terms of commodities and in destinations. A large number of new items both from the agricultural and manufacturing sectors, project exports and export of both consultancy and other services have contributed towards this export expansion.

Although exports have an important role in a developing economy, in our country, these cannot be a substitute for expanding domestic markets. In a continental economy of our size, exports will have a catalytic role towards accelerating development process. A rapid growth in exports undoubtedly will help to promote self-reliant growth and efficient utilisation of national resources. Hence, in an increasingly interdependent world economy, the endeavour of the Government would be to further strengthen the export base in order to enable the national economy to pursue self-reliant growth and equally to contribute towards bringing about a new international economic order that is equitable to all.

The basic aim of the export policy would be to deploy our precious material and human resources at a higher level of utilisation, with greater productivity and efficiency. This would lead to the provision of necessary imports at minimum social cost for the national economy and also to an increase in direct and indirect domestic employment of both skilled and unskilled labour. Export policy would have to take fully into account the possibilities of international division of labour, subserve the national priorities and contribute to collective self-reliance among the developing countries.

Export policy will have to take care of the special features of export production. In order to enable the realisation of export thrust which is the result of sustained export efforts, it is necessary that export producers are able to plan their marketing and production activities under an environment of stable policy system.

Accordingly, export policy will be adopted keeping in view the gestation lags that are observed in different production activities and the minimum period needed to cultivate foreign markets.

Export policy has to be an integral component of the Government's overall development strategy of promoting growth with social justice. Export will be expanded consciously as rapidly as possible to achieve the national objective of self-reliance. The choice of the export products should provide boost to small scale and medium scale industries and help decentralise production in different regions of the country. The production base of export-oriented industry and agriculture would be continuously strengthened and expanded so that it is possible to obtain the requisite amount of export surpluses on a stable basis. In addition to efforts for achieving further diversification of exports in terms of commodities and markets, emphasis will be placed on the development of export services like shipping, port development, finance (including banking and insurance), quality control, market intelligence, etc.

The major elements of the export policy will be

To shift the present export mix towards the leading sectors, i.e. sectors in which India has a long-term competitive advantage and whose export growth can be sustained without the help of long-term artificial crutches. These are engineering goods, ready-made garments, leather manufactures, marine products, handicrafts (including gems and jewellery and carpets) and technology intensive products - for example, export of consultancy and engineering services and project exports and processed agricultural and horticultural products.

To increase the productivity of the traditional exports and to diversify the commodity mix so as to maximise domestic value added in these traditional exports, e.g. a shift away from the export of raw hides and skins to finished leather and leather manufactures, progressively large exports of packed and bagged tea etc. Similarly, the domestic value added in the exports of natural resources,

for example, marine products, forestry products, ores and minerals etc. would be increased.

To minimise social burden by monitoring the exports of essential mass consumption items, exports of a clear surpluses would be for the purpose not only of earning foreign exchange but also be in the interest of domestic producers. However, the shortage of such items will have to be shared between the domestic and export needs keeping in view their long term export value. However, goods whose consumption is restricted to higher income classes would be exported if necessary with restrictions on domestic consumption in order to avail of the international market opportunities. In cases where the element of value added is high, long-term development plans will be prepared for undertaking special production mainly for export purposes.

To achieve a continuous improvement in the unit value of exports and in the terms of trade by strengthening the bargaining skills of the exporters through the support of the state trading organisations and improved infrastructural facilities like better international marketing arrangement and information system. The objective will be to establish a National Trade Information Centre.

To emphasise the progressive development of export services and removal of infrastructural weaknesses in exports, special emphasis will be placed on the development of adequate transportation facilities, ports, export finance, product development, market information and facilities in respect of insurance of export cargo etc. Government will also endeavour to further simplify the export procedures and thus facilitate the entry of new small/medium businessmen into the national stream of

exporters. These facilities will need to match the emerging new international developments in this sector as also the growing volume of India's trade.

- To conserve non-renewable resources, exports of such a category of items would be allowed only if and to the extent they are in the long-term national interest.

The units in the small and medium scale are playing an important role in raising the level of industrial production in the country in a variety of fields, especially engineering, chemicals, sports goods, textiles, etc. Similarly, export from medium and small scale sector have increased substantially and now account for about 1/8th of the country's total exports. The Government will continue to encourage the export production in the small scale and medium scale sector by facilitating availability of the necessary inputs, finance, market intelligence etc. The development and expansion of this sector will be fully kept in view in the formulation of export policies, extension and establishment of institutional framework and infrastructural facilities. The public sector organisations will play a special role in providing the necessary guidance and inputs to the small and medium exporters.

In the textile sector, emphasis will be placed on diversification of the present export mix with larger exports of finished/high value added items along with modernisation of the industry, especially its export sector. Keeping in view the vast export potential of wide width products, it has already been decided to expand capacities in this sector. The export opportunities in respect of specialised yarn will be fully explored. As regards looms, these will continue to receive high priority not only for earning foreign exchange, but also for expansion of employment opportunities in the rural and backward areas of the country. The current efforts to diversify the exports of hand-loom products in terms of products and markets will be intensified. Our endeavour will be to secure and maintain free access for handloom products in the export markets all over the world. Emphasis will also be laid on expanding exports of ready-made garments and other apparel items through efforts for securing higher quotas as also in non-quota countries.

The jute industry is important in view of its contribution to exports and also the employment generated by it. Notwithstanding the emergence of synthetics, there is scope for both the natural fibre and the synthetic products in an expanding market. To enable the industry to face competition, constant efforts will be made to reduce cost, diversify end uses, modernise the industry and undertake research and development. Efforts will be made to have stability in supply and prices of jute products and also to get the barriers in international trade in jute goods removed/reduced. Efforts will also be made to reach an international commodity agreement on jute and jute products. Bilateral and multilateral efforts would be continued to ensure the natural fibre its rightful place in world economy and trade.

While planning larger exports of iron ore, the value added, upgradation and exports in the form of semis would be given greater consideration. Investments required in the area of mining, transport, ports handling facilities would be undertaken for not only increasing the level of exports but also with a view to achieving diversification of the markets. Detailed geological surveys in respect of other minerals would be intensified. The expansion of the mineral sector will not only help to augment export earnings but also accelerate the development of the backward regions in the country. A major objective would be increasing the value of exports and realisation of higher unit value by undertaking primary conversion of ore and as well as increasing the share of processed forms in the total export trade.- In this context, further attempts for producers/exporters' cooperation will be continued through the Association of Iron Ore Exporting Countries.

Exports of chemicals and allied products have been increasing over the past few years. Efforts will be made to identify specific products in which initiative could be taken to further expand the exports in the big way. Wherever the conversion technology is available within the country, the export of raw materials would be restricted to facilitate production and export of value-added items. Imports will be allowed to facilitate production for exports. For items where there is a substantial export potential, steps will be taken to strengthen and expand the production base and to reduce cost of production to make the product competitive in international market. Packing material for chemicals, both indigenous and imported will be made available on a preferential basis.

Plantation crops like tea, coffee and rubber are important export items. While diversifying the present export-mix, greater attention will be given and emphasis placed on the export of value-added items, simultaneously ensuring sufficient availability for the domestic consumer. Efforts will be continued to bring about greater producer/exporter cooperation and introduce bodies like the International Tea Promotion Association and to reach an international commodity agreement on tea.

In recent years, exports of marine products have shown a considerable increase. However, these exports continue to be concentrated in a few products and in a few markets. Given our vast coast-line and abundant marine resources, the development and export of marine products should receive high priority. Appropriate measures for expansion of the country's deep sea fishing fleet and organisation of adequate facilities for processing the catch will be undertaken. Establishment of cooperative of small fishermen will be undertaken specially to encourage for raising the level of output and exports.

Our traditional items of agricultural exports have been sugar, spices, edible nuts, oilcakes, beverages, tobacco and technical oils. In these sectors large scale increase in the quantity of exports cannot be expected. There are either difficulties in increasing our share of the world trade or of securing greater export surplus or both. The effort with regard to these commodities will not only be directed at retaining our existing markets but also towards the diversification of markets. Further with a view to increasing our export earnings in this field, we would have to diversify our products also. Thus, the major thrust of our policy, in so far as, the agricultural products are concerned, will be towards the diversification of products and markets, improvement of quality of products to tackle the hurdles in the way of exports like tariff and non-tariff barriers, freight rates, packaging and health regulations etc.

The expansion and diversification of our agricultural production has also enlarged the list of export items. The availability of a strong market for agricultural products in the Gulf region and West Asia has also provided new export opportunities. There is new scope for rapid development of exports of Animal Husbandry products (mutton, buffalo meat, animal casings, and poultry products),

horticultural products (fresh and canned fruits and vegetables), and processed foods. Agricultural production is undertaken in villages and the persons in this efforts are from the lower income groups. Expanding agricultural production through exports would, therefore, improve incomes and provide employment to the most needy part of our population.

Over 60% of India's exports are of agricultural origin. Our productivity levels are very low. Therefore, there is a large potential for increased agricultural output. Further there is a flourishing market next door in the Gulf and Middle Eastern countries with huge deficits in agricultural goods. The export policy must take into account the prospects for increased agricultural production and exports even allowing priority for domestic consumption.

In recent years, handicrafts exports have attained a significant position in our exports. In order to meet the emerging needs of foreign markets these will be further developed through the supply of necessary inputs, finance, institutional support and ensuring quality of production. In addition, appropriate training programmes will also be conducted and necessary institutions including design centre established, for artisans so that the hereditary skills acquired are not lost and the workers are able to improve existing skill by keeping with the developments abroad. Efforts will be continued for the establishment of special international trading regime in these items so that their larger exports contribute to greater employment generation of additional income and uplift of rural and backward areas in the country.

In recent years, exports of engineering items from the country have expanded rapidly and today these exports are almost head the list of export items. Within this group are included a large variety of items ranging from nuts and bolts to more sophisticated and technology intensive products like power generating equipment, locomotives, wagons etc. In spite of the rapid advance made in the export of these items in recent years India's share in the total world exports is insignificantly small, barely 1%. After taking due account of the production capabilities and the potential for exports of these items in world markets as well as the fact that international trade in these products is growing at a rapid pace, Government would take all steps to encourage their exports further. These will be particularly expanded in case of

spare parts, components, handtools and other items besides specialised items. In order to achieve continued growth in exports of engineering items it is essential that the present GSP Scheme of developed countries should not be continued but also be improved keeping in view the potentialities of developing countries like India. It is also necessary that developed countries impart stability to these schemes to enable long-term planning for export production.

A large number of developing countries in Middle East around the Indian Ocean and South East Asian region are undertaking economic development programmes on a sustained and long-term basis. Keeping in view the fact that the country has by now acquired a diversified industrial base and developed a technology specially suitable for developing countries with comparable factor endowment, efforts will be made to place at the disposal of these developing countries the expertise, experience and technology available within the national boundaries for setting up of infrastructural facilities and basic industries in order to enhance their rate of growth. This will be done through supply of capital goods, undertaking turnkey jobs/projects and setting up of joint ventures, etc. on mutually advantageous basis. There is considerable scope in incurring such "project exports" from India.

The electronics industry being relatively labour-intensive, requiring high level engineering and scientific back up which the country is already generating, is particularly well suited to rapid growth in India. Our development programmes already in operation provide for complete and selectively expanding units set up to manufacture large-scale integrated circuits and ferrites for use in a variety of computer applications. The international and domestic market for electronic products and computer software are expanding at a fast pace. Keeping also in view the raw materials availability within the country, production and exports of electronic products and computer software will be encouraged and expanded substantially.

Since quality of products plays an important role in exports Government will strengthen, expand and intensify the present compulsory Quality Control and Preshipment Inspection arrangement so as to cover the remaining items in the country's export list as early as possible. The existing provisions of Quality Control and Pre-shipment Inspection will be rigorously enforced and strict disciplinary action will be taken against the errant exporters.

The Export Inspection Council which is assisted in the implementation of compulsory quality control and pre-shipment inspection by the Indian Standards Institution and Directorate of Marketing and Inspection will improve the efficiency of its services so as to gain the confidence of overseas importers in the authenticity of its certificates of quality. Efforts will be made to organise effective institutional arrangements needed to maintain high quality standards of Indian export products.

Product and market research is currently the responsibilities of several bodies both official and non-official. Their work will be coordinated and the results integrated so as to obtain maximum benefit for the country. Export Promotion Councils and Commodity Boards will be more involved in export target formulation, ensuring quality, delivery schedule, fulfilment of export contracts and generally helping in establishing in foreign markets, the country's image as a dependable supplier of quality goods. The effectiveness of the services, especially institutional arrangements provided to small scale sector will be considered. Coordination and coalition of economic intelligence received in different organisations of the Government will be further improved. The role of the public sector in foreign trade will be further strengthened and expanded so that it becomes a pace setter in exports and export expansion.

In spite of the tight credit policy which is being currently followed, the Export Sector is being accorded a high priority by provision of credit both at pre-shipment and post-shipment stage on appropriate terms. These arrangements will be continued along with the insurance cover provided by Export Credit and Guarantee Corporation. The present framework of financial institutions will also be suitably strengthened/modified such as the establishment of a data bank in the ECGC. Current arrangements relating to the finance and re-finance of capital goods will be reviewed constantly so as to ensure competitive terms for exporters of Indian capital goods and machinery to foreign markets. The banking system would be persuaded to evolve fresh programmes and new patterns of financial and technical services to the exporting community, with the objective of including entrepreneurs to expand and adapt their production programmes as per the requirements of foreign importers so as to be able to offer goods at competitive terms and establish enduring relationship with overseas business-men associations.

Export services are being provided to producers and exporters by the various Export Promotion Councils, Commodity Boards, Indian Institute of Foreign Trade, Trade Development Authority, Free Trade Zones, Export Credit & Guarantee Corporation, Export Inspection Councils, etc. Export Promotion Councils and Commodity Boards are helping exporters to cooperate in their export promotion endeavour. The Indian Institute of Foreign Trade has been engaged in training export promotion management personnel and conducting functional research in special areas of international trade. Similarly, the Trade Development Authority undertakes policy-oriented research studies, market surveys and organizes buyer-seller meets and participations in fairs for the exporters registered with it. The Trade Fair Authority of India has been promoting exports by organising wholly-Indian exhibitions abroad of Indian export products and also through participation in international trade fairs and exhibitions and by publishing periodicals containing information regarding business possibilities in foreign markets, tenders floated by foreign countries, etc. The Government has established two free trade zones, one at Kandla (Gujarat) and another at Santa Cruz, Bombay, with a view to promoting exports based upon imported raw materials components and spares at world prices. The rate of export-service like, credit and finance, marketing, product development and adaptation, arbitration procedures, etc. is very crucial in promoting the exports. These export services will therefore be kept under constant review in order to increase their effectiveness.

As far as the bulk of the Indian exports are concerned, Indian industries have acquired the requisite competitive strength in international markets on the basis of their own inherent efficiency. The main responsibility for the task of further improving their competitive ability naturally rests with producing units. Government will, however, continue to provide the necessary assistance to build up efficient production and, meanwhile, endeavour to protect exports from the temporary handicaps that stem from transitional difficulties inherent in a developing economy and to alleviate the disadvantages arising from our domestic fiscal policies, tariff and non-tariff barriers in importing countries and the basic inequities of the present international trading and marketing system. It is the intention of the Government to follow a selective policy in this regard.

Developing of shipping facilities is an important area which will need constant attention. Efforts will have to continue to develop national shipping so that it plays its prescribed role in the carriage of national goods and in the promotion of exports. Government have already accepted in principle the need to expand national merchant fleet with emphasis on national shipping obtaining a greater share in the transportation of our export and import trade. This will be re-inforced with the acquisition of specialised ships, like refrigerated vessels, container vessels etc. to meet the need of specialised cargo. In many countries, bilateral shipping services on the basis of inter-governmental agreements have already been organised and in certain specific cases joint shipping ventures have been permitted to be opened in collaboration with shipping enterprises in these countries

The expansion of national shipping fleet will need to be accompanied with corresponding maintenance and repair facilities in the form of dry docks and ship building yards. A well developed infrastructure in this regard will not only provide these facilities for bigger sized foreign vessels visiting our ports but will also add to our foreign exchange earnings.

The development of modern and matching port facilities would need to be an important part of our national policy. The ports will need to be developed keeping in view the new developments in this regard and will also have to match the requirements of the ships that visit these ports. As the volume of trade grows larger and larger, port facilities will also need to be modernised and made more efficient so that it develops capabilities for handling large volume of cargo. In the formulation of development plans, care will have to be taken to see that ship-building and ship-repairing facilities, ships and port facilities, all maintain their desired complementarity.

The role of the shipper and shippers' councils in the planning organisation and administration of port and other attending facilities will also need to be strengthened. Consultations with Shippers' Councils at appropriate levels will need to be organised for determination of fair and equitable freight rates. These have an important bearing on the growth of our trade and in providing suitable competitiveness of our products. Care will need to be taken to see that while these rates remain remunerative, they also are fair to the exporter and do not become an excessive burden on him. The stability of the rates for

a reasonable period of time will also need to be ensured so that frequent changes do not disrupt the growth of our trade.

There has been a constant growth in the movement of cargo by air. Appropriate facilities have, therefore, to be developed for carriage of this cargo. Air companies, and airports will have to be developed to cater to these growing requirements. Air cargo complexes have to be opened at inland locations to facilitate direct lifting of these goods from these points. These will have to be expanded so that exporters at inland locations are increasingly able to despatch their goods from airports nearer the places of production rather than only from port towns. This will also relieve the congestion at the terminal port towns. Care will need to be taken to ensure that infrastructure development in this regard keeps pace with the growing requirements.

Improving the quality of our transportation services, particularly for export goods would be a matter which would require constant attention of Government. Rail facilities will need to match the changing demands on account of containerisation fast and through services etc.

A degree of coordination amongst rail, road, sea and air services will also be necessary. Appropriate institutional arrangement will need to be introduced to see that all these sectors provided the necessary support to one another. Qualitative improvement in these matters will go a long way in improving the acceptability of our products and the recognition of India as a good trading country which keeps to its delivery schedule. Consistent with the quality and competitiveness of Indian Export goods, the infrastructure regarding transportable facilities as a whole will need upgrading both qualitatively and quantitatively.

It will be the endeavour to expand and diversify our exports not only to the established markets but also to new markets. Indian products have found acceptability in USA, Japan, EEC and the East European countries. It will be the endeavour to build on this fact so as to secure an even-increasing rate of growth of exports to these markets.

Trade with Soviet Union and other socialist countries is undergoing a qualitative change and a large number of finished industrial goods are being exported to these countries. The exports of traditional products have also benefited from stability imparted by the trade with East European countries. A long-term growth in trade in future, will be brought about through an increase in production cooperation based on complementarity of resources and skills.

The European Economic Community is at present our largest trading partner and the Commercial Cooperation Agreement between India and the EEC has helped to initiate proposals for economic cooperation linked with trade. In the future, it will be our endeavour to achieve a substantial growth of exports, based on such schemes of economic cooperation on the principles of comparative advantage and mutual benefit.

It is recognised that while USSR, EEC, West Asia, Japan and USA are important trading partners, greater efforts are required to expand and diversify the range of products being exported to these markets.

Together with increase in trade in the established markets, conscious efforts will be made and positive steps taken to expand trade with the developing countries and South East Asia, Africa and Latin America. Such expansion would not only be to the mutual benefit but also help to face the challenges posed by the protectionist forces gaining strength in the Western Economies and to contribute to realisation of collective self-reliance of the developing countries. In this field, special attention would be given to the trade with the neighbouring countries of the sub-continent.

To this end, the institution of bilateral joint commissions/committees would be used judiciously to secure the best advantage for the country based on a total view of all aspects of our trade and economic relations with each trading partner.

There is a desire among the developing countries to take steps for intensifying mutually advantageous economic cooperation among themselves. Government intends to play an active rôle in promoting economic cooperation with the developing countries. Arrangements will also be made to

intensify commercial and industrial cooperation with them. The establishment of joint ventures abroad will be one of the important measures to promote such cooperation, as there is a tremendous scope in this field. These joint ventures will be in the various fields such as production, marketing, consultancy, etc.

The ESCAP Ministerial Conference held in August, 1978 at New Delhi, affirmed its conviction in the programme for inter-regional trade expansion and cooperation needed to accelerate economic development of the constituent countries with emphasis for special measures for least developed, land locked and developing island countries of the region. It further emphasized that the primary objective of a programme for regional trade expansion and cooperation in Asia and the Pacific should be the growth of trade generally and the increased economic development of all countries of the region, particularly the developing countries. Steps would be taken to implement this decision of the ESCAP Ministerial Conference.

The Arusha and the UNCTAD V programmes aim at increasing economic cooperation among developing countries in regard to trade preferences amongst them, multi-national production and marketing enterprises, transfer and development of technologies etc., as a part of the New International Economic Order. These programmes provide a large scope and open up vast avenues for expansion of trade among developing countries. Efforts will be made for quicker implementation of these programmes. The commercial and aid policies pursued by many governments set limits to the natural expansion of Indian exports. The Government will continue to concentrate its efforts on securing speedy modification of these policies in the interest of the general expansion of international trade. These efforts will be pursued both at bilateral and multi-lateral levels. The multi-lateral trade negotiations launched with the Ministerial declaration in Tokyo in 1973, and aimed at achieving expansion and liberalisation of world trade, improving the international framework for the conduct of world trade and securing additional trade benefits for developing countries, have now reached their decisive phase. In Commodity trade, at UNCTAD-IV, an integrated programme for commodities has been adopted with a view to securing improvement in the terms of trade of the developing countries including the achievement of stable conditions in commodity trade at levels which could be remunerative and just to

producers and equitable to consumers. The programme further aims at securing improvement of market access, diversification of production in developing countries, improvement of the competitiveness of natural products competing with synthetics and substitutes, improvement of marketing, distribution and transport systems for commodity exports of developing countries, etc. Efforts will be made in UNCTAD to secure an early implementation of the programme including inter alia, the establishment of a Common Fund and the conclusion of International Commodity Agreements/Arrangements.

The general world trading environment, however, has deteriorated with the protectionist forces gaining strength in the major trading entities of the world. It will be Government's endeavour, in concert with other developing countries, to pursue the objective of securing additional benefits and a more liberal and equitable trading environment for the developing countries. The Government views these efforts in the wider perspective of the need for establishment of a New International Economic Order which has been recognised by the international community. Restructuring of the world industrial production and trade constitutes the corner-stone of the new order. This goal cannot be achieved unless the industrialised countries agree to allow free and unrestricted access to their markets for the export of manufactures produced by developing countries, on the basis of natural and comparative advantage. Government is committed to pursue these objectives through different multilateral forums like UNCTAD and GATT.

Government also recognise that the success of the efforts of developing countries to reshape the existing economic order so that it takes into account their concerns and is responsive to their aspirations, will depend largely on what the developing countries could do to intensify mutually advantageous economic cooperation amongst themselves. Efforts have been made in the past to promote trade cooperation through Tripartite Agreement among India, Yugoslavia and the Arab Republic of Egypt, the Protocol for preferential trade arrangements among developing countries and the Agreement for preferential trading arrangements among the developing countries of the ESCAP region. Government propose to give a fresh impetus to cooperation among developing countries and strengthening its economic links with the countries in the Asian, African and Latin American regions. This objective will be pursued through different multilateral forums, including the Group of 77 and the non-aligned movement.

The objective and the strategy to be adopted for the Third Development Decade is engaging the attention of the world community. It is hoped that the declaration to be adopted by the United Nations on the Third Development Decade will fully incorporate and concrete strategy for restructuring the world trading system as an integral element of the international effort to move towards the establishment of a New International Economic Order.

CHAPTER 4

EXPORT STRATEGY AND ECONOMIC POLICY

In this chapter we present our assessment of the role of exports in the economy and the consequent requirements of an export strategy for the eighties. The detailed recommendations in the report follow from the analysis presented in this chapter.

Our overall assessment is that a very substantial improvement in our export performance will be necessary in the coming decade. The Balance of Payments situation facing the country is severely strained and this will limit growth prospects unless it can be effectively managed. Management of the Balance of Payments will require action on several fronts, but an improvement in export performance has to be the central mechanism in the medium term. The task of developing an effective export strategy therefore must be viewed as urgent and accorded very high priority.

The required improvement in export performance will not be easy to achieve and certainly not by a continuation of past policies, with only marginal changes India's export performance over the past two decades has fallen considerably short of both expectations and potential and a much greater effort is needed in the future. In our view, it is essential to take a fresh look at the total economic environment facing exports in order to identify and remove the many constraints on export growth which have operated in the past. We note that this approach will involve some difficult decisions where removal of constraints upon exports may involve conflicts with other objectives of policy. These difficulties will have to be faced squarely. The situation is such that there are no soft options; only the hard choices.

Policy and Performance in the Past An essential lesson from past experience is that although export promotion has been a conscious element in our economic strategy for at least two decades, our export performance during this period has been below both expectations and potential.

As early as in 1961, the Third Five Year Plan noted that India's exports had been stagnant through the decade of 1950, and attributed this in part to the fact that "the programme for exports has not been regarded as an integral part of the country's developmental effort".

Accordingly the Plan called for a major reorientation of policy to improve export performance. Based on this perception, a number of incentive schemes for exports were introduced in the 1960s, including cash subsidies, excise duty rebates, import entitlement scheme freight concessions. These schemes were radically restructured after the devaluation in 1966, with some schemes being scrapped. However, they reappeared later and since then they have been modified from time to time, in the interest of rationalisation and simplification. By and large these incentive schemes remain the mainstay of our conscious export promotion effort.

Over this period, therefore, there has been no weakening in the commitment to export promotion in principle. The Export Policy Resolution passed by Parliament in 1970 underscored this commitment and reiterated the importance of export growth for our overall development effort. Despite this unambiguous commitment at the level of overall policy, the actual export performance of the Indian economy over the past two decades has been disappointing. Export growth in value terms certainly accelerated from about 4 per cent per annum in the decade of 1960-61 to 1970-71 to 16 per cent in the period 1970-71 to 1979-80. However, on detailed scrutiny this acceleration in dollar values provides little basis for complacency.

In the first place the high growth rate in value terms in the seventies is primarily a reflection of the higher rate of international inflation in the 1970s compared to the 1960s. The growth of export volume is much more modest averaging about 7 per cent in the period 1970-71 to 1978-79

Table 1

India's Exports

	Quantum Index (1970-71=100)	Value \$ million	Value Rs. crores
1960-61	66	1346	642
1961-62	70	1386	661
1962-63	75	1435	685
1963-64	84	1658	793
1964-65	90	1701	816
1965-66	82	1926	806
1966-67	79	1528	1157
1967-68	81	1585	1199
1968-69	94	1786	1358
1969-70	95	1867	1413
1970-71	100	2028	1535
1971-72	101	2173	1608

1972-73	113	2557	1971
1973-74	118	3238	2523
1974-75	125	4174	3329
1975-76	139	4667	4043
1976-77	164	5757	5146
1977-78	158	6316	5408
1978-79	170	6978	5726
1979-80		7951 (Revised)	6421 (Revised)

Compound Growth Rate during	Quantum Index	Value \$ million	Value Rs. crores
1960-61 to 1970-71	4.24	4.18	9.11*
1970-71 to 1978-79	6.90	16.70	17.89
1970-71 to 1979-80	N.A.	16.39	17.23

* Growth rate in terms of rupee value is inflated because of the devaluation of 1966.

This is higher than the earlier growth rate of 4 per cent in the sixties but there is a particular feature of the performance in the 1970s which makes this acceleration less comforting. Although there was a surge in exports in the mid-1970s, a good part of it was due to fortuitous factors. There was a particularly sharp increase in unit values of some commodities because of international demand conditions (e.g. oilcakes, tea, spices and sugar). Besides some of the volume growth was in individual commodities in which there were temporary domestic surpluses e.g. sugar and steel.

Export growth based on these factors does not reflect a situation in which the conditions for a sustained expansion in exports had been firmly established. In some items e.g., garments, certain engineering goods, gems and jewellery and marine products, Indian exports showed a healthy and sustained growth. However on the whole, the dynamic export performance of the mid-seventies did not reflect the development of a strong export base. This is borne out by the fact that there was a distinct tailing off in the later years. After 1976-77, export growth has been sluggish in value terms and almost stagnant in volume terms.

Export growth achieved in the past should also be viewed in the light of potential performance as determined by the overall growth of world trade. India's performance is clearly unsatisfactory from this point of view. Throughout the 1960s exports grew more slowly than world trade and as a result our share in world exports declined continuously (see Table 2). Experience in the 1970s has been mixed. The decline in our share in world exports was briefly reversed in the mid-seventies when exports rose very sharply between 1974-75 and 1976-77. However, after 1976-77, the tendency for our share to decline reasserted itself and over the decade as a whole, India experienced an overall erosion in its share of world exports.

It is particularly disturbing that India's share in world trade declined at a time when developing countries as a group were actually able to increase their share. This is true not only for all developing countries but also for the group of developed market economies (DMEs) excluding the 16 major petroleum producers, which suggests that we did not make full use of available trade opportunities, in the past.

Table 2

India's Share in World Exports

Year	Share in world exports	Share in world exports excl. mineral fuel etc.	Share in total exports of developing countries	Share in exports of developing countries excl. 18 major oil exporters*
1960	1.04	1.15	4.81	7.04
1965	0.90	1.00	4.62	6.90
1970	0.65	0.71	3.67	5.57
1971	0.58	0.65	3.28	5.43
1972	0.58	0.64	3.24	5.33
1973	0.51	0.57	2.64	4.43
1974	0.47	0.59	1.74	4.17
1975	0.50	0.62	2.10	4.83
1976	0.55	0.69	2.13	4.93
1977	0.48	N.A.	1.92	6.25

Source: Compiled from the data given in Year Book of International Trade Statistics, UNITED NATIONS.

*These countries for which POD accounted for more than 50% of their total exports in 1974.

The Need for Exports The need for a much greater export orientation in the coming decade should be seen in two distinct perspectives. There is an immediate Balance of Payments need to increase exports in order to finance our import requirements while keeping the trade deficit within manageable proportions. There is also the longer term question of evolving a structure of production in line with our dynamic comparative advantage which makes full use of our export potential. In our view both perspectives are important in formulating export policy in the future.

Balance of Payments Imperatives While India's trade balance has long been adverse, except marginal in 1976-77, it has been manageable in the past.

Table 3

India's Trade Balance and Reserves

	Exports	Imports	Trade balance	Reserves
	Rs. crores			
1960-61	642	1,122	- 480	186
1965-66	806	1,409	- 603	182
1970-71	1,535	1,634	- 99	438
1971-72	1,608	1,825	- 217	480
1972-73	1,971	1,867	- 104	479
1973-74	2,523	2,955	- 432	581
1974-75	3,329	4,519	-1,190	610
1975-76	4,043	5,265	-1,222	1,492
1976-77	5,146	5,074	+ 72	2,863
1977-78	5,404	6,025	- 621	4,500
1978-79	5,444	6,606	-1,062	5,220
1979-80	5,999	8,231	-2,232	4,800
1980-81	7,100	11,200	-4,100	-

(Estimated)

There is a widespread consensus that the economy faces a severely strained Balance of Payments position in the medium term. This is principally due to the sharp increase in oil prices witnessed during 1979 and the likelihood that oil prices will continue to rise in the future. The scale of the problem can be seen from the movements in the Trade Deficit. The trade deficit in 1980-81 is projected to reach Rs. 4100 crores. This is about four times the size of the trade gap two years ago.

Table 4

India's Trade Gap

	1978-79	1979-80	1980-81
	Rs. crores		
EXPORTS	5726	6250	7100
IMPORTS	6814	8580	11200
- POL	(1676)	(3200)	(5000)
- Other imports	(5138)	(5380)	(6200)
TRADE GAP	1088	- 2230	- 4100

The oil import bill increased sharply in 1979-80 reflecting the impact of oil price increase implemented through the course of the year. However, the full impact of these increases was only felt in 1980-81 with the total POL bill projected to reach Rs. 5000 crores. Between 1978-79 and 1980-81 the additional payments for oil alone amount to Rs. 3300 crores. Most of this increase is due to higher prices, with only a modest increase in volume. Other imports are projected to rise by only about 20% in value terms which is almost entirely explainable by international inflation over these two years. Thus, although total imports in volume terms have increased only modestly, the import bill has increased enormously.

This deterioration in the trade balance poses severe problems over the medium term. It comes at a time when the surplus from net invisibles, which had been rising sharply in the past and was a source of strength to the Balance of Payments, is likely to stabilise in the future. The growth of inward remittances was a major factor underlying the rising surplus on invisibles and this has slowed down very considerably. With the considerable uncertainties regarding the ability of the Gulf countries to absorb more labour, it is unrealistic to project continued growth in this item.

This also comes at a time when our policy of import substitution has over the years trimmed our imports of all fat and we import only the bare essentials. These in turn are accounted for nearly two-thirds by only three products, petroleum, edible oils, fertilisers and pesticides. There are besides imports like raw diamonds, cashew, wool, raw silk, non-ferrous metal that go wholly or largely into exports and those that are required for maintaining internal production.

Table 5

Imports - India

	1960-61		1970-71		1978-79		1980-81	
	Rs. crores	%	Rs. crores	%	Rs. crores	%	Rs. crores	%
<u>Essentials</u>	<u>93</u>	<u>8.69</u>	<u>244</u>	<u>15.02</u>	<u>1913</u>	<u>42.23</u>	<u>6779</u>	<u>64.56</u>
Petroleum and products	69	6.45	136	8.37	1220	26.93	5000	47.62
Vegetable oils	4	0.37	23	1.42	423	9.34	1000	9.52
Pharmaceuticals	10	0.93	24	1.48	59	1.30	100	0.95
Fertilisers	10	0.94	61	3.75	211	4.66	679	6.47

<u>Exports-Linked</u>	<u>307</u>	<u>28.69</u>	<u>487</u>	<u>29.97</u>	<u>895</u>	<u>19.76</u>	NA	NA
Non-ferrous	46	4.30	120	7.38	146	3.23	NA	NA
Precious stones	1	0.09	25	1.54	72	1.59	NA	NA
Iron and steel	120	11.22	147	9.05	251	5.54	NA	NA
Textile fibre	101	9.44	127	7.82	198	4.37	NA	NA
Chemicals	39	3.64	68	4.18	228	5.03	NA	NA
<u>Capital Goods</u>	<u>326</u>	<u>30.47</u>	<u>384</u>	<u>23.63</u>	<u>785</u>	<u>17.33</u>	NA	NA
General machinery	201	18.79	257	15.81	516	11.39	NA	NA
Electrical machinery	56	5.23	69	4.25	99	2.19	NA	NA
Transport equipment	69	6.54	58	3.57	170	3.75	NA	NA
<u>Rest</u>	<u>344</u>	<u>32.15</u>	<u>510</u>	<u>31.38</u>	<u>937</u>	<u>20.68</u>	NA	NA
Food	177	16.54	272	16.74	165	3.64		
Paper and paper board	12	1.12	25	1.54	103	2.27	NA	NA
Cement	Neg.	-	Neg.	-	69	1.52	NA	NA
Others	155	14.49	213	13.10	600	13.25	NA	NA
Total Imports	1070	100.00	1625	100.00	4530	100.00	11200	100.00

The resulting problems are evident from the projected Balance of Payments position for 1980-81 as shown below in Table 6. The much higher trade gap in 1980-81 will be reflected in a very large current account deficit of about Rs. 2,000 crores. It will not be difficult to finance this deficit in 1980-81 because, in addition to the normal net inflow of external assistance of about Rs. 990 crores, we have obtained Rs. 540 crores from the IMF Trust Fund and Rs. 280 crores from the Compensatory Financing Facility. This together with a modest draw down of reserves will cover the gap. However, this does no more than provide breathing space.

Table 6

Balance of Payments

	Provisional Estimates		Anticipated
	1978-79	1979-80	1980-81
Rs. crores			
Exports	5726	6421	7100
Imports	6814	8683	11200
<u>Trade Balance</u>	<u>-1088</u>	<u>-2262</u>	<u>-4100</u>
Net invisibles	1621	2182	2142

<u>Current Account Balance</u>	<u>533</u>	- <u>80</u>	- <u>1958</u>
Gross aid	1266	1344	1574
Repayment of principal	- 594	- 569	- 584
Net aid	672	775	990
IMF (net)	- 171	- 81	668
SDR allocation	126	126	126
Private capital flow (net)	- 7	- 12	- 20
Errors and omissions	- 188	- 603	- 275
<u>Change in Gross Reserves:</u> (+ decline; - increase)	- <u>965</u>	- <u>125</u>	<u>469</u>
- Foreign currency	- 720	56	445
- SDRs	219	- 176	24
- Gold	26	- 5	-
<u>Reserve Level</u> (end of year)	5824	5949	5480

The economy must also achieve a Balance of Payments adjustment over the medium term and this will require action on a number of fronts. In the immediate future, the scope for narrowing the current account deficit is limited and therefore it will be necessary to resort to an expanded programme of external borrowing. However resort to external financing must be kept within prudent limits. In the medium to long term, therefore the Balance of Payments adjustment must come through narrowing the current account deficit. This in turn means narrowing the trade gap.

There is undoubtedly considerable scope for reducing imports of particular items which have inflated the import bill in recent years. For example, avoidable imports of steel, cement and aluminium have taken place while domestic capacity has lain idle for want of power. These imports can and should be reduced through increased domestic production through fuller utilisation of existing capacity. However, it must also be recognised that a growing economy has genuine import needs and these cannot be squeezed beyond a point without seriously affecting production and long term efficiency. This is particularly true if the economy is to make the transition to alternative patterns of energy use shifting progressively from oil to coal and electricity. This calls for substantial investments in sectors such as coal, hydro-power, coal based thermal electricity generation and also railways which provide an

energy efficient means of transport for bulk items over longer hauls. All these sectors are capital-intensive and the investment involved will undoubtedly require heavy imports. There is no alternative to rapid export growth if we are to meet the financing requirements for these imports without excessive resort to external borrowing.

We have not attempted to quantify the Balance of Payments prospects under alternative assumptions over the next decade. However, exercises conducted in the Planning Commission in connection with the formulation of the Sixth Plan, indicate that allowing for the import of requirements of a 5% growth of GDP, while at the same time containing the current account deficit within manageable levels, calls for an export growth of about 10 to 11 per cent in volume terms over the Sixth Plan.

This target will not be easy to achieve. It calls for a marked improvement in export performance over the past at a time when international trading conditions do not appear to be favourable. However the pessimism regarding international trading conditions prevailing at present should not determine the long term strategy for the next decade. Depressed trading conditions are likely to prevail through 1981, and recovery thereafter is likely to be slow, but nevertheless the growth of world trade over the decade as a whole is likely to be around 5.7 per cent in volume terms with trade in manufacturers expanding at 6.8%. India is well placed to increase her share in world trade both in terms of having a relatively advanced industrial base compared to other developing countries and in terms nearness to rapidly expanding markets in West Asia.

In view of these considerations export growth of 10 to 11 per cent in volume terms is achievable over the decade as a whole provided appropriate policies are followed.

Exports and Comparative Advantage Export expansion is desirable not only because of the Balance of Payments for paying for the import requirement of some specified target rate of growth; it is also important because of the need to realise the full benefits of trading opportunities. The logic of comparative advantage is that a country should allocate resources to produce goods which it can produce relatively cheaply and use the resulting export earnings to import goods in the production of which it is at a

disadvantage. This argument for export expansion is quite distinct from the Balance of Payments argument and tends to be under emphasised in our planning. It is essentially an argument for allocating productive resources optimally between import substituting production and export oriented production. Thus expanded export production may be desirable on the grounds that the resource cost of exporting A and importing B is lower than the resource cost of producing B. This type of export expansion is not geared to reducing the trade gap but rather to increase the extent of trade to optimal levels.

It is a common criticism of the total structure of incentives and controls under which industrial investment takes place in India that there is excessive protection of domestic production against potential competition from imports. This imparts a significant bias against exports in the pattern of investment, and also in the incentives facing entrepreneurs. The availability of substantial and indefinite protection against imports has created a domestic market which is too attractive to promote producers to invest sufficiently in export oriented production or to look aggressively for export possibilities. At the same time the high cost production structure created by heavy protection reduces the competitiveness of our exports in general.

These criticisms merit very careful scrutiny. A substantial element of protection for domestic industry against competition is entirely defensible in the earlier stages of industrialisation. Large, across the board incentives are needed to sustain industry through the infant stage of industrialisation and protection is a convenient way of providing such incentives. However, as the industrial sector matures, it becomes desirable gradually to expose domestic production in all except truly "strategic" sectors to the competitive pressures of world trade. This helps to ensure the development of a healthy industrial sector which is truly competitive in terms of both cost and quality.

In our view, as the economy moves into the eighties we should begin the process of rationalising the structure of protection afforded to industry and gradually move to a situation in which the structure of incentives is more evenly balanced between the production of import substitutes and production for exports. In effect there is a case for reallocating future investment resources from import substitution to export production in a manner consistent with

dynamic comparative advantage. In stating this view we would emphasise that the proposed shift must be gradual. We recognised also that in particular situations it may be necessary to increase the degree of protection in particular cases when there is clear evidence of unfair competition through dumping. But these considerations are qualifications to the proposed movement in a particular direction. They must not be used to justify open-ended and indefinite protection of industry.

Constraints upon Rapid Export Growth - Once the urgency of achieving a rapid expansion in exports in line with comparative advantage is accepted, the next step must be the evolution of an export strategy to achieve this objective. This strategy must be based on a clear identification of the many constraints which have limited performance in the past and it should systematically attempt to remove these constraints in the future.

An overall constraint upon export performance is the general economic conditions and performance potential of the economy. For example, in the past two years the infrastructure sectors - coal, power and railways - have emerged as severe constraints upon production over a wide front. This has also had a constraining effect upon exports. Clearly efficient functioning of the infrastructure is a pre-condition for a dynamic export performance.

More generally it can be stated that a dynamic export performance depends upon the existence of general conditions in the economy which are conducive to high levels of investment and a rapid expansion of production. We cannot have rapid export growth over any extended period in a stagnant economy. Whatever the validity of the concept of "export-led growth" in smaller economies, where export policy is sometime seen as triggering a much larger economic response in the economy as a whole, it would be misleading in the Indian context to equate a strategy for growth with the strategy for exports. Rapid export growth will undoubtedly help the overall rate of growth of the economy because of the efficiency gains obtained from the pursuit of comparative advantage and the greater flexibility regarding foreign exchange availability. But an appropriate export policy alone will not suffice if the economic system as a whole is not performing efficiently. Thus high rates of investment, general improvement in efficiency, adequate development of infrastructure and better industrial relations are a pre-condition for growth and also for dynamic exports.

While recognising the importance of these general considerations we would also emphasise that an effective export strategy must go beyond the establishment of these conditions. There are a number of specific constraints affecting exports which must be removed if export performance is to be sharply improved, and it is these constraints upon which we have focussed in this report. The most important of these constraints are discussed below.

(1) Licensing Restrictions Licensing restrictions limiting the creation or expansion of capacity in particular sectors can have the adverse side effect of preventing growth of capacity in areas with export potential. An example of this type of constraint upon our export performance in the past is provided by the limits on loomage in the modern mill sector in the textile industry, which prevented the development of capacity of the broad width type which is particularly important for the export market. We note that the rationale for this policy was the protection and promotion of the handloom sector because of its much greater employment intensity. While the employment objective is undoubtedly important, it is relevant to consider whether the same employment objectives could have been achieved with a more flexible licensing policy which would have encouraged a sufficient growth of modern weaving capacity suitable for the export sector.

We note that some recent decisions of the government go some distance towards providing the flexibility that is needed. For example the decision that export production should be outside the licensed capacity for any industrial undertaking will help existing firms expand beyond licensing limits since in determining whether production of an industrial unit has exceeded licensed capacity, its exports will be automatically excluded. This will clearly help to exploit intensive utilisation of existing capacity for export promotion and also to create additional capacity. The Industrial Policy Statement of 23rd July 1980 has also permitted the facility for automatic expansion to 19 other industries included in Appendix I of the Industrial Policy Statement of 1973 in addition to the 15 industries which were given this benefit in 1975. Furthermore, proposals for the establishment of new capacity for export purposes is to be viewed favourably in all sectors.

We strongly endorse this promotional approach to licensing for export production and urge that effective and continuous monitoring be done to ensure that the spirit of the approach, as reflected in the Industrial Policy Statement, is fully carried through at the implementation stage.

(ii) MRTTP Restrictions In addition to licensing restrictions the limit imposed on expansion of large companies under MRTTP may also have had an adverse effect on export development. It has now been decided that exports will be kept out while calculating the production of an undertaking for the consideration of its dominance. On this basis the dominance of an industrial unit will be determined only with reference to its sales in the domestic market. MRTTP companies with good export performance in the past will also be favourably considered for automatic expansion.

These measures will enable the big companies and large houses to participate in export expansion on a "freer" basis as they will now be able to respond quickly to export profits and opportunities. This flexibility of operation for these companies, conditional upon export performance, is to be welcomed in view of the great urgency of expanding exports.

(iii) Access to Imported Technology Inadequate access to imported technology has prevented upgradation of the quality of domestic production and may have reduced our competitiveness in international markets in some areas. Import of technology is not a substitute for the development of technology within the country, and as such measures to improve domestic R & D should continue to have the highest priority. But it must also be recognised that technological autarky is not a viable course to follow. No country is technologically self-sufficient and the rate of technological change today is such that a substantial and continuing inflow of technology should be accepted as the norm. An obvious example where technology imports will be crucial is in the area of fuel saving technology. The scale of research expenditure in the world on the subject compared to what is possible within the country is such that technology import on a continuing basis is unavoidable and urgent.

Thus while domestic R&D should be strongly supported, this should not be done through a highly restrictive policy on technology imports. This is especially true where potential export development is concerned, since international standard of quality, design and performance are very demanding. In this sense, whereas the phase of import substituting industrialisation permits, and even encourages, a high degree of technological insularity, a greater import orientation requires much wider access to technology and on a continuing basis to keep abreast of rapidly changing technological frontiers. We would emphasise that such technology imports, far from stunting domestic R&D, will serve as a catalyst to domestic effort.

We note that some steps have recently been taken to liberalise the terms on which technology imports are permitted. Applications for technology imports without equity participation, which involve only lumpsum payment of royalty, are to be considered more liberally. It has also been decided that the permissible royalty rates should be higher for export sales vis-a-vis domestic sales. These measures should help in the effort at updating our technology for export production. It should be kept in mind that where technology is wanted without equity a correspondingly higher price will be demanded and must be accepted as the cost of not diluting domestic equity. We endorse these moves and urge that a liberal approach be adopted towards technology imports for export production with the scope for further relaxation being favourably considered.

(iv) Access to Import Requirements at International Prices

One of the consequences of a trade regime with substantial import control is that exporters are denied access to raw materials and inputs of the right quality and also capital goods at competitive international prices. There have been frequent complaints that this has seriously hampered our exports in the past.

In our view the general principle to follow in determining the import policy for exporters is that it should aim at ensuring a "free trade regime" for exporters as far as their import requirements are concerned. Only thus can export production compete without disadvantage in international markets. A free-trade regime for exporters requires (i) free access to imports needed for export production (ii) exemption from customs duty and (iii) maximum freedom from procedural delays. The present situation under each of these heads can be summarised as follows.

Availability of Imported Requirements The present position regarding import availability for registered exporters (except for those in Free Trade Zones or for 100% export-oriented units) is summarised in Table 7.

Table 7

Access to Imports for Registered Exporters

<u>Type Import</u>	<u>Access provided for exporters other than those in FTZ</u>
OGL Items	Freely available in any quantity as for any other actual user.

Restricted
List

Available under automatic licence to cover certified levels of previous years' consumption and also under supplementary licences for additional requirements as for any other industrial user with the following additional privileges.

For units exporting at least 10% of the value of previous year's output the automatic licence will be increased by 10% above certified consumption.

For units exporting select products identified in Appendix 22 if exports are at least 50% of value of production supplementary licences upto 50% of the automatic licence are available without going through a sponsoring authority.

Import licences are available to cover import requirements for executing a specific export order and these licences carry an export obligation.

Banned List
and Canalised
List

For specified exports import replenishment (REP) licences are provided upto stated percentages of f.o.b. value of exports which can be used for import of specified banned and canalised items (shopping list). These licences are transferable. The following additional points are relevant.

Manufacturer exporters may use REP licences to import items needed for production which are not in the shopping list except that banned items so imported will be allowed only upto 20% of REP licence value and no single item should exceed Rs. 1 lakh. This facility when used (for the whole or part of the REP licence) implies an actual user condition.

Canalised items specified in Appendix 9 when not included in the shopping list may be imported with prior approval of CCI&E.

REP licences can be used for import of technical designs and drawings and facilities for type testing abroad. They can also be used for import of computer cards, tags, labels, bags, catalogues, etc.

Capital Goods Available on the same terms as for other actual users except for the fact that REP licences can be used to import capital goods on the recommendation of the sponsoring authority concerned and with the approval of DGTD. However prior advertisement is not necessary if the item is less than Rs. 15 lakh or if the REP licence is not a transferee licence. For items above Rs. 15 lakhs and for a transferred licence the normal CG procedure applies.

Availability is relatively easy in the case of items under OGL, and in practice also under the restricted list. As regards the banned list, availability is limited by the overall percentage of REP entitlement and also the various ceilings on items specified in the shopping list. Capital goods availability to exporters is almost as restricted as for other producers, although the procedure is facilitated if import is against REP licences.

We note that over the past several years the import policy for exporters has become progressively more liberal. Items under OGL have been expanded and permission to import from the restricted list has been relatively easily granted during the days of abundant foreign exchange in the past four years. However, it is clearly not a free-trade regime for exporters. Much depends on how applications to import from the restricted list are administratively handled and access to banned items is limited by the Replenish Entitlement (REP). While these provisions have provided considerable flexibility during years of relatively easy foreign exchange availability, there is a danger that if the import policy is either made more overtly restrictive, or is more tightly administered in future because of the foreign exchange scarcity, then exporters will feel the pinch

unless the import policy for exporters is correspondingly adjusted. For example, a more restrictive approach to issuing automatic and supplementary licences would hurt exporters unless compensating changes are made in the degree of special access granted for exporting units. Shifting of items from the restricted list to the banned list may also hurt exporters unless offset by a corresponding revision in the rates of REP entitlement and widening of the shopping list.

In the coming years, the import policy for exporters must ensure at a minimum that there is no worsening in the degree of access to imports available for exporters. On the contrary the scope for further liberalisation should be favourably considered. This relates in particular to access to the banned list and also access to capital goods imports. The latter are particularly important for some areas requiring specialised equipment e.g. gems and jewellery and also leather.

We note that the recent decision of the government to extend the facilities hitherto enjoyed only by units in the Free Trade Zones to all 100% export oriented units wherever located will significantly extend the opportunities available to exporters. Such units will now be eligible for duty free import of capital goods, raw materials and components. The import of raw material and components would be permitted liberally and there would be no "indigenous angle" scrutiny. Foreign collaboration and import of capital goods would also be allowed against free foreign exchange or bilateral negotiations in such a way that the cost of units is not unduly raised. In addition, indigenously available inputs would be allowed to move to the factories operating in customs bond without payment of Central Excise duty. An agreed time phasing for achieving 100% exports will be permitted on merits; and the period of export obligation will originally be 10 years and will be reduced to 5 years in the case of products having a high degree of technological change.

Duty Exemption At present all import duties paid by exporters on their immediate inputs are refundable under the duty drawback scheme. The principal shortcoming in this procedure is the delay involved in recouping funds and also the cumbersome procedures. In addition there are two schemes under which imports are permitted without payment of customs duty. Under the Advance Licensing

Scheme with duty exemption exporters with firm export orders can import their requirement of 55 items listed in Appendix 19 of the 1980-81 Import Policy, without having to pay customs duty. The scheme applies only to imports for exports with a minimum 25% domestic value added and where total amount of custom duty (on all imports) is not less than 5% of the f.o.b. value exported. A second scheme is a new experiment whereby imports allowed against REP licences for a small list of selected products - stainless and utensils and sinks, brass artware, steep pipes, tubes, wire sheets etc. - will be permitted free of duty.

We would urge that there is considerable merit in expanding the eligibility of exporters for import of permitted items free of duty. The Advance Licensing Scheme has not proved very popular because of cumbersome procedures. There is great merit in simplifying it further and widening its scope. The experiment in granting duty exemption under REP licences should be evaluated and extended if administratively feasible.

Procedural Simplification The effectiveness of the various schemes for liberal and duty free access obviously depends crucially upon the procedures evolved. The scope for further simplification should be systematically examined and feasible simplification implemented even at the risk of some leakage of unintended benefits.

It should be emphasised that these apparent concessions to exporters on the matter of import requirements does not amount to undue pampering. Where the Balance of Payments is managed by exchange rate changes it is entirely appropriate that exporters should receive imports only on the same terms as everyone else, because they also derive the full benefits of a depreciated exchange rate. However when the Balance of Payments is managed by resorting to import restrictions as is the case in India, the exchange rate facing exporters is considerably less favourable than the effective exchange rate on imports i.e. including the premium after restriction is imposed. A liberal and flexible import policy for exporters is only an attempt to offset these disadvantages to some extent although, as shown below, a wider problem of export profitability remains.

Export Profitability Even if we remove the institutional and technical constraints on our ability to produce exportable goods of internationally acceptable quality, exports

will not take place if exporting is not as profitable as domestic sales. This aspect of export policy tends to be underplayed in our policy planning where there is considerable emphasis upon identifying products and setting targets for exports of this or that commodity without due regard to whether the export activity will be sufficiently profitable to induce the required response. Three factors are relevant for export profitability.

- Extent of bias towards import substituting production rather than export production.
- Relative rates of inflation in the domestic economy and abroad.
- Rate of exchange.

Import Substitution Orientation of Trade Regime As noted above, a trade regime in which there is significant reliance upon tariffs and licensing affords substantial effective protection to domestic producers in import competing lines while exports receive no comparable protection. In fact, since this type of protection raises the general cost structure of industry exports actually suffer from negative effective protection. This is an important bias in policy compared to a neutral regime in both export oriented production and import substituting production face the same degree of effective protection.

It is not possible to quantify the extent to which this bias discourages exports without detailed studies of particular items but there can be little doubt that it tilts relative profitability sharply in favour of producers who produce for the domestic market. It is this policy induced distortion in the market which produces the so called "strong pull of the domestic market" and not, as is sometimes asserted, the size of the market itself. By international standards the present size of the Indian market for manufactured goods is quite small and it would not by itself discourage exports if those other distortions did not exist.

It is important to emphasise that while exporters receive a few concessions, these do not suffice to offset the disincentives referred to above. The various duty drawbacks and duty exemptions on imports only partially offset the high cost structure. Cash compensatory support

also helps, but it is also partial. For example, while it offsets the higher cost of production on account of taxes levied at earlier stages, it does not offset high costs arising from quantitative restrictions on imports which also raise prices. Furthermore, it is limited in its coverage of commodities. Agricultural exports for example are not included and as a result the exchange rate facing agricultural exports is much less favourable than for manufactured exports.

(In our view, this bias against exports should be progressively removed.) Equalising incentives compared to import substituting production would reveal a wide range of export activities which are not viable at present but would become viable at higher levels of profitability. This bias can be removed by one or a combination of the following measures:

Reducing the degree of reliance upon import control through licensing and tariffs, and shifting to greater reliance upon the exchange rate in combination with macro-economic policy to manage the Balance of Payments deficit. This would move towards equalising the incentive to exporters compared to import substitution.

Offsetting the discrimination against exports by a direct export subsidy.

Offsetting the discrimination against exports by giving hidden benefits to exporters in the form of hidden subsidies, e.g. by overgenerous import privileges, relaxing constraints on domestic expansion as a quid pro quo for successful exports, tax reliefs etc.

We recognise that none of these alternatives is easy and some are highly controversial. The second item is probably not feasible in view of the likely resort to countervailing duties against export subsidies. In the long run, policy should evolve along the lines indicated by the first above. However any such move can only be gradual. Therefore sympathetic consideration must be given to various possible measures under the last item.

Relative Rates of Inflation A second factor affecting export profitability is the relative rate of inflation in the domestic economy compared to rates of inflation abroad. A lower domestic inflation rate gives a continuous edge to our export effort. It should be noted that it also provides an equal degree of support to the competitiveness of import substituting production. In this respect, low relative rate of domestic inflation achieve the same objective as a steady depreciation of the exchange rate in terms of raising the profitability of exports and also import substituting production.

These considerations underscore the importance of macro-economic policy in keeping the growth of aggregate demand in balance with the growth of supply in order to ensure that domestic inflation rates are contained within modest limit. Excess domestic demand is affected in higher rates of inflation and widening trade deficits as the pressure of domestic demand sucks in both more imports and holds back potentially exportable commodities. If higher exports are to be a mechanism for reducing the trade gap, this must be accompanied by measures to reduce the gap between aggregate demand and supply. We would emphasise that expansion of supply is an essential part of this adjustment. The role of demand management should be to keep demand within the limits of supply once maximum efforts have been made on the supply side. Only thus can external and internal balance be made consistent with growth.

Exchange Rate The third factor that is relevant for export profitability is the exchange rate. We recognise that the exchange rate is not a limited or selective instrument that has an immediate effect upon exports and imports alone. On the contrary, it has wide ranging consequences for the economy as a whole and as such the instrument can only be used in the context of an overall assessment of the economic situation. Issues of timing, the establishment of appropriate preconditions regarding the supply response of the economy, and the existence of a total package of macro-economic measures consistent with exchange rate adjustment are all relevant.

Subject to these considerations, we are of the view that the exchange rate must be recognised as a relevant instrument which can and should be used to help exports in particular circumstances. The international currency situation facing the country is fluid and exchange rates

are fluctuating continuously in world markets. At the same time, rates of inflation in different countries vary so that over time the competitiveness of our exports is continuously changing. Exchange rate changes have a role to play in this situation in protecting the competitiveness of our exports when necessary. They also help in discouraging imports.

Other Support Measures. Export performance can also be helped by a number of steps aimed at developing a broad based institutional structure for exports. It is essential to develop mechanism for improving the flow of market information, organise and participate in trade fairs, utilise Indian Missions abroad to perform various export support functions more effectively, develop appropriate banking institutions in the country to cater to the needs for export credit. In our view there is considerable scope for further effort in these areas which will pay dividends in long term export development.

The constraints on export growth discussed above are collectively very substantial. In our view the export strategy for the 1980s must make a major effort at overcoming most if not all of these constraints. In making this recommendation we note that there is a tendency to try to overcome these constraints by specific exemptions for export oriented production. These attempts sometimes tend to focus attention on 100% export oriented units. There is certainly some scope for such units, and the recent measures favouring such units will help to that extent. However, it must be recognised that a dynamic export performance cannot be expected to function with total dependence on the export market which is necessarily more risky. If we are to launch ourself as exporters of manufactured goods, we will have recognised that in many areas it will be necessary to permit and encourage the growth of production which is internationally competitive but which is aimed at both the domestic and foreign markets. Of course the items exported may well be "superior" or "special" in some ways, but strict separation with totally different products produced for the home market will be difficult to achieve.

This poses a particularly hard choice. It means that incentives directed at exports must not be rigidly limited to units which are 100% export oriented. It follows that benefits intended for exporters are likely to spill over into the domestic market also. This applies to relaxation

of capacity limitations as well as preferential supply of technology and inputs including imported inputs. We should certainly attempt to minimise these "leakages", but having done so, we should also be willing to live with some unavoidable leakages. The fact that there will be leakages must not be allowed to become an obstacle to the development of export potential.

The Social Costs of Export Promotion While endorsing the importance of supporting a healthy and dynamic export performance we wish to emphasise that this policy must not be confused with a policy of blind export promotion or "exports at any cost". The system of incentives facing exports must not be designed to achieve some pre-ordained export target in pursuit of which extensive and permanent subsidies become necessary without regard to the cost of exports.

The thrust of our argument is that at present the total policy framework imposes a number of disincentives upon export expansion. Export strategy should be designed either to remove these disincentives or, where this is not possible, to offset them by offering compensating incentives. This approach is not likely to lead to a proliferation of uneconomic exports supported by unduly high subsidies. It will only promote those exports which are potentially viable and in line with comparative advantage but are at present held back because of the impact of a number of other policies on the export sector.

We do recognise, however, that there are some legitimate limits to which this approach can be carried. These limits are imposed by potential conflicts between the objective of economically efficient export promotion and other objectives of policy. For example, it may be argued that a flexible approach to licensing and also MRTP restrictions where production with export potential is involved, amounts to dilution of these policy objectives. However, these considerations must be weighed against two counter arguments. In the first place, if the urgent need to expand exports is accepted, it must be reflected in a substantially greater weight to be attached to export promotion as an objective of policy. Secondly, it must be recognised that exports are a small part of total production and therefore the relaxation of constraints in this area, even if we allow for some leakages, does not significantly reduce the extent to which conflicting objectives can be pursued in other areas.

There are, however, some areas where purely economic considerations regarding the existence of export possibilities and the desirability for exploiting them need to be qualified. It has been a common experience that strong pressures develop for a ban on exports of goods, especially agricultural commodities, when these are in short supply in order to mitigate the extent of the rise in domestic prices. It is essential to develop an export strategy which can handle these problems without resort to the stop-go policies which we have followed in the past.

We recognise that there may be a case for restricting exports where the item is genuinely an item of mass consumption e.g. onions or potatoes, and where the rise in price may impose a very substantial burden on very low income consumers. A narrow definition of costs and benefits in purely market terms may understate the special costs of such exports. However there are strict limits to this argument. For one thing export bans should be considered only in cases of genuine mass consumption items. They must not be resorted to in cases such as for example meat or poultry feed, where the consumer groups affected are far from being the poorest.

Besides, the interest of the producer must also be taken into account. From the producer's point of view high prices at times of low production only compensate for the decline in income which would otherwise occur because of low output. Indeed the long run interest of the consumer is also poorly served if high prices are not allowed to compensate for production shortfalls since the resulting disincentive to producers may affect long run supply. This consideration is relevant even for items of mass consumption, since export bans may reduce the long term development of supply of these commodities.

There is a strong case for a more flexible approach which allows a domestic shortage to be shared by the domestic and export markets. Export bans should be applied only in the case of severe shortages of items of genuine mass consumption. They tend to disrupt export markets which are not easily recaptured and they create a reputation for unreliability of supply. In the longer run the interests of consumers are best safeguarded not by quick responses in banning exports but by policies to expand the supply of consumer goods but tressed by adequate buffer stocks and a strong public distribution system.

We would emphasise that a healthy and efficient distribution system combined with a policy of buffer stocking (or import) of essential commodities provides the best guarantee for protecting the weaker sections against supply shortages with minimum disruption of exports. The more we evolve along these lines, the less will it be necessary to resort to export bans to protect low income consumers.

SUMMARY

1. The economy faces severe strains on the Balance of Payments in the coming years and these will seriously limit its growth prospects unless effective measures for managing the Balance of Payments are taken. These measures must operate on several fronts but the central element in any Balance of Payments adjustment in the medium term must be a substantial improvement in export performance.
2. Apart from Balance of Payments considerations there is a case for greater export orientation in future if we are to exploit fully the advantages of trade along lines of dynamic comparative advantage. This calls for a policy which redresses the bias against exports which has existed in the past because of the excessive reliance upon import substitution. This is quite distinct from the Balance of Payments argument for expanding exports. What is proposed is a shift of resources over time from relatively inefficient import substitution production in some areas to export production. The resulting increase in exports pays for increased imports so that what is achieved is not a reduction in the trade gap but an increase in the volume of trade.
3. The kind of export thrust needed in the future will not come from a continuation of past policies. India has suffered a long term decline in its share of world exports and also its share of the exports of developing countries. This process must be reversed. Unfortunately world trade in future will grow more slowly than in the past. But with a major policy thrust removing the many constraints which have hampered export performance in the past it should be possible to achieve export growth of 10-11% per year in volume terms over the decade as a whole.

4. To a considerable extent, a successful export strategy depends upon the existence of general economic conditions which are conducive to rapid growth of the economy. They include high rates of investment, adequate growth of infrastructure, general improvements in efficiency and better industrial relations. All these are preconditions for a successful export performance since we cannot have export growth in a stagnant economy. However, an effective export strategy must do more. There are a number of specific constraints upon exports which must be removed.
5. Licensing restrictions, MRTP restrictions and restrictions on imported technology all tend to limit the growth or creation of capacity in areas with export potential. Relaxation of these restrictions could provide a considerable stimulus to export.
6. It is essential to ensure that exporters have adequate access to raw materials and components of acceptable quality at international prices. Import control and the resulting non-availability or the high cost and poor quality of domestically available substitutes, puts exporters at a disadvantage in the highly competitive international markets. In order to offset this disadvantage the import policy for exporters should be based on the principle of achieving a "free trade regime for exporters". While the present import policy for exporters contains some elements to this effect, it falls short of this objective. There is scope for further extending some aspects of the present liberal policy for exporters, especially as far as the coverage and procedures of the duty exemption schemes are concerned and also the access to banned items and capital goods. Furthermore the policy must be kept under continuous review to ensure that any changes in the overall import policy implemented for Balance of Payments reasons do not lead to deterioration in the position of exporters.
7. It is indeed essential to recognise that even if we create the technical and institutional conditions in which exportable goods of the required quality can be produced, exports will not take

place if exports are less profitable than domestic sales. Export profitability is lowered by (a) undue bias towards import substitution in trade policy, (b) high relative rates of inflation compared to inflation abroad, and (c) an inappropriate exchange rate. An effective export strategy must counter all these biases. It must ensure that over time the bias towards import substitution is progressively reduced and in the interim these disadvantages must be compensated. Macro-economic policy should ensure that aggregate demand pressures are contained within the potential for supply so that inflation rates are held down. Finally the exchange rate facing exporters must not be allowed to become unfavourable.

8. A major problem facing exporters is the existence of cumbersome and dilatory procedures. Drastic simplification of procedures is called for.

9. The export strategy for the eighties should not be based on the principle of limiting concessions offered only to 100% export-oriented units. There is scope for these units and we endorse the concept of extending to them privileges normally available only in Free Trade Zones. However, entrepreneurs cannot be expected to build up an export trade on the basis of exclusive reliance upon the export market. The system of incentives should extend to units in which exports are only a part of total activity.

10. The rationale for special measures to support exports is not that exports should be pursued irrespective of costs but rather that exports suffer from specific disincentives because of the impact of other policies. An export strategy which systematically counters or removes these disincentives will not lead to uneconomic exports.

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CHAPTER 5TASK AND PROSPECTS IN 1980sThe Task

India's trade balance, though for long has been adverse, yet it was manageable. The situation started deteriorating from 1978. In facing the second oil shock, as we enter the 1980s, the position has begun to further deteriorate. In 1980-81, India's trade deficit is expected to be around Rs. 4,100 crores. The factors, both internal and external, straining our balance of trade are as follows:

Internal

- Domestic shortages of industrial and agricultural products, where from net exporters, not so long ago, we are now net heavy importers; for instance, of steel, cement, aluminium, vegetable oils.
- Low industrial capacity created and its under utilisation.
- Sub-optimal performance of infrastructure of basic inputs - power, coal, steel, aluminium, cement.
- Low productivity, high input prices, old or at least uncompetitive technology, which singly or together more than offset, infact negative, our comparative advantage of cheaper skilled labour and raw materials.
- Stop-go exports, to adjust to the compulsions of changing domestic availability of sensitive products.
- A continuing neglect of export profitability.
- Inadequacy of export marketing know-how.

External

- The Gulf migration boom is tailing off. While total remittances may continue at near the present level in the short-term, in the long run they may diminish.

Impact of the Second Oil Shock, which will largely offset the gains in exports. The proportion of oil products in our imports is likely to increase as oil prices are generally projected to increase at a higher rate than of inflation during the next decade.

Slowdown of world trade. The high unemployment and inflation among the developed countries is pushing them into a protectionism that further slows down world trade.

There are two alternatives open to us, first to reduce our imports to the minimum essentials bearing in mind the offset on industrial growth and second to build up exports aggressively. Of these, the scope for the first is limited. Our imports are already trimmed of all fat; in 1980-81 only three items, i.e. petroleum products, edible seeds and oils and fertilisers and pesticides, will account for about 69% of our imports. Petroleum products alone account for 50% of our total imports, leaving only 31% for maintenance and other essential imports.

While indigenous production of petroleum products may be stepped up marginally in the short-term, and economy effected through their more efficient use in industry and transport and a greater reliance upon coal - for both of which there is scope - in the mid-term, the scope for any drastic reduction of imports is limited. In fertilisers and pesticides, greater plant capacity utilisation will help reduce their imports, but here too the interests of increasing agricultural production will compel us to import more. In edible oils, the irony is that India, the largest producer of edible oils in the world, and once the largest exporter of 450,000 tons in terms of oil till the Second World War, is today the largest importer at 1.3 million tons in 1979-80. Here, both short and long-term measures are essential to affect import saving, keeping in view that at this rate the world may not have enough edible oil to spare for us, except at very high prices.

There will of course always be scope for import substitution as the economy advances but it will also create its own new demands for essential imports for new technology.

As a long term solution we need to build up exports rapidly and significantly and accept the logic of its

consequences, which are:

To stimulate production of raw materials and manufactures positively through measures that will expand production, and negatively by removing all impermissive constraints we should thus build surpluses consciously, which will push industry into seeking markets abroad and create internal competition, that itself will help improve quality.

Accepting some constraints on domestic consumption where there is a temporary shortage of a product, once we have decided to enter a world market.

Radically remove the impermissive and discouraging procedures which today delay and harass, especially the small exporters by as many as 76 forms and 400 pieces of paper that an exporter has to fill at one time or another. They are often at the base of gratification that promises to lighten the burden.

Efficient utilisation of industrial and infrastructure capacities which continue to remain under-utilised, because of poor productivity, work slow-downs and stoppages, outdated equipment, poor intra-administrative liaison, where literally the writ of one ministry may not run into another. There is a great need for developing a single-window intra-ministry system for industry and exporters.

Make exports profitable;—more than a national duty for the exporters; equally a national duty for those in administration who are supposed to help him.

Use foreign trade as an instrument of national planning and growth.

In the 1950s and 1960s we followed the policy of exports just paying for imports, and the prime task was to build the production base by rapid import substitution. But now that we have established our base that is technically and agriculturally sound, to gain a larger share of world trade from it, we must increase the trade orientation of our economy and bring our technology to international levels, progressively leading it in some areas. This approach gives us a completely different picture. As an example, to meet our domestic shortages of edible oils we may not just import enough to fill the gap but regard ourselves as trading in oilseeds, oils and products.

We would export some groundnut handpicked seeds (HPS) for the premium confectionary and table market abroad, some groundnut oil which fetches a premium for table use; some compounded animal foodstuff; grow oil palms, produce palm oil, and to the extent necessary import cheaper oils which when refined would be acceptable for all cooking purposes; in balance we could even make a net gain in foreign exchange earnings or atleast break even.

The new attitude should not take us away from our earlier emphasis on self-reliance, but, it would be dynamic rather than a static self-reliance, a means to achieve progress than just an end by itself, of the Japanese model of importing new technology, improving upon it and exporting its products, but not hesitating to import if technology somewhere else happens to be more advanced than their own. A narrow static self-reliance instead of strengthening us infact makes us vulnerable.

There should also be some serious introspection into why cement, steel, aluminium, sugar, valuable foreign exchange earners one year can become a drain on the next. While this should be understandable to an extent with an agricultural commodity like sugar, with manufactured products using indigenous raw materials in abundance it is avoidable.

Size of the Task

We state below some projections for world trade and India for 1980s.

Table 8-

Estimates of World GNP and Exports

	1976	1980*	1990
World GNP at 1975 prices	Rs. crores 5,456,800	6,463,800	9,830,800
Growth rate per annum		4.20	4.33
World exports at 1975 prices	Rs. crores 777,600	963,200	1,688,000
Growth rate per annum		5.70	5.70
Exports share of GNP			
World	14.25	14.96	17.17
India	5.80	7.41	12.48

* Estimated.

In the decade 1980-1990, world GNP is expected to grow at 4.33% per annum, only slightly higher than 4.20% during the period 1976 to 1980. World exports are expected to increase at a rate of 5.7% a year, faster than the increase in GNP. The net result will be an increase in the average share of world exports in the world GNP from 14.2% in 1976 and 15% in 1980 to 17.2% in 1990. The marginal share of exports in GNP will increase from 19% as in the period 1976-1980 to 21% during 1980-1990. In absolute terms, during the decade 1980-1990, the real value of additional world exports will be Rs. 724,800 crores.

During the period 1968-1978 world total exports at current prices increased at a rate of 17.5% per annum, and at 8.30% in real terms. India's total exports, during the period increased at 13.20% per annum at current prices and at 5.10% in real terms.--

For world manufactures' exports the past real growth rate of 7.00% per annum is assumed to continue during the 1980s. For India, during the 1980s a real growth rate of manufactures' exports at 12% per annum is considered necessary minimal and attainable rate.

Table 9

Exports Targets at 1979 Prices

		1979		1989
World	Growth rate	% per annum	5.7	
	Exports	Rs. crores*	1,101,817	1,911,816
India**	Growth rate	% per annum	11.0	
	Exports	Rs. crores	6,421	18,231

During the next decade the GNP and exports of DCs are likely to increase faster than other regions and world as a whole

Table 10

Increase in GNP and Exports***

	GNP	Exports
	(% per annum)	
DCs	5.60	6.10
DMEs	1.20	5.90
OPEC	5.00	3.20
CPEs	4.20	5.10
World	4.33	5.70

* Conversion rate \$ = Rs. 8.00

** For India figures are for financial year (April-March).

*** Based on material from "The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures", OECD, 1979, Paris.

World exports of major groups of product are likely to show increase during the next decade of 1980-1990. Our estimates are based on growth rates projected by World Bank in World Development Report 1979 and GATT's International Trade 1977-78 and 1978-79. These estimates are given in Table 11.

Targets for India's export have been aggregated from the projections for major sectors i.e. manufactured exports and agricultural exports. The projections for these major sectors were in turn based on what are the possibilities in each of the sub-sectors e.g. engineering, electronic, handicraft, leather goods, etc. for manufactures export, and plantation crops, flowers and vegetables, marine products, etc. for agriculture sector.

Table 11
World Exports by Product Groups*
(at 1975 Prices)

Major Product Groups	Growth rate 1960-76	1975 share		Growth rate 1976-80	1980 share		Growth rate 1980-90	1990 share	
	% p.a.	\$ bn	%	% p.a.	\$bn	%	% p.a.	\$ bn	%
Fuels & Energy	6.7	187	19.2	3.1	210	17.4	3.1	285	13.5
Other Primary Products:	4.4	206	21.3	3.3	236	19.6	3.3	326	15.4
- Food	4.4	122	12.5	3.7	141	11.7	3.7	203	9.6
- Non-food agricultural products	5.1	39	4.0	1.8	42	3.6	1.8	50	2.4
- Non-ferrous minerals	3.9	24	2.5	3.5	27	2.2	3.5	38	1.8
- Other minerals	3.9	21	2.3	3.5	25	2.1	3.5	35	1.6
Manufactures	9.1	78	9.5	7.0	758	63.0	7.0	1,499	71.8
- Machinery & transport equipments	9.9	261	26.9	7.6	350	29.1	7.6	728	34.5
- Other manufactures	8.5	317	32.6	6.5	408	33.9	6.5	771	36.5
Total	7.4	972	100.0	5.7	1,204	100.0	5.7	2,110	100.0

* Based upon data in World Development Report 1979 - World Bank.

Table 12

Export Projections at 1979-80 Prices- Total and Manufactures

		1979-80	1989-90
WORLD*			
Exports	Rs. crores	1,101,817	1,911,826
Growth rate	%	-	5.70
Export of Manufactures	Rs. crores	671,223	1,320,396
Growth rate	%		7.00
INDIA			
Exports	Rs. crores	6,421	18,231
Growth rate	%	-	11.00
GNP	Rs. crores	95,707**	146,134
Growth rate	%	-	5.00
Export of Manufactures	Rs. crores	3,581	12,096
Growth rate	%	-	12.9
INDIA'S WORLD SHARE			
Exports	%	0.58	0.95
Manufactures' exports	%	0.53	0.92
India's export share in GNP	%	6.71	12.48
India's manufactures share in total export	%	55.77	66.35

* World figures are for calendar year.

** NCAER estimates.

Table 13
Growth 1974-76 to 1980
 % per annum

Tea	6.0
Sugar	3.7
Coffee	7.0
Tobacco	5.3
Iron ore	5.0
Fats and oils	5.2
Jute products	6.0

- Being a large country India's export-base in absolute terms is fairly large, Rs. 54 bn (Rs. 5,400 crores) in 1977-78.
- With an expected addition of nearly 150 million to the existing 650 million population of India, much of the additional production will be needed to meet domestic needs.

Projections of exports from India by major commodity groups, are given in Table 14. At current prices, exports are expected to increase at 21% per annum and at 1979-80 prices at 11% per annum. The commodities to show a substantial rise in value term are, cereals and preparations, gem and jewellery, engineering, leather and leather products, etc.

However, a growth rate in exports, somewhat higher than 21% a year at current prices, and 11.0% at 1979-80 prices may be aimed at if export prospects of individual products appear to be brighter.

Table 14

Export ProjectionsAt 1979-80 prices

<u>COMMODITY</u>	1979-80	1989-90	GR per cent per annum
<u>A. Agriculture</u>			
1. Plantations	579	1,040	6.0
2. Cereals and preparations	131	445	13.0
3. Processed foods	120	425	13.5
4. Commercial crops	331	800	9.2
5. Marine products	252	810	12.3
6. Fruits, vegetables and flowers	118	320	10.5
7. Others	209	400	6.7
A. Total Agriculture	1,741	4,240	9.3
<u>B. Manufactures</u>			
8. Engineering goods	650	2,632	15.0
9. Leather and leather goods	390	1,324	13.0
10. Gem and Jewellery	590	3,088	18.0
11. Textiles (including cotton, silk, woollen and man-made)	880	1,970	8.4
12. Basic chemicals, pharmaceuticals and cosmetics	180	468	10.0
13. Chemicals and allied products	156	487	12.0
14. Plastics and linoleum	35	100	
15. Handicrafts	225	765	13.0
16. Sports goods	25	95	12.0
17. Other manufactures	450	1,167	10.0
B. Total Manufactures	3,581	12,095	12.9
Total Agriculture plus Manufactures (A+B)	5,322	16,336	11.9
Total (Including Others)	6,421	18,231	11.0

Source: Reports of Sub-Committees.

CHAPTER 6

INDIAN EXPORTER - A PROFILE

It is today a large and diverse group, whose vertical cross-section go down from the big corporations, export houses and consulting firms, in the public and private sectors, through medium and small enterprises, to the growing body of individual entrepreneurs and the emigrant Indian abroad. This group is equally diverse in its efficiency. At one end there are often the dedicated and enterprising one-man, one-woman, sometimes one-order, "no-problem", promise-all hopefuls, who keep up a steady, often flowery, correspondence soliciting orders and promising all; and, at the other, some very sophisticated competent large modern exporters who are already being invited into joint ventures and third country activity. Some create new trade flows while others impede them through problems of quality, delivery and price cutting.

Our policy should aim giving purpose and directions to this total export effort of the big and small, without flattening out the initiative of small individuals, because they sometimes present problems with fulfilment of contracts, or impede the large through our internal capacity constraints and regulation of growth.

In recounting our weaknesses, largely from inexperience and sometimes a desire for short-sighted quick gain, we should avoid indiscriminate criticism of the export effort and concentrate on three basic issues for the 1980s.

First, a frank and constructive analysis of why we have not been able to develop a place for our exports as has been done by some countries, who were far behind us till not so long ago. Indian textile industry was started in the 1860'S and was traditionally an exporter; Taiwan, Hongkong, South Korea beginning nearly a century years later have outstripped us.

Second, to create a climate of profitability in exports, supported by administrative and infrastructure

Impressions from Chairman's visit to New York, Wasington, London, Paris, Brussels, Frankfurt, Moscow, April 1980, and Manila, Singapore, October-November, 1980.

back-up systems that are permissive, flexible and trusting, so that they smoothen instead of hinder the path of exports. Government has its own responsibility in removing the many counter-productive constraints that dog exports.

Third, evolve new export strategies.

Certain features about our exports are pointed out as often by our own people, our agencies and missions abroad, as by the importers, their chambers and officials. They deserve our careful examination because they stem often from a genuine belief that our exports ought to be doing much better. Some abroad see striking differences and contrasts among our exporters, in their sophistication and competence, and this is not always in the favour of the large; there are many small who do an excellent job. It is argued that perhaps a return to a liberal, competitive regime in the home market would induce high overall efficiencies, something which has so far been resisted in the pursuit of certain larger objectives. As the need to exports become pressing and urgent, we may consider that international trade policy cannot be looked at in isolation and the cost of adjustment of our internal policies may be worthwhile, so long as it is compatible with our economic and political imperatives.

Exporting to us appears marginal, of surpluses which in an economy like ours can fluctuate almost between feast and famine, when we are either spurred to sell all we can or feel constrained to sell nothing at all. Sometimes we go back even on our existing commitments; at other, if international prices suddenly rule high, impose export duties. We should either export only where we have a permanent surplus, and then build buffer stocks for the occasional production shortfalls, or while we develop an adequate supply base accept some sacrifice; we cannot make the export markets pay all the price.

Reneging Going back on a contract (a term used in USA) and refusing to fulfil it on its original terms, has been an unfortunate experience of importers.

- First, the delay in delivery may put the importer in exactly the position of a non-delivery, because it cannot go into his own or his buyer's production

at the appointed time. While the exporter may plead, sometimes truthfully and sometimes not, shortage of raw materials, power, rail, port and strikes, the importer has no recourse.

Second, the exporter may even ask to revise the price upwards, if he has to have his contracts endorsed by an Indian authority, say, the Jute Commissioner, because the delivery has been delayed beyond a stipulated period. The authority will take note of rising market, which while it suits the exporter, embarrasses the importer because he may have a back-to-back contract with his buyers. In any case, he would like the benefit of the price rise as would an exporter of a price fall.

Third, while importers fully accept a government's right to impose a duty of any magnitude on contracts entered into after the date of announcement, they sotto voce, and with surprising vehemence and emotion, oppose the retroactive effect of an export duty. This happened to tea in 1976 and jute in 1980, when they quote instances of purchases made in good faith weeks and months earlier but delayed in shipments, or of loaded barges lying alongside ships, and of back-to-back contracts suddenly made to bear an unexpected price rise quite outside the contract. Such policy, the tea and jute importers, regard "wayward", and in the long run damaged the interests of these traditional Indian export world leader. Tea in USA has still not recovered from the impact of export duty of 1975-76-77, and we have lost seemingly permanently, a share of our market to China and Kenya.

Then, there are cases of deliberate defaults by non-fulfilment of contracts, especially by those small exporters who in their over-optimism will accept commitments far beyond their capacity to implement. To the buyer there is no redress except a lesson learned the hard way.

"Stop-go" exports are considered abroad as causing much avoidable damage to the Indian export effort; one which can be avoided through

- A careful planning of supplies - where possible

through buffer stocks - in the case of a new product and some sacrifice by domestic consumer in an unforeseen shortage; and

- A permissiveness towards the importers with valid contracts for fortuitous gains.

Quality It is a common problem, experienced mainly with the small exporters who are technologically weak and have poor quality control or consciousness. The first delivery will often be good, conforming to the sample, but thereafter problems begin, sometimes indeliberately and at others deliberately. They are symptomatic too of a poor sense of responsibility among a generation of producers nurtured in a cocooned home market of choiceless consumers.

The quality control system introduced by Government and the Export Promotion Councils seems not to have helped or inspired confidence; infact, it seems to help some indiscriminate exporters who are willing to find their way through its checks. It is a serious problem that distorts our image abroad and undermines the importers' confidence. As one of our own representatives abroad put it - "We have great scope here for our exports: I can sell anything, if I am told to sell mud, I can; but I know it will be full of stones!" Japan, Korea, Taiwan, Hongkong, Singapore, and now China, on the other hand, are frequently quoted abroad as examples of dependable quality of an image sedulously fostered.

It has been suggested that at least a reputable exporter, with an established record, should be allowed self-inspection, while others should compulsorily obtain a bank guarantee or financial bond to the Export Promotion Council. In cases of default the punishment should be exemplary and the party should be removed from the category of self-inspection.

Packaging Product packaging and outer containers are often poor, heavy and shoddy, comparing unfavourably with others. There is need to invite some competent packing materials firms to develop and modernise appropriate packaging to international standards.

Deliveries Unreliable quality and deliveries to importers abroad, with finely balanced production and sales schedules

can prove as embarrassing as non-delivery. The reasons put forward are many - shortages of power, raw materials, transport and shipping, strikes and port delays; to which we can add those we do not admit, poor production planning; over-optimistic acceptance of orders against an inadequate supply base: but endemic and acceptable as these factors may be to our buyers at home, they make little sense to an importer, who naturally compares us with small totally dependable countries of no comparable resource endowments, the Korea and the Taiwan,

It would be helpful if the exporters were to anticipate realistically delays in deliveries and alert the importers, who could take some remedial action to guard against the consequential damage, instead of announcing the delay after it has happened, and then only grudgingly.

Claims, An inevitable concomitant of quality, packaging and delivery problems is claims, to which our system responds slowly and grudgingly. We appear often to resist claims on principle, and it may take up to two years to settle. This frustrates importers, who even when they have some sympathy with our problems, find the prolonged follow-up of claims understandable, and so costly, that they will sometimes prefer to close the matter and vow not to order again.

This tardiness in accepting claims, however small, appear to arise from a mixture of Administration's mistrust of the Indian exporter's possible collusion with the importer; of our cumbersome rules and procedures, such as the Reserve Bank of India demanding a certificate from an Indian Consul General that the defective goods were infact destroyed in his presence (a sizeable casting in this case!), or giving the importer the impractical option of returning the goods to India, involving more than the claim in repacking and freight. There were instances, too, it was admitted, when exporters take shelter behind the RBI rules. In public enterprises it is the done thing to start by totally rejecting the claim, to be in the clear with Audit and strengthen their legal stand. Altogether we do not appreciate that an importer's interest lies in receiving the right merchandise and selling it, and not in holding up a consignment with working capital locked up and production delayed. Dubious cases can only be few and some

doubtful cases at least are best settled gracefully.

We should have simpler, more relevant procedures for claims. For small claims it should be enough to receive a declaration of the importer and exporter; for large amount some supporting evidence from our mission or a public agency, or some institution abroad, such as a chamber of commerce, a superintending agency or public analysts; and for claims of really large amounts to quickly agree with the exporter and the Export Promotion Council concerned on a procedure to suit the case. The essence of the new system should be to expedite claims, with a record maintained of the incidence, nature, time taken, and to separate the grain from the chaff.

Selectivity The problem remained unsolved, and there are complaints from all quarters. It is a social and political problem, stemming from our acceptance of the right of anyone to export, with neither the means nor the will to expect, much less enforce, the obligation that goes with it. And yet when complaints are as frequent as one hears them from our missions abroad, the harm done to our larger national export interest must find some answers. We feel that a practical solution would be to harmonise through some franchising system, the national export interest and the small exporters, who have their production and enterprise, by linking them with those larger exporters, who possess the requisite technical and export marketing skills.

Below is an extract from a speech of Mr. Wilhelm Haferkamp, made at the inauguration of the India Trade Centre at Brussels on 29th February, 1980.

But we do not have the impression, that the unsatisfactory India export performance in this field since 1976 can be primarily attributed to our restrictions. Overpricing, quality problems and unreliable delivery schedules seem to have been more important causal factors. Indeed, in 1978 India was able to use only 70% of the available textile quotas, and while Indian textile exports went down by some 30%

(In quantities) from 1976-1978, those of other competing Asian countries went up by more than a quarter."

The problem of quality, deliveries and claims pose some hard choices, and while they may well be problems of inexperience, growth, development, and the many procedures that honestly attempt to prevent abuse and protect the importers' own interests, they must be eradicated before they become endemic, especially when the 1980's present us with the challenge of accelerating our exports against competitors who enjoy a good reputation in this regard. Those looking ahead abroad regard India a future exporter and importer of considerable promise and magnitude but also a country with its reservations and a penchant for passing by its opportunities, with constraints and procedures that test the most dedicated exporters and importers

Opportunities In the West and the East, also in USSR, one heard the same refrain: opportunities are here, in plenty; the door is open, come and get it! Infact, despite the difference between Europe and Russia in their style of trading, open in one and planned in the other, both see equal and large scope for new opportunities for India, but it was up to India to develop them. In the West, except in textiles, where there are obvious limits, and our lack of selectivity is partly to blame, trade is highly competitive and governments cannot direct the buying. Indian exporters have to do their own marketing and development, like anyone else. South Korea, Hongkong, Taiwan, Singapore; and now China, Brazil, and Mexico are the commonly cited examples. In USSR, they have large export surplus balances in India which they can spend in buying both the traditional and new products; elsewhere, among the developed, the share of India is so small compared with others that an improvement is easy to get. A recently opened handicrafts shop in Moscow is already so overcrowded that it is going to expand substantially within a few months of its start. Our advantages are considered to be many.

India is fortunately placed with about the widest range of exportable products: agricultural, animal, mineral, manufactures, fashion wear, mountains, beaches and culture; indeed a variety that few

countries can offer.

It is now offering an abundance of rich exportable talent in consulting, advice, and in sophisticated a range of research, development and data processing.

If India's bias so far in resource allocation towards import substitution and the domestic market is shared to the deserving extent with exports, her entrepreneurial, institutional and technical strength, gathered over the last thirty years, should facilitate the process of breakthrough in world markets.

In the East, India has the special advantages of

Appropriate technology, provided it is not just outdated and inefficient technology.

Long standing connections through Indian expatriate business communities, the new joint ventures and banks.

The common problems of development in which we sometimes have some experience, such as in small scale industry, agriculture and development banking.

Appropriate consulting and design skills and advice.

External environment may no doubt become more difficult through protectionism and quota restrictions and pose some future concern and problems, but it should not be a major constraint on India's export growth. India would have to adjust itself and concentrate upon its appropriate and comparative advantages, backed by supportive and flexible outward looking policies that avoid on the one hand the blanket protection of import substitution and are, on the other, positively and speedily responsive to challenging conditions. Above all, they should be trusting of the efficient and the honest. Improved foreign trade policies will not slow down Indian development problems; instead they can play a valuable

part in the shift from foreign exchange constraints of low growth to rapid and sustained growth.

For our future opportunities we need both products and markets, and regional strategies for the DME, CPEs, DCs, and OPEC; each offering a different set of opportunities qualitatively and quantitatively. For instance, in the CMEs, say USSR, being balanced trade, we cannot run a trade surplus with them to import, say, oil from elsewhere, but they could no doubt consider that too if we export hard currency items to them that they now import from elsewhere - wheat, rice, animal feeds and grain. They would besides be interested in rubber, aluminium, pig iron, processed and fresh vegetable, medicines, castor oil, goatskin, leather etc., especially through associate production, though they are not interested so far in equity investment, even on a buy-back basis. They would also be willing, for instance, to supply agricultural equipment for a new canal command areas in exchange for part of their produce. Indo-Soviet (and CPEs) trade has expanded from Rs. 158.4 crores in 1965, to Rs. 412.3 crores in 1973, and an estimated Rs. 1,600 crores in 1979, and will continue to offer new large scope in new directions of services, joint ventures, and in agricultural products. They have also shown an interest lately in private enterprise collaboration, our consultancy, design enquiry and construction capability; and although it may be some time before they turn to import of our talent, that too will happen.

India therefore has a wide, intenting and promising range of opportunities internationally, in the DMEs, CPEs, OPEC and DCs, it is a case of how we perceive them. We certainly have acquired enough sophistication, technical trading and management, to be able to handle them with confidence instead of with inhibitions and hangups.

CHAPTER 7

INDUSTRY

Based both on mineral and agricultural raw materials, manufactures play an increasing role in India's exports, and it has been our experience that periods of good industrial growth are reflected in an increase in exports, and conversely years of poor growth are followed by slack exports. The table below shows the correlation.

Table 15

Manufacture - Exports and Growth

	Exports			Industrial
	Total Rs. crores	Manufactures Rs. crores	% of total	growth %
1965-66	816	375	45.96	10.24
1968-69	1,358	691	50.88	6.91
1970-71	1,535	1,009	62.70	10.14
1973-74	2,523	2,130	64.00	18.74
1977-78	5,404	2,956	54.70	11.47

The importance of manufactures' exports to India is derived from the fact that manufactures also play a major role in world trade and show a relatively greater buoyancy even in the years of a slowdown.

	1963	1973	1975	1978
World exports	100	231	232	284
Growth rate per annum	8.14	Negligible	7.08	
Manufactures	100	280	290	363
Growth rate per annum	10.70	1.90	7.80	
Agriculture	100	147	149	179
Growth rate per annum	3.80	0.68	6.57	
Minerals and fuel	100	195	176	190
Growth rate per annum	6.91	-4.94	2.89	

Source: GATT International Trade, 1978-79, Appendix Table A1.

Manufactures have a primacy in world trade and form a leading growth factor in exports from developing countries. India has also begun to follow this trend, and compared with other developing countries, whose manufactures form a 25% share of their total exports, India's exports now account for 62%

World and India

Sectoral Growth Rates - 1968-1978 % per annum

	At current prices		At 1975 prices	
	World	India	World	India*
Agriculture	10.92	11.70	3.96	4.74
Minerals and fuels	16.96	Negligible	4.37	Negligible
Manufactures	16.29	13.17	8.98	5.86

India

- In 1938 manufactures accounted for 23.7% of India's exports
- In 1970-71 " 52.5% "
- In 1973-74 " 64.1% "
- In 1977-78 " 54.7% "
- In 1978-79 " 62.5% "

World Economic Regions and India

Growth Rate between 1960-1976* At constant prices

	World	DMEs	DCs	OPEC	CPE
GNP	4.88	4.42	5.54	8.70	4.50
Total exports	7.40	7.73	6.17	8.14	5.88
Fuels & energy	6.78	4.64	5.80	8.14	5.68
Primary products	3.68	5.00	3.56	-	2.89
Manufactures	9.10	9.00	12.60	-	7.30

*World Bank Development Report, 1978 and 1979.

Our first strategy consideration therefore is to tap the large world potential in manufactures everywhere, especially in the DCs. About one-third of the total exports of manufactured products from DCs go to other DCs. Of Indian manufactures' exports too about 30% are destined to DCs and 70% to DMEs and CPEs.

Major counter points are the emergence of DCs regional trading groups and the growing protectionism in the DMEs, among whom increasing protectionism is emerging for clothing, footwear, electronics, iron and steel; and wherever our comparative advantage of cheaper costs offer competition, and this has come to stay as the growth slackens. India can overcome these obstacles through diversification and upgrading of products and markets, through higher technology, and increase exports to OPEC, CPEs and DCs. As its fractional share of 0.53% (in 1979-80) of world manufactures trade, India with its technology and production base has ample scope for expansion.

The committee has assumed a growth rate for Indian manufactures' exports of 8.5% per annum between 1976-77 and 1980-81, and thereafter 12.9% per annum upto 1989-90 with world share rising from 0.53% to 1.0%.

It is interesting to note that any improvement in Indian manufactures' exports beyond a level of Rs. 12,000 crores will mean a significant addition to India's total exports, as will be seen from the statement given below.

Indian Exports

	Total		Value	Manufactures	Share of
				share of	world
				total exports	manufac-
					tures
	Rs. crores	GR	Rs. crores		
1980-81	7,000		4,309	61.60	0.61
1990-91	17,968	10.50	12,405	69.00	0.87
	20,577	11.50	14,198	69.00	1.00
	30,865	16.00	21,297	69.00	1.50
	41,154	19.40	28,396	69.00	2.00

The importance of manufactures to Indian exports in the world context is thus inescapable. Against India's share of 0.53% in 1979, South Korea had a 1.13% share. The Committee feels that an average rate of increase of 13% in real terms in exports of manufactured products can be achieved, given vigorous efforts to remove bottlenecks, provide suitable incentives, and create new industrial capacity.

Small Manufactures/Exports Their capital needs, both for the fixes and working, to be specially met, to avoid their recourse to high cost private borrowings and help them expand their production and export business.

In view of this, it is recommended.

A window should be opened for small scale sectors for medium term finances in the new EXIM Bank, while for short term lending the Bank can offer refinancing facilities through exporters' commercial bank.

EXIM Bank may have a special scheme for helping small scale sector to give an access to international short-term capital market.

We have recommended elsewhere a franchising scheme, under which large exporters may also help with financing of production which they buy from small exporters.

Credit to small exporters may be considered on softer terms.

Books and Periodicals Recently, books have also emerged in India as an export earner of some potential and promise, worth annually Rs. 8 crores. Despite the rapid strides that Indian publishing industry has made, viewed against the potential of export, particularly in the English-speaking areas in Asia, Africa, and the Americas, much remains to be done. At 16,000 titles against 591,000 titles produced annually in the world, we are today the world's third largest English book producing country. Publishing in India is thus of a substantial size, providing employment to large numbers, publishing, printing and distribution units. Its contribution

nationally and to export deserves consideration therefore.

In terms of quality, production values, and binding techniques, Indian textbooks and publications compare well with titles emanating internally, and especially from African continent where they are in the process of rapid economic growth, laying emphasis on development of education, eradication of illiteracy, and large-scale production of books in collaboration with established publishers from friendly countries.

Evidence suggests that world imports of printed matter have been growing recently at about 16% annually, reaching an estimated value of \$ 5 bn in 1978. Bulk of this is accounted for by books and pamphlets, although newspapers, periodicals, exercise books etc. are also assuming an importance in world trade. As with other products, the developed market economies like the EEC, USA, Canada, and Australia are leading importers of printed matter. Viewed from the global point of view, where our share in world exports of printed matter as Rs. 8 crores is barely 0.11%, and confined almost entirely to a few major markets like USA and UK, our statement shows a promise. On the other hand, our imports of books have been growing steadily, and with our big education plans they are going to be substantial in the 1980s. The need for financing imports of books by promoting more exports assumes importance, for which we need a long-term strategy for export promotion of printed matter.

Indian Institute of Foreign Trade in a recent market survey for Books and Publications in Kenya, Nigeria, and Tanzania has recommended an export target of Rs. 20 crores for books by 1982-83.

The study team recommends the revival of National Books Development Board as an apex body to coordinate the activities of various institutions involved, in production of books.

The book industry lacks adequate finances, especially among the medium and small publishers, and as the existing financial institutions generally do not finance book trade, a Book Finance Corporation may be considered. There is need too to train personnel in various aspects of publishing, by setting up an Institute of Publishing.

Organising Book Fairs and exhibitions, arranging permanent displays at important centres in India and abroad, special catalogues, advertisements through the network of newspapers, radio and TV in the potential markets, are some ways to vitalize the industry at home and abroad, as also government encouragement to more visits to potential export markets by study and sales teams. The export incentive schemes, duty drawback, cash assistance, post parcel facilities, air cargo rates etc. may also be made more attractive to help the recent upsurge in book exports. Public agencies like the State Trading Corporation and the Trade Development Authority, and of course our Missions abroad, could also help to display and introduce our books, especially in the neighbouring countries in South Asia and Africa.

The Committee Recommends

Indian publishing industry and trade have made much progress of late, and their exports now amount to Rs. 8 crores. World imports of printed matter have been going to 16% annually, reaching \$ 5 bn in 1978. India currently is the third largest English books producing country, accounting for 16,000 titles out of a total 591,000. Given suitable encouragement with incentives, simple procedures, visits of study and sales team, through the help of the State Trading Corporation, the Trade Development Authority and the Trade Fair Authority, and our missions abroad, Indian books could gain an important position abroad, especially in the neighbouring South Asia and African countries. In due course this position could be enlarged from English language books to printing books in other languages, offering our advantages of general skills and cheaper costs. General development, financing and training facilities through the formation of a National Book Development Board may be considered.

CHAPTER 8AGRICULTURE

Agricultural exports comprise food items and raw materials for agro-based industries. In the past they have constituted about one-third of our export trade and an important source of exchange earnings. Of late however we have been losing ground and the relative share of agricultural exports in our total exports has been declining slowly as the following table will show.

Table 16

Agricultural Exports - India

	Total exports Rs. crores	Agricultural exports Value Rs. crores	% share of total exports
1968-69	1,358	445	32.8
1975-76	4,036	1,521	37.7
1976-77	5,142	1,525	29.7
1978-79	5,725	1,574	27.5

India's share in world agricultural exports, which had improved from less than 1% in 1973 to about 1.3% in 1975, has also come down to just under 1% in 1978.

Table 17

Agricultural Exports - World and India

	World \$ bn	India \$ bn	World share %
1973	120.50	1.04	0.86
1974	150.50	1.54	1.02
1975	148.40	1.90	1.28
1976	168.50	1.91	1.13
1977	191.10	2.09	1.09
1978	208.00	1.97	0.95

This gradual decline is attributed to a number of causes.

- Stagnant output.
- Low per acre yields.
- Rising domestic demand.
- Protectionism among DMEs.
- Slow growth in world trade.
- Perhaps our de-emphasising traditional exports in favour of the new, non-traditional manufactures.

Agricultural output in India increased at about 2.45% per annum during the 12 year, 1961-62 to 1973-74, the rate of growth for food crops being somewhat higher at 2.72% than that for non-food crops. The index of agricultural production (1967-68 to 1969-70=100) which stood at 112.40 in 1973-74 rose to 125.30 in 1975-76 and 138.0 in 1978-79. Over the years Indian agriculture has diversified considerably.

Compared to the likely agricultural exports of Rs. 1,741 crores in 1979-80, potential for 1984-85 and 1989-90 is estimated at Rs. 3,450 crores and Rs. 4,920 crores respectively indicating growth rates of 14.7% per annum over the 5 years ending 1984-85 and 10.9% per annum over the decade. This would raise India's share in world agricultural exports to 2.1% in 1984-85 and 2.5% in 1989-90.

Estimated Exports Potential of Agricultural Goods

Group/Items	Export Potential			Growth rate %		
	1979-80	1984-85	1989-90	1984-85 over 1979-80	1989-90 over 1984-85	1989-90 over 1979-80
Plantations	579	835	1,040	7.6	4.5	6.0
Cereals and preparations	131	288	445	13.0	13.0	13.0
Commercial crops	331	641	800	14.1	4.6	9.2
Processed foods	120	265	425	17.1	9.9	13.5
Marine products	253	550	810	16.8	8.0	12.3
Fruits, vege- tables & flowers	118	223	320	13.6	7.5	10.5
Others	209	261	400	4.5	8.9	6.7
Total	1,741	3,450	4,920	14.7	7.4	10.9

While making some detailed recommendations in regard to agricultural exports later, we wish to highlight three main issues below.

First, during the last three decades, in our desire to encourage new manufactures, which no doubt add value, we have, if not neglected, down-graded the importance of agricultural products. The very terms, non-traditional and traditional exports, have a pejorative connotation of old fashioned primary products. Yet India is well placed in its exports for a wide range of products - tea, coffee, cocoa, rubber, spices, cashew, rice, cereals, oilseeds, cake, meal and oil, fruits, vegetables, onion, meat. Some have world markets, for others we need only turn to our near neighbours in the Middle East and South East Asia. It is ironical to recall that we were the largest exporters of oilseeds in the world and regular exporters of foodgrains before the War. With out recent break-through in agriculture we should regain a good share of world exports in commodities and their processed products.

Second, there is a future in the area of Indian foods, gourmet and popular. It requires market and technical research into food extracts, essences, product formulation and packaging. Many hundreds of Indian restaurants, and increasingly the hotels, have spread across the world reaching far beyond the original ethnic markets. (The latest in the chain of Indian restaurants will be in Moscow shortly). There is also a new trend in restaurant joint venture "technology" sale of franchising arrangements whereby Indian skills, materials and staff are supplied by Indian entrepreneurs to local capital, while Indian hotels are combining with third country finance and local enterprise to buy or open new hotels. Interestingly, public enterprise, though prominent in hotels in India, has not seriously entered this market which is so far largely in the private sector.

Third, we must drop the stop-go policy of exports of agricultural products, once we have decided to enter a world market. Whenever there are periodic shortages we ban exports or impose export duties or quotas. Combined, no doubt, with other factors, our tea exports'

share of the world market has progressively declined, giving way to Kenya and now China; while in jute synthetic substitutes have made a headway.

Export plantation crops like tea, rubber, spices, cardamom, cashew, palm and coffee, all of which are under different boards, with long-term plans of growth and expansion, have competing claims for land, and the large finances required for replanting and expansion. It is suggested that an apex Plantation Development Board (Corporation), with representatives of the different crops boards and industrial and agricultural development banking should be formed to prepare a ten-year plantations production plan, and an annual budget covering following aspects.

- Replantation and expansion plans and the requisite land, financial, and plant and equipment needs.
- Land use.
- Inputs requirements, indigenous and imported.
- Production targets.
- Export targets.
- Research activities.

Each plantation industry will prepare a separate plan while the Plantations Development Board would coordinate them to make sure that the competing claims for resources are fairly met.

CHAPTER 9

VALUE-ADDED

So much/said about value-adding that an analysis might be useful.

The value of export trade is of greater importance than volume: the former means more foreign exchange earned while the latter is a loss of inputs and physical resources, including some that may have been imported. Value is added through processing and production skills, quality, packaging, delivery, trade practices, and services rendered like marketing, banking, insurance, advice and consultation, by sea or air.

Value-added requires a progressive improvement and updating of technology to keep pace with world standards, so that materials imports, especially of scarce or imported materials and equipment, are utilised as efficiently as possible to obtain the best price abroad and avoid or minimise subsidies at home. But value adding should not become an end in itself, where a literal insistence may mean a net loss of domestic effort and resources, and even of foreign exchange. We should therefore re-examine the concept in broader terms.

Upvaluing leather exports is logical, through the stages of hides to tanned, semi-finished and finished leather, to shoe uppers and shoes, garments, handbags and travel luggage; but what we should examine is whether in our insistence on value-adding we are not receiving less in total. If the prices, subsidies and import content of a more finished product, for which our product technology and quality are not upto the mark in sophisticated markets, mean a net realisation lower than from a lower value-added stage product, then we should not discourage or ban the latter, at least not until we have upgraded the technology and quality and begun to export the next, higher value-added stage product.

We should keep carefully in mind that an entry too soon in a higher quality product, which creates a poor quality image and fetches lower prices, may also give the product a halo lasting well beyond the stage when we have actually learned to make a better product.

Value-adding must also be reviewed in the context of its traditional compulsive association with the labour-intensive; and, the labour-intensive might be examined in terms of quality and realisation. Hand-made is not necessarily hand-crafted; labour is not necessarily craftsmanship. In the field of exports at least we must introduce the technology appropriate to the quality demanded by the buyers abroad. If their need is for quality and precision, however, we may choose to treat our domestic buyer, we must meet the quality demanded abroad. This is particularly important when it concerns high technology labour-intensive areas like electronics.

One man making one car in a year of a quarter century old model cannot be equated with a virtually "hand tooled" prestigious sports car, of equal labour intensity; nor does its being a 25 years old model make it a vintage car! But were we to use or skilled lower-wage engineers to make a sports car under licence in India, that would indeed be using our comparative advantages; importing what we need and making what we can. Better still, we should be updating our models and entering the export markets; where we have to share after nearly 35 years of domestic manufacturing, when South Korea is making a successful bid in less than 5 years.

We should carefully study the whole subject of value-added and rationalise our approach, which has so far been somewhat "emotional" and literal. We have gained a major position in the garment trade but not looked ahead to import techniques and machines to move into the fashion trade, into, say, be spoke tailoring, where value-added is far higher than in labour-intensive garments. We need to spread vertically downward, from bespoke to fashion to casual garments and down to textiles; and, it is felt by some in industry, even into greys and yarn. We have no monopoly in textiles; it is a matter therefore of expanding our capacity for growing cotton, and manufacturing to a level where we can export a total mix and obtain higher foreign exchange earnings after satisfying of course the home market.

Similarly, we need a pragmatic policy for minerals, iron and related ores, alumina, aluminium and products, raw steel, tubes and manhole covers, light and heavy engineering, machines and plants, and turnkey projects; but taking care in our anxiety to add value that we do not in effect sell manufactured products as cheap subsidised steel and credit. In selling, say, steel, tubes, instead of stop-go we may aim at a plan for progressively higher technology and value-added products that will improve foreign exchange earnings. We thus need a long-term policy that while carefully selecting the product, and the appropriate encouragement to add value, yet examines carefully its potential at the next stage, sometimes skipping a stage by hastening the induction of technology and skills. We should look at the total mix, present and future, and not be attracted by the immediate export possibilities without fitting it into a future frame, in dimensions of time and export earnings. If we see a promise, we should then be as bold in backing a new product as in withdrawing from it if the time taken and exchange earnings do not ultimately justify the cost and fulfil original promise.

We should therefore aim, when choosing labour-intensive and value-added products, products of the right quality and image, with such appropriate technology inputs as will ensure speedy growth. We lost our most important market in shoes through our neglect of quality and delivery in our insistence upon the labour-intensive.

CHAPTER 10.

TECHNOLOGY - ITS APPROPRIATENESS AND TRANSFER

Appropriateness of technology, while of prime consideration at home, may have less or no relevance in an export market; although even for the home market we should re-examine its appropriateness in the context of time and changing technology. An example is the motor car, where with new technology in hand we may make a small, low horse power car, with efficiencies of modern models consuming less metal, alloys and fuel; but export a variety of more sophisticated models to suit export needs abroad. But a twentyfive years old model of low fuel efficiency and high materials usage, is not even appropriate technology, at home or abroad. Our truck manufacturing industry by progressively improving its product through research and development at least finds markets in the neighbouring countries where road and operating conditions are similar. An example is too railway wagons and equipment where we were able to export successfully 15 years ago, when our technology was of the track speeds of around 100-150 km an hour. Today, we are unable to do so because track speeds have moved to 150-200 km and beyond. We are experiencing similar difficulties with textile machinery.

It should not be overlooked that a developing country abroad will be keen to buy the latest in performance efficiency; though suited naturally to its ambient conditions. There is no merit in its buying an older generation product like our car which is outdated and a drain in fact in spares and maintenance costs. Consideration of international quality, performance and competitiveness are of prime importance in world trade, whatever be the standard we might impose upon our home market. We have, therefore, to keep the state of our technology under constant review, to ensure that our manufactures obtain an international acceptance, at competitive prices and, above all, realise their full export potential and earnings.

There is a growing feeling, that bears careful examination, that where in the 1950's and 1960's, our technology gap with the world was narrowing, today it is widening. There are many things we make today that have hardly progressed in technology since we started making them. This gap we should close, at least in the export sectors, and import technology from wherever it is more advanced than ours. This will need a two-pronged initiative. First, in deciding priorities for allocation of resources in domestic research and development activity, the needs of

our export sector should receive more prominence, and such R & D must be made accountable for results. Second, policies and procedures for technology imports should be considerably liberalised. For instance, imports of technology, as long as they are affected without foreign equity capital, should be on Open General Licence (OGL). However, for medium and large scale units this OGL facility for technology import should be extended only to those units who have in-house research and development facilities, but no such pre-requisite need be stipulated for the small scale sector.

We are aware of the argument that technology import should be discouraged as it is a drain on foreign exchange; but the actual out-going of foreign exchange for technology imports in India, estimated at Rs. 50 to 60 crores per annum, cannot be considered excessive, when compared to our current export earnings of nearly Rs. 7,000 crores, and especially when compared with the gains that other rapidly growing developing or developed countries like South Korea, Mexico and Japan have made out of a free import of technology.

India has consciously and rightly chosen to encourage industry at all levels, with special attention paid to the small. Whatever our assumptions for the home market, abroad four considerations can distinguish the big and the small in their export capability - technology, quality, marketing, price. The importance of technology varies from handicrafts, where it has little place except in dyestuffs, glues and such materials; to the sophisticated electronics, where only the latest technology can ensure product function dependability and, therefore, its acceptance.

While undoubtedly in their search for opportunities abroad, small entrepreneur exporters have helped build a valuable section of our export trade in handicrafts, food-stuffs, garments, leather, sports goods, light engineering and electronics, in a wide variety of the sophisticated upper reaches of these and other products they are weak and need support abroad in areas of management, new technology, quality and marketing, and in their capacity to deal with the complex procedures and ensure regular inputs. While they do a considerable job in the traditional areas, they are handicapped in the non-traditional areas of higher value-added goods like instruments, small machines, electronics and high fashion goods. Weak in product concept and design, with inappropriate technology, and

little marketing capability and reach abroad, they are often forced to price cutting, whose casualty is delayed deliveries and lowered quality, accentuated by the fact that they are used in our sheltered domestic market to lack of competition as spur to quality.

To the decentralised, labour-intensive producers the assistance of the government institutions and agencies is not always well suited because they do not themselves possess coalface operational experience; they have never themselves produced and sold in the market place, they can only advise. Small exporters would be better helped instead by the large and better organised exporters in private and public sector by institutionalising the help through a franchising concept that will create an interdependency between the big and the medium and small. Through linkages between the big and small industry on finance, technology and marketing, the small could raise quality and acceptability in the export markets and thus add value and obtain higher realisation.

The franchising system could work at two levels. There could be a national Franchising Corporation, while franchising status could also be conferred on large manufacturer exporters and export houses, whose responsibility it would be to link with the small, to help and guide them. The Franchising Corporation will help locate technology at home and abroad, aid its transfer, taking advantages of centralising buying, and generally assure that our exporters especially the medium and small, remain on par with world technology in the export field. It should however not be placed in a monopolistic position, and those exporters who have their own access to technology at home or abroad would be free to seek it within the rules.

The way the Franchising Corporation is structured and capitalised is important. It should give a variety of concerned interests - government, industry, export houses - an involvement, through wider participation in decision-making and putting it more under a public gauze. Some of the existing export houses who have managerial and technological capabilities as well as the requisite infrastructure facilities, can develop themselves into a franchise status to help small manufacturers and exporters. Maharashtra Electronic Corporation (Meltron) has attracted a number of small firms into its franchising network.

CHAPTER 11

TRANSNATIONALISATION OF TRADE, INVESTMENT,
PRODUCTION AND BANKING - A NEW TREND

The traditional multinational forms of investment, production, banking and trade are undergoing a process of transnationalisation into new forms, under the umbrella terms of joint ventures and unpackaging, in which two or more countries pool their comparative advantages to cooperate in financing, production and management in their own and in third countries. It can take one of the many new forms of consortium, joint venture, turnkey, management contract, subsidiaries, etc. here in the multinational investment earlier, a country invited a package of capital, management and technology in the new transnational forms, it chooses what it needs from the unpackaged offer. The examples below are in an ascending order of the value of unpackaging to India in the different forms of collaboration it can choose.

Japan may buy components in India for incorporation in equipment sold at home or abroad;

USSR may bid for a steel plant project in Nigeria for which, with the knowledge of that government, it subcontracts in India for civil construction, and perhaps also buy some equipment.

A US firm may enter into a joint venture, with or without capital participation, for shoe manufacturing in India, whom it will supply equipment, some components like decorations, design, quality specifications, advice and supervision, and will buy back shoes for sale in USA or elsewhere.

An EEC firm may enter into a partnership with an Indian firm for a specific project in the Gulf, where they quote together, making some equipment in India and other abroad, and share project management; or the Indian firm may act as a sub-contractor.

- COMMECON, in its ambitious nuclear energy grid, may invite India to participate with equipment and construction at a considerable advantage to itself leading to joint energy programmes.

Certain features of new collaborations are noteworthy for India.

They are usually case by case product or project collaborations and not permanent consortiums, though it is possible that that might well happen as time goes and lead to some interlocking of trading, production and investment, but at the choice of India.

The progressive stages reflect different types of value added, from Indian components to subcontracting to partnership.

There is an in-built assumption that with advancing participation there will be a growing equalisation of technology and management skills. Infact, a developed partner may introduce higher technology into the Indian joint venture to improve its own and joint international competitiveness.

India will continue to offer some comparative international advantage, mainly of cheaper costs of production and management, for many years to come. If Indian wage and costs ever reach the developed partners' levels, thus neutralising the initial benefits, India would still have the advantages of research and development, raw materials, manpower, and proximity to the Asian markets. And India has besides the most important advantage, one that only China posses of a large home market, the second most populous and potential.

This is a simple model that describes the new forms of investment, in which the old multinational model is expanding into joint ventures of a new kind, a route that progressive international investment, production and banking are taking. India should study its potential and opt a place in this new international system.

However, the question is how do we perceive our place in this new international trade order, because we manage to give the impression of being overcautious, in contrast, for example, to China of late. We are neither seemingly willing to open our markets nor to collaborate freely. As someone in ECM put it, "the ball is in India's court". One of our major industry association has a man currently out in India prospecting for just this. The advantage to us lies in importing lower costs from India and improving our competitiveness abroad; to you, jobs, exports, spread of higher technology. This line of reasoning, in different accets, is common from USA to USSR.

It is infact a new trend that offers both the developed countries and India the choice of "unpackaging" investment and trade in a series of new forms, from which depending on what we have to offer and wish to accept, we can choose the nature of our collaboration. These new forms offer greater flexibility over the classical forms of investment - to cooperate in production and trade on a case by case or ongoing basis in the form we choose to offer and accept. India has enough experience with multinational investment by foreign firms, and now with its own multinational abroad, to enter the transnational relationships with confidence, but it will need some active support from government because in the changing international scene decision-making has to display breadth, vision and speed; and in a planned and controlled economy like ours it has to receive that support at virtually every turn. Our risks are small and benefits substantial. We can choose our partners in OECD, COMECON and ASEAN.

The table below shows region and countrywise position of Indian joint ventures abroad, in production and under implementation, on the 30th June 1980. As a new phenomenon its success has been rapid and promising.

Table 18

Position of Joint Ventures - Region and Countrywise

	<u>Region</u> <u>Country</u>	In production	Under imple- mentation	Total
<u>South East Asia</u>				
1.	Malaysia	29	7	36
2.	Indonesia	9	9	18
3.	Singapore	6	7	13
4.	Thailand	4	4	8
5.	Philippines	3	1	4
6.	Hong Kong	1	2	3
	Total	52	30	82
<u>South Asia</u>				
1.	Sri Lanka	3	4	7
2.	Nepal	1	6	7
3.	Afghanistan	1	-	1
4.	Bangladesh	-	1	1
	Total	5	11	16
<u>Middle East</u>				
1.	UAE	9	8	17
2.	Saudi Arabia	1	6	7
3.	Oman	4	2	6
4.	Iran	1	1	2
5.	Kuwait	1	1	2
6.	Bahrain	3	-	3
7.	Qatar	-	1	1
	Total	17	19	36
<u>Africa</u>				
1.	Kenya	6	7	13
2.	Nigeria	5	7	12
3.	Mauritius	8	1	9
4.	Uganda	1	-	1
5.	Zambia	1	-	1
6.	Botswana	-	1	1
7.	Libya	-	1	1
8.	Scyhellles	-	1	1
	Total	21	18	39

	<u>Region</u> <u>Country</u>	In Production	Under imple- mentation	Total
	Australia, Canada			
	<u>Europe and USA</u>			
1.	Australia	-	1	1
2.	Canada	1	-	1
3.	France	1	-	1
4.	Netherlands	1	-	1
5.	Spain	-	1	1
6.	Switzerland	-	1	1
7.	UK	4	2	6
8.	West Germany	1	-	1
9.	USA	6	3	9
10.	Yugoslavia	-	1	1
	Total	14	9	23
	Grand Total	110	83	193

Source: India Investment Centre, New Delhi,
February 1980.

We should begin to look ahead with our own trans-nationals and plan their contribution to our exports and foreign exchange earnings. They are concentrating so far mainly on the neighbouring countries of South East Asia and Africa, where we have excellent scope for intra-developing countries trade, but they are also beginning to look further a field, and especially at the developed world.

One of the joint ventures in which India can participate is shipping. The country has developed adequate 'shipping' management skills/knowledge in all its facets whether relating carriage of general cargo, tramping, bulk/(both liquid and dry). S.C.I. for example has a joint venture with Iran - called Irano-Hind and is working fairly successfully. Similarly it has lent personnel to foreign shipping companies like Libya's Tanker Co.. With the advancement of technology, greater movement of cargo in containers, which necessitates consortium approach, increasing spread of multimodal transport concept etc. are pointers in this direction. India should therefore fully

exploit this situation, enter into more joint ventures, provide greater manpower to man foreign ships and explore the possibilities of fully exploiting multimodal concept by institutionalizing loose arrangements.

While in the next decade a substantial part of our exports would continue to come from our own enterprises from public and private sector, we also recognise that in selected products and markets transnationals in India can contribute to our export expansion, provided our policies are carefully framed. Their world-wide connections and international marketing culture should be utilised to our own export advantage, especially in sophisticated sectors and where they have developed new technology and products, for both their own and bought-out products. It would be useful to invite some to prepare a five-year plan for the best they can do in exports, especially in new directions, and the circumstances in which they could do it. If the terms involved cost less than our export gains, on cost-benefit consideration alone we should consider the proposals.

Migration and Remittances The decade of 1970 has been both qualitative and quantitative change in Indian migration abroad, particularly to Gulf countries, augmenting substantially India's foreign exchange reserves. Infact the expatriates' earnings sent home considerably altered the balance of payment-position. While the earlier expatriate Indian population abroad, notably in America, Canda and UK, have settled abroad and therefore their remittances home diminished with time, the new class of Indian professionals, supervisors and skilled workers, who go abroad on a short term contracts, with no opportunity or intention to settle abroad, are therefore keen savers and remitters.

For this class a planned and organised strategy is necessary to match the interests of the host countries and India, both to create a good image abroad and gain more in earnings and savings.

It is therefore recommended that

Selection and training of skilled workers and craftsmen may be undertaken to meet the varied and changing demand.

Suitable agreements should be negotiated in the interest of the expatriates and host country, in regard to regulations and restrictions.

Reasonable and attractive facilities should be given to encourage them to save and remit, as also for the personal purchases they bring home out of their savings rather than encourage them to spend abroad.

TRANSNATIONAL BANKING

Multinational banking, relying on banking business within the host country and its foreign trade, is now moving into transnational banking, also known as offshore banking which unlike the multinational banking does not depend upon internal, local business of attracting deposits or extending credit, within the country but relies upon international business between the host country and abroad or between third countries.

Historically, foreign banks came to India with British business in the 18th and 19th centuries, starting with port town branches, which later spread to important business centres in the interior, following the government, British and foreign firms. Indian banks also went abroad for ethnic demand of Indian expatriate populations in South-East Asia and South Africa. After the war the number of migrants multiplied, with large new populations in USA, Canada, UK and Persian Gulf, and Indian banks have followed them, but also the growing Indian exports and the nascent Indian multinationals.

Indian banks began to go abroad seriously after the war, and while in 1951, 5 Indian banks had 12 branches abroad in 5 countries, today 11 Indian banks have 127 branches abroad in 83 towns in 24 countries; while 12 foreign banks have 127 branches in 19 towns in India. No developing country has a comparable international banking network to India. The question is how usefully does India harness the potential of its network beyond the present, limited one of "ethnic" business remittances of expatriate Indian, serving Indian industry and government transactions, and remitting back its own profits.

Some Indian banks with branches abroad have already begun operating outside traditional ethnic boundaries in seeking funds and deploying their resources. They have been successfully building up working connections with the larger multinational banks and participating in international syndications. But these activities are still in a nascent stage and fall short of the potential that could be achieved if transnational banking activities received greater attention. Possessing excellent management talent and having a tradition of banking in a variety of environment, Indian banks could well expand the scope and complexity of their transnational operations and perform a pioneering role in seeking out opportunities for Indian business, whether in the form of merchandise exports or joint ventures abroad. In this endeavour, the commercial banks will need official encouragement and support, both to explore new avenues of operations and in maintaining a management environment in which operational decisions can be taken without the necessary speed.

EXPORT PROCESSING ZONES

The phenomenon of Export Processing Zones was an extension of the earlier concept of Free Trade Zones, where goods could be imported and processed free of duty, which is paid as and when they are shipped to the hinterland market. Their main characteristic is that a country selects a specific area offering suitable air, sea and general infrastructural facilities, and extends certain important fiscal and other benefits on equal terms to both national and foreign entrepreneurs.

Raw materials and components for manufacture are imported into the Zone, and exported abroad, free of all duty.

Domestic rules, regulations, levies, taxes and general imposts, federal, state or municipal, whatever be their rationale for the domestic economy, are waived for the Zone.

The entrepreneur is thus given all freedom to import, process and export, subject of course to any basic social and legal constraints, such as the ecological, health etc.

Free Zones thus work like a classical form of liberal free economy, with the advantages of both freedom and planning.

To the developing countries, they offer the benefits of attracting capital and investment, high technology and advanced skills, employment, foreign exchange earnings, and as expansion and diversification of exports.

To the developed, the Zones offer an opportunity of new production and cheaper labour under relatively free conditions, as a new form of investment in making cheaper goods and components abroad to incorporate into production at home, both to reduce domestic inflation and improve export competitiveness.

India has started two zones - a general production zone at Kandla in 1965 to help develop an industrially backward region, as an alternative to the port of Karachi, and to help the many refugees from Pakistan who had settled in this area; another at Santa Cruz in 1974 to

take advantage of the international electronics boom which had attracted many similar profitable zones in Asia. Their performance since inception is shown below

Year	Considered		Approved		Units Working		Employment		Exports Rs. lakhs	
	Santa Cruz	Kandla	Santa Cruz	Kandla	Santa Cruz	Kandla	Santa Cruz	Kandla	Santa Cruz	Kandla
1966-67	-	-	-	-	-	1	-	70	-	7.5
1971-72	-	-	-	-	-	17	-	550	-	79.8
1973-74	55	-	34	-	-	11	-	300	-	177.0
1975-76	16	619	11	238	8	23	800	650	56.4	219.2
1977-78	13	38	9	27	23	38	1,700	1,200	405.9	471.7
1979-80	14	64	7	35	33	47	2,000	2,500	1,114.2	939.8

Source: Development Commissioners, Free Trade Zones.

Although the progress, slow in the past, has picked up lately, whether they have fulfilled their original expectation and compare well with similar zones in other countries are issues to consider. The case of Katunayake Investment Promotion Zone, Sri Lanka, next door to us is an instance of a Zone started two years ago, 1978, whose phenomenal success attracted our interest sufficiently to send a study team, in 1979, comprising representatives of our two Zones and government to understand their working. Their report points to the Zone's phenomenal success in a short two years that has eluded us in a decade and more. The Team remarked upon incentives package, along with the benefits, that Katunayake offers to investors for leading to its success - a package that is far ahead of what we offer.

- No limits on equity holding of foreign investors.
- Free transfer of shares within or outside Sri Lanka.
- No tax or exchange control applies to such transfers.
- Dividends of non-resident shareholders are exempted from any taxes and remittances of such

dividends exempt from exchange control.

No import duty is levied on machinery, equipment, construction materials and raw materials.

Such imports and exports are exempted from normal import control and exchange control procedures.

Transfer of capital proceeds on liquidation are exempted from exchange control.

A tax holiday is granted upto a maximum of 10 years, depending upon a project's net foreign exchange earnings, introduction of new technology, magnitude of its fixed capital investment, and the value of its exports to new markets.

A further concessionary period of tax holiday may follow upto a maximum of 15 years, during which only a turnover tax of 2% to 5% will apply, in the place of income tax, corporate tax etc.

The Team pointed out that, set up less than two years ago, between April 1978 and June 1980 Katunayake has already approved 121 projects of which 104 have foreign collaboration: 10 from North and 1 from South America, 32 from Europe, 4 from Middle East, 54 from Asia and Far East, 2 from Australia, and 1 from Africa, with a total investment at full capacity of \$ 200 million. These projects are expected to employ 35,000 by the end of 1980 and 50,000 by the time the present 121 projects have reached full capacity, with an export target of US \$ 125 million, and after that they intend to start a second Zone.

An Evaluation Committee under PK Kaul, then Additional Secretary, Ministry of Commerce, was appointed by the Government of India in 1978 to review the past progress of Kandla, pointed out the Zone's unsatisfactory progress due to various reasons. The Committee felt that the Free Trade Zone had not been able to take off even after 13 years, was due to

several handicaps and disadvantages, mainly in that the facilities available to the entrepreneur were far behind what was obtaining in the more advanced regions of India, particularly the metropolitan cities of Bombay, Delhi and Ahmedabad. Furthermore, the Committee's recommendations pointed to the need for more permissiveness and less procedural constraints, and a clear enunciation by the Government of India of its attitudes to export processing Zones.

The Kaul Committee made a number of other recommendations, of which we notably feature the following:

1. Unless some safety clause is provided, 100% export obligation would mean performing of a "Circus act without the essential safety net" and would continue to deter the new units from coming to the Zone. One such safety net is to permit these units to sell a part of their production in domestic market, of course on payment of duty. Such a measure would remove a great psychological block preventing new entrepreneurs from coming to Kandla Free Trade Zone.
2. The Kandla Zone should be declared a Custom House, and the customs appraisers and examiners, in charge of clearing the import consignments, should be placed under the administrative control of the Development Commissioner.
3. To avoid second checking of the export consignments at Bombay port, containerised truck service should be introduced between Bombay and Kandla.
4. The Development Commissioner Kandla may be authorised to recommend waiver of bank guarantee upto 100% at the time of movement of imported goods between Bombay and Calcutta.

5. A general notification to grant exemption from central excise duty on goods brought into the Kandla for production of goods or for use by or on behalf of the importer in connection with the production of goods meant for exports should be issued.
6. Kandla units should be permitted by the Development Commissioner to make semi-finished products out of the zone for processing, and bring them into the zone without submitting each case to the Kandla Board for approval.
7. Air service to Kandla is an important facility for the development of the zone, together with an air cargo complex.
8. The policy with regard to import of capital goods, raw materials etc., under the Open General Licence Scheme in Free Trade Zone, should be on permanent footing, so that there is no uncertainty on this score.

Our Committee's Industry sub-committee has made certain recommendations, some of which on electronics exports, have a relevance to the Santa Cruz Electronics Processing Zone. These are reproduced below:

- I. A large part of the export target for electronics will have to be fulfilled by the Santa Cruz Electronics Export Processing Zone. The facilities available at the zone are far below the facilities offered by other similar zones in the neighbouring countries. The major areas in which incentives and facilities need to be upgraded are on-the-spot delegation and centralisation of decision making authority on all matters pertaining to setting up of units such as imports, production and exports. The Zonal Authority should be competent to give all clearance on-the-spot including central customs and excise matters.

As SEEPZ units have little or no domestic markets in the hinterland, where profits are

high, and also the fact that the exports from the Zone do not qualify for cash compensatory support, it is necessary to extend more incentives to SEEPZ units. These incentives should be in the form of tax holiday, accelerated depreciation provision of at least 30% each year, abolition of service charges, exemption from levies other than Central Customs Excise Duties such as Central and State Sales Tax, octroi and electricity duty etc. In several other directions like export credit finance, market development grants for export promotion, travel and publicity etc; the zonal units should at least be treated on par with exporting units in the hinterland. Similarly, in procurement of supplies of domestic raw materials like cement, steel, communications etc., facilities should be provided to the zonal units without delay.

2. For increasing the exports of consumer items like radio receivers, tape recorders, cassette players, TV and public address systems, design changes should be encouraged, adequate production and testing facilities provided, and quality and technology be upgraded all along the line.
3. There is a large scope for promoting joint ventures in the developing countries in electronics with or without operation from Third Countries in the developed world. The system of clearance of joint ventures in the electronics should be entrusted to a separate board. This is necessary because of the need to have an integrated organisational approach to the growth of electronics industry, which differs from other industries in many respects.
4. As regards the hinterland units, although some incentives and facilities like import replenishment of components, cash compensatory support, duty drawback, packing credit are available, incentives and facilities to hinterland units should be augmented through raising of the cash compensatory support, liberal duty

drawback rates simplification of duty free imports for committed exports, flexibility in import replenishment and additional facilities for market development and packing credit.

5. Special arrangements should be made to ensure standardisation and quality control in the exports of electronics items. This could be done through pooling of the existing testing facilities available in the country and by making available to the industry codified reprints of standards and specifications.
6. For a concentrated export drive in electronics, which offers tremendous scope, there should be a distinct and separate export promotion council, consisting inter alia of representatives of the Ministry of Commerce and the Department of Electronics.

The problems of the two Zones may be summed up as follows

- The euphoria of the Indian investor, especially the small type, who has not done enough home work. Therefore, when he is faced with the reality, he finds that either the Zone does not offer the attractions that he thought it would, or he has under-capitalised the project, or he has not prepared the groundwork, or studied the size and shape of the market abroad.
- The foreign investor compares the Zones with others around the world, and finds they do not offer enough attraction.
- Both Indian and foreign investors face administrative and procedural constraints and an absence of the freedoms that are the sine qua non of a free Zone.
- Administration's own problem perhaps of a lack of "emotional" adjustment to the permissiveness that is demanded by a Free Zone, which is missing from our planned and controlled industrial environment.

Judging by the success of Katunayke, Hongkong, Singapore, Taiwan and other Zones, that had perhaps less to offer by way of a hinterland of skills and facilities than India, it is imperative that we consider making those adjustments to induce a healthy growth. Infact government has already announced certain concessions and our recommendations may be examined in their context. For instance, a 100% export production unit will in future receive full Free Zone facilities if it accepts bonded production and warehouses, which will give it an edge over a Free Zone, especially when it is combined with such facilities as Maharashtra's offer of a grant-in-aid or Rs. 40 lakhs for a minimum investment of Rs. 2 crores in a backward area that has been declared a "Pioneer Area". As these facilities expand, the attraction of a Free Zone may diminish, and they will therefore have to be reappraised from time to time.

CHAPTER 12

INSRASTRUCTURE ABROAD, MISSIONS AND AGENCIES

Our missions abroad, despite the many complaints against them have shown a remarkable improvement in quality, size and perceptions of foreign trade in the past decade, often without much guidance or quick responses from their home bases, with the added weaknesses of a lack of back-up support from research, information and advice, and the multiplicity of uncoordinated agencies they have to deal with abroad. The following analysis of our infrastructure abroad may be considered.

There is a multiplicity of our agencies abroad. Spread over London and Common Market today there are the economic, commercial and supply wings of our missions, State Trading Corporation, Steel Authority, Trade Development Authority, Hindustan Aeronautics, Heavy Engineering Corporation, Hindustan Machine Tools, Project and Engineering Corporation, Engineers (India), Bharat Heavy Electrical, Export Promotion Council, Textile Promotion, Trade Centre, Carpet Centre, Investment Centre, Tea Board, Commodity Boards, and possibly some others. While consulting each other informally, but loosely, they do not work in a constellation in so far as Indian and foreign exporters and importers are concerned. Further, few among those posted in these agencies are specialists in the disciplines of marketing, advertising, promotion, finance, economics, operation research, sociology, agriculture, etc., who could interpret and guide our exports infrastructure at home and abroad. Their capacity to convey knowledge they glean and develop abroad is thus limited. Fewer indeed of those working abroad are given frequent and regular specialised exposures to new advances in knowledge, as they progress through their trading responsibilities. Yet fewer indeed stay long enough in a job to be really knowledgeable; they are usually transferred just as they are reaching a stage of knowledge and experience, often to return home to unrelated functions.

Perhaps what we have done so aptly in appointing science and technology specialists in some missions

abroad is what we need to do with other disciplines for trade and economics, where men could be recruited from the Indian Economic Service, from research and academia in India, and successful public and private sector firms.

The agencies abroad and their specialists should be formed into a planned and coordinated infrastructure grid, a nucleus based in one country, to serve a whole area, such as EEC, COMECON, ASEAN. The new Trade Centre at Brussels could be enlarged to become a nucleus of the new grid. The specialists should stay in a region long enough to learn and advise, and when they return to their ministries or agencies they must provide a continuity by serving, at least for a spell, at the regional desks.

The cost of creating a specialist infrastructure cannot amount to more than the present uncoordinated infrastructure, and only a fraction of total exports to the area. The question is one of quality and cost-effectiveness of the effort, and not the numbers. Together, with a careful orchestration of their effort, they would form a planned and rationalised grid of unique value to our exports development.

To the suggestion sometimes made that there should be a separate cadre started for trade missions abroad, drawn from various ministries, notably commerce, public and private enterprises, and specialists, perhaps the better answer would be to maintain the foreign service missions to continue to look after trade, but flanked and supported by a suitable, planned infrastructure mentioned above, with different agencies looking after their respective interests, but well coordinated in their effort to give the whole export task a single purpose. A separate trade cadre would deprive the Foreign Service of the essential integration between its political and trade diplomacy, an indivisible function today, so necessary for the effective functioning of both.

This coordinated infrastructure should have certain features and tasks entrusted to it.

- It should help as a clearing house function, not just a post office, where trade enquiries and

problems relating to enquiries, quality and claim can be serviced. As far as possible, a problem should be solved abroad, on the spot, and the solutions accepted and trusted by those concerned at home. The men abroad have the feel and they can, wherever necessary, take the help of local consulting and superintending agencies. This will no doubt need trust and delegation as much as it will breed trust and confidence in importers abroad.

The infrastructure, in association with the exporting agencies and associations, would be technically qualified to jointly organise, with the help of local parties, some after sales and spares services.

At the next stage of the growth of the spatial concept of area grids, trade planning and developing strategies may be entrusted to the grid, which would prepare annual and longer term plans to provide a basis for more finished work at the ministries in India.

The grid should build an information and market intelligence service to help Indian exporters, and prospective importers who approach the missions and agencies abroad. Under the present system the enquiry is referred to an Export Promotion Council, which can only pick it up, cyclostyle it and send it to all members, some of whom may even have created problems in the past. There is a flood of replies and the importer is inundated with offers and claims, often in superlatives, which he is in no position to judge (to quote a chamber abroad); so he turns to another country which is simpler to deal with.

Much desk research and data collection should be done abroad, from local sources and original language publications, especially in USSR and the COMECON. Here our language difficulty is a handicap. Few outside the Foreign Service - and there too usually only one foreign language - know a language other than English, when to know

the language of the country should be the condition precedent to a posting abroad. It should be a compulsion for the Export and Trading Houses to build a language pool.

- The infrastructure should help with market intelligence and information regarding product changes, medical health and food regulations, fairs, exhibitions, and buyer-seller meets. At present the visits of delegations abroad often lack coordination, both in India and abroad, and the missions and agencies who organise their visits and make arrangements usually receive no follow-up. There should also be better coordination for the experts sent out to India and the Indian teams going abroad. At present the missions and agencies rarely receive from the visiting delegations or experts they sent out reports or evaluation of their recommendations, and their implementation. (The publication of a recent FICCI delegation report could be modified in a model).
- There is a need for much education work by our personnel abroad in conveying India's new capacity for advice, consultation, research, data processing, sub-contracting, turnkey operations, etc. in a wide and deep range of skills that few among the developing can offer, at costs well below the developed. The infrastructure can assist in identification of opportunities for new projects and contracts floated abroad, and assist through the stages of bidding and tendering, providing all information about likely competitors, decision-makers, nature of finance etc.
- The infrastructure will need speedy, up-to-date feed-in of information, data and policy, to keep the agencies abroad abreast of developments at home; equally to questions asked, problems posed, and reports sent, the speedy responses received from home, will determine the enthusiasm of those who feed us from abroad.

Four characteristic features of our administration at home affect adversely our operations abroad.

- Each agency working with a cherished arm's length "independence";
- A suspicion of specialisation;
- A transience in which throwing down roots is discouraged; and
- Procedural impermissiveness.

The agencies take abroad even their style of furnishings, eschewing modern equipment, red tape files and a whole paraphernalia that is very discouraging to someone abroad entering an average Indian office. The emphasis appears to be on manpower rather than capability and equipment. Even electric typewriters are discouraged, more so telex, calculator and such advanced devices.

If one hears numerous complains from exporters about our missions abroad, a small sample of their complaints is worth a consideration.

- A confirmation sought in August 1979 of the procedure certifying invoices remains unanswered till well into 1980.
- A telex regarding a fair took two weeks to fetch a "nominal response".
- After persuading a mission abroad to negotiate a difficult contract, the ministries concerned "lapsed into silence".
- The bill for surveyors appointed by the embassy at the instance of a public export agency remained unpaid for five months.
- "Indian exports to Sikkim" were featured in a public enterprise newsletter.
- The directory asked from an enterprise came in 1979 for the year 1970.
- A most Immediate Telegram was replied by a leading manufacturing enterprise after 3 months.

Such lapses discourage the missions personnel, whatever be their own lapses. Listening to importers and other associations abroad, one can only suggest India should do something. China, Taiwan, Singapore, Hongkong seem to do it.

Three issues deserve consideration.

- First The nature of representation at the missions, whether they should be manned by one service - as at present, by the Indian Foreign Service, with some seconded from the other services - on an inter-service basis, or by a new commercial service, is a matter for Government's consideration. There are a number of different models in this regard, which may be studied; but it is suggested that
- Second We should review our present trading infrastructure abroad - the missions, public and private enterprises and agencies - and knit their effort into a grid structure, modern in its operations, and specialist in its approach. Some countries offer excellent models in this regard. We leave the formation of the grid for Government to work out. It should be more a cooperative effort abroad than a rigid structure, but with a task and purpose.
- Third Any structural and qualitative improvements in our institutional infrastructure abroad must be supported by the corresponding long-advocated central export information service centre abroad, to which exporters in India, and importers and our institutions abroad, can turn for the latest information and advice. Much preparatory work has been done on a scheme, and, we understand, it is now a matter for implementation rather than its acceptance.

CHAPTER 13

EXPORT MANAGEMENT

Exports have been directed instead of managed, and wherever there is slippage there is at best a management by crisis rather than a long-term planning, implementation and monitoring. The following frame is suggested for consideration.

An Export Management Department in the Ministry of Commerce should be formed with ten divisions, each responsible for a generic group of export industries, offering a single point treatment.

- Plantations: Tea, coffee, cashew, cardamom, spices, coir, etc.
- Steel, metals, engineering and machinery.
- Services, advice, consulting education and science.
- Food products, agricultural, dairy and horticultural produce.
- Textiles and fibres.
- Handicrafts, garments, leather, gem and jewellery.
- Chemicals, pharmaceuticals and drugs.
- Tourism.
- Shipping, ports and air.
- Miscellaneous.

This is a suggested but illustrative list, which will be supported by a Services Division - banking, infrastructure, public agencies, and international coordination.

The Divisions and their respective industries will

work closely together in a five steps exercise.

- First Certain basic policies will be developed and announced, derived from the long and short-term compulsions and within social and economic parameters, to which government will stand committed and others for one year. These policies will relate to both basic and operational issues, so that the exporting community will know where it stands on matters that are outside its own decision-making.
- Second Each Division will prepare, in conjunction with industry, and its units accounting for 80-90% exports in that area, in the manner of an ABC analysis, a detailed three year base plan, phased down to a one year period, stating the objectives, constraints, assistance needed, and casting it into an agreed annual plan, with budgeted financial and other resources employment, and the targeted performance. The group sectors plans will be consolidated into a total export plan, which will be placed before an inter-ministerial seniors committee and finally be approved by a Cabinet Exports Committee.
- Third As backup support to the Export Plan, there will be careful planning of production capacities required to create the needed export surpluses, and of inputs of raw materials and services to ensure the planned exports.
- Forth Monitoring of implementation is most important, and the desks and their industries will prepare a quarterly progress report, which the two committees, the seniors and the Cabinet's will receive and review. The report will state progress, compare it with the annual plan, examine and explain any deviations and short-falls, suggest remedies, make mid-course corrections, re-estimate performance, and thus generally help to keep the original plan on an even keel.

Fifth. The Division desks will meet industries' representatives quarterly to review progress and help solve problems.

Following functions of the Divisions and their desks may be pinpointed.

- Preparing a three year plan and one year budget, stating assumptions and the operational conditions, assistance etc. necessary to achieve the targets.

A quarterly review of progress, making necessary mid-course corrections.

- Providing a general service by helping exporters with their problems to avoid their going from door to door to seek solutions. The desk will undertake the responsibility of liaising with other ministries and thus provide a single-window service.

The National Export Plan will also

- Relate domestic production and support possibilities of product groups to a market segment in the world, South-East Asia, Middle East, Latin America, South and West Africa, etc.
- Specify the national cost of net earning of foreign exchange in each group in terms of subsidies and cost of incentives, and cost of imports of inputs and technology.
- Starting with the current position, move to a five-year forecast, whose linkages can be changed with altered circumstances and developments.
- Assign priorities for assistance on the basis of likely earnings of foreign exchange and outgo with a view taken on the long-term prospects.

The rationale of the plan is based on the fact that Indian products have a market in some part of the world at a price.

Given the listing of possibilities, the next step is to work out a least-cost solution for a given level of net exchange earnings. The least cost path can be quantified to separate the long-term potential, quick growth areas from the steady core both of which will need different types of treatment and protection. A quick growth area, for example, is custom-grown agricultural produce for an export market, supported by the requisite post-harvest technology of cold storage, warehousing, grading, processing, packagings, transportation etc.

The National Plan has the following advantages.

- It will formally delineate and quantify the possibilities, avoiding subjective and sometimes euphoric opinion, and testing them out.
- It will enable systematic decisions to be taken instead of the ad hoc changes.
- Simulation exercises can be produced for evaluating alternative scenarios for projects of areas, especially in bilateral relationship.
- The importance of countries and models can be put with a scale to make comparative evaluation in evolving an international economic policy.

An Export Management System should assure some fundamental improvements, notably :

- A single-point for planning and implementation.
- Capacity of adjust quickly to change.

- A mechanism to meet contingencies.

It would also take over some of the constraints on the Export Promotion Councils, who are not always able to exercise qualitative selectivity or to enforce strict standards, and leave them to the valuable groundwork of helping into planning, monitoring and implementation.

CHAPTER 14

EXPORT AND TRADING HOUSES

Export houses, first mooted in 1958, were started in 1960, since when they have been much reviewed - 1960, 1963, 1968, 1970-71, 1974-75, 1976-77, 1977-78, 1978-79.

Over the years their number has grown, but largely at the lower end of export volume which had made its own contribution in adding to total exports in a country where there are many small entrepreneurs.

Export Houses - 1979

Exporters	Number
Over Rs. 10 crores	10
Between Rs. 5 crores and Rs. 10 crores	6
Between Rs. 1 crore and Rs. 5 crores	61
Between Rs. 50 lakhs and Rs. 1 crore	170
Below Rs. 50 lakhs	328
Total	575*

*This number is now near 800.

A number of exporters' institutions sent many suggestions for improvement in procedures and facilities, and these are broadly stated below:

- A merchandising export house should be separated from a manufacturing export house, and import facilities for the latter should be different for those exporting only the products of others.

Minimum export performance for the grant of Export House certificate and its validity period to be reconsidered; and the 20% growth for renewal should be lowered.

There should be a weightage attached to exports of small units.

Existing limit of 2.5% of f.o.b. value, subject to a maximum of Rs. 5 lakhs of foreign exchange, may be raised or more facilities added. Similarly the present limit of Rs. 2 lakhs import of restricted items against Additional Licence may be raised to Rs. 5 lakhs.

Export houses may also be allowed to import canalised items, act as agents on behalf of actual users to import Open General Licence items, and Industrial Raw Material Import Scheme of the STC facilities extended.

The recommendations made by the Jain Working Group on Export Houses has also made a number of suggestions. Two of the major recommendations were :

Setting up a High Powered Committee or Board consisting among others, Chief Controller of Imports and Exports, Export Commissioner, Development Commissioner (Small Scale Industries), Representatives of FIEO etc. to oversee the entire scheme of Export Houses and lay down the minimum requirements to be fulfilled by an Export House before it qualifies for renewal of its Export House Certificate;

The Export Houses which are identified as being highly satisfactory by the above body should be given liberal support for their expansion plan, including long-term capital from Market Development Grants and other special facilities and recognition at the national level.

As the subject has been well discussed, and improvements made at frequent intervals, the Committee would prefer to leave the matter to the present process of review that appears to have worked well. No doubt Government will be considering the recommendations of the Jain Working Group in so far as they strengthen the Export Houses to achieve more. With regard to the second suggestion above, of the Jain Committee, the Committee has suggested the creation of a new class of Trading Houses, for whom altogether new and exacting criteria will be applied for a very high level of preference and, in turn, the requisite support.

While our recommendation in regard to an efficient production base with improved technology will help create export surpluses with a competitive price and quality edge, international marketing skills will be the final determinant of our success abroad. Marketing includes the capacity to identify the right markets and gain an acceptability for our products in them, though the right quality, delivery and packaging attributes, together with proper credit facilities. Not all exporters are capable of doing that and therefore we recommend taking the specialised Export Houses concept a stage further to Trading Houses.

The Working Group on Export Houses (Jain Committee Report, October 1979) has recommended the following criteria for deciding the renewal of an Export Home.

- Coverage and capability of its overseas marketing network.
- The coverage and capability of its procurement machinery at home.
- Comparative per unit f.o.b. export realisation and economy in cost of imports.
- Quantity and quality of capital and manpower resources mobilised.

- Performance in terms of absolute sales, market and product diversification, help to the small and unorganised producing sector, enhanced reputation and profitability.
- Expansion plans for the future.

By these criteria, of the 800 recognised Export Houses in India, few would qualify for renewal. Not all can be expected to fulfil the requirements nor should they be denied the benefits, for they have made their own contribution to India's exports. Therefore, while leaving the present criteria by which they have been accorded recognition, we recommend creating a new category, the Trading Houses, which should combine the franchising function of the Franchising Corporation, recommended elsewhere, and a highly specialised export marketing capability. Export Houses, Franchising Corporation, and Trading Houses are all an upgrading of our export instruments, to keep up with the growing demands of world trade, in our peculiarly large and mixed exporting community. A three-tiered system would therefore be specially advantageous under our diverse conditions.

The Trading House, a concept of selectivity, could be judged by the following criteria.

- An annual turnover exceeding Rs. 15 crores.
- Adequate financial and technical resources.
- A 5 year record of performance.
- A record of new products and markets developed successfully.
- International marketing standards.
- Where a Trading House exports bought-out products, it would be expected, especially when it is doing so on behalf of small

producers, to extend technical, financial, marketing franchising facilities and up-value the product on an ongoing basis, and wherever possible to develop a franchising linkages.

To justify their role and its costs, Trading Houses should be extended certain facilities and concessions of planned incentives, tailored for new areas and products, in a phased manner over a development period. The new Export Management System in the Ministry that we have recommended elsewhere would discuss their annual plans and review their performance. It is however not the intention that Trading Houses should be a privileged category, receiving higher or exclusive incentives, but the size and nature of their export effort needs a more flexible, sometimes a tailored approach in respect of operating procedures. Nor is it the intention that these should be any canalisation of imports where they export on behalf of others.

CHAPTER 15

ROLE OF STATES

While export houses and large scale exporters are well directed to respond to the problems confronting them in their attempts to expand export, small industries, farmers or middle men are often not in that position. The need for assistance by their state governments through an instrument like an Export Promotion Board or Corporation, acting directly and in liaison with other state corporations in agriculture and industry, is therefore envisaged by the Committee. Maharashtra, for instance, has already made a start in that direction by the proposed formation of a State Export Corporation or Board which will help small exporters in the areas where they are handicapped.

- Lack of understanding of export trade and attitudes, which continue to be aligned with internal trade in a seller's market.
- An inability to cope with the sophistications of export trading abroad and the multifarious procedures and regulations at home.
- Ready access to inputs at the right time, quality and prices.

An export corporation or board should begin by conducting a study into the state's total potential, and try to assist producers in various ways.

- Identify expanding and exportable surpluses and accessible markets abroad.
- Disseminate information to producers and industrial and agricultural associations and corporations.

- Assist producers with infrastructure inputs - power, transport, raw materials, finance, warehousing, subsidies, drawbacks, etc. so that the small producers are assured the requisite inputs at the right time, quality and price.
- Channelise exports and imports.
- Study existing linkages between producers and exporters and their efficiencies.
- Assist with grading quality standards, production, packaging, in order to ensure better value-added.
- Obtain and supply prototypes for producers.
- Deal with problems experienced by producers in dealing with buyers, government agencies etc.

CHAPTER 16

PUBLIC SECTOR AGENCIES

Any strategy for export promotion can be effective only when it is built around with the major sectors in the business mainly the exporters. Much of the success of export effort will inevitably depend on exporter's attitudes, strengths and what the economists would call his utility function. That is, what kind of monetary and non-monetary incentives he would need to increase exports some of which may not be as profitable at all or less than what he makes in the internal business.

Among our four kinds of exporters - small, medium and large, multi-national and public enterprises - the latter have a special role to play as instrument of government policy. They have the strengths of modern technology and considerable financial resources, the advantages of being in a preferred sector, and therefore an overall capacity to cope with growing connection in a selective manner in international market. But they usually do suffer from certain disadvantages of unspecialised export management, unclear objectives and procedural constraints on decision-making, and shifting policies.

Exports through the public sector are of two kinds, first, we have state trading houses, of which we have nine, Cashew Corporation, Central Cottage Industries Corporation, Handicrafts and Handloom Export Corporation, Jute Corporation, The Minerals and Metals Trading Corporation, Projects and Equipment Corporation, State Chemicals and Pharmaceuticals Corporation, State Trading Corporation and Tea Trading Corporation, who deal in a wide range of exports, from handicrafts to engineering goods, and handle a wide band of technology, from artisans to sophisticated scientific research. Second, there are a large number of manufacturing enterprises

who export their own products, design and consultancy services. In 1977-78, however their total exports amounted to only Rs. 400 crores - small compared with the large investments in equipment and technology, and the magnitude of their total output - due perhaps to their inherent lags in effectiveness and efficiencies. And yet their potential is unlimited as multiplier and catalysts; as pathfinders and developers of new and established products and regions enjoying as they do a closeness to government, which should give them a flexibility and speed, perhaps at a smaller social cost.

Public enterprises have, in sum, the opportunity and potential even if they have not had in the past the capacity to develop them. There is a case for giving specific and perhaps a crucial role for public enterprises in export trade. This is not to say that the present policy does not give them an adequate role. It is a recognition of the fact that export needs are massive and where commercial incentives are needed these might be socially difficult to provide.

Government should consider assigning a specific and positive role for public enterprises in export which can be monitored from time to time and corrective action taken where progress is unsatisfactory.

The small exporter has adaptability but this ability to contribute consistently to export business is inadequate. In the past few decades Government have set up a number of agencies to help the small producer in general as also his exports. The progress while being commendable is less than what we need to do in export in the 1980s. He has limitations of production capability as also limitations of marketing skill. It is difficult to think of launching a massive export drive depending exclusively on the strength of this group.

Medium and large private industry has some strengths and export performance but with a protected domestic market which is profitable the kind of incentives which this group would expect for undertaking a massive export

operation which are in essence sales to more-difficult-to-satisfy-customer abroad - is likely to be considerable. The assistance which has been given to exporters in the last two decades has produced some good results but there is a point of view which feels that the cost-benefits of these incentives might reach a state of diminishing returns. This is not an argument for or against cash incentives but a sounding of caution that there are limits to persuading private medium and large industry to export through them. This is another way of saying that if exports are profitable private industry would export but if it is not attractive enough incentives can at best play a limited role.

It is not an exclusive responsibility we are suggesting for public sector but the role of a spearhead for a massive export effort, and in this connection we would like to raise and reiterate certain issues in regard to public agencies.

State trading agencies' monopoly functions should be reconsidered, with some natural or created competition by having more than one agency in the same area, perhaps a joint sector in export marketing, representing, say, 40% central government, 20% state governments, 20% export houses in private sector, and 20% perhaps to public; and third country and offshore linkages. We should further consider whether canalisation not be governed by a new rationale of canalising only the exhaustible resources and sensitive imports and exports, and of course, government to government trade. This will give a new role to public agencies as pacesetters and catalysts infact. This role should strengthen and particularly in new products and new areas where they can play an important development role, whose multiplier effect would be much more than in straightforward monopoly importing and exporting.

It is recommended therefore-

- Each public enterprise with an export potential should prepare its own export plan.
- These plans should be put together sectorally and totally to make an export plan for the public sector.
- Linkages between trading and manufacturing, and between manufacturing firms, should be planned to ensure that there is a common effort that avoids duplication of the public agencies appearing competitively in the same area.
- Public agencies should participate in "joint sector" corporations for export promotion and export production.
- There should be a link-up between the Franchising Corporation, suggested by us earlier, and the proposed joint sector and joint ventures organisations.
- Far greater autonomy should be given to public sector trading corporations by allowing them to participate in international trade on commercial basis and commercial practices.

CHAPTER 17COMPENSATORY SUPPORTS

The Committee on Import-Export Policies and Procedures (Alexander Committee) in 1978 identified the following three basic principles for cash compensatory support.

- The level of cash assistance should fully compensate for the various types of indirect taxes, sales tax, etc which the exporter has to pay on his inputs imported or domestically purchased and which are not refunded. This will enable him to be on par with foreign competitors.
- Cash assistance should be such as to encourage him in adopting adequate marketing strategies and to neutralise the disadvantages of freight, etc. so as to be competitive in the export market.
- In the case of new products in new markets, the magnitude of cash assistance should be adequate to take care of the initial promotional costs.

The Committee is aware that the present policy of giving cash compensatory support which was formulated in March 1979 follows the above principles and that the Committee on Controls and Subsidies in its Report, May, 1979, has also agreed with these criteria for determining the rates of cash compensatory support as outlined by the Committee on Import-Export Policies and Procedures.

The Committee agrees with the recommendations by the Committee on Import-Export Policies and Procedures and the basic principles identified by it. There is a need to periodically re-examine the structure of the exports subsidy in order to make it consistent with the prevailing economic conditions. However, it is essential that while doing so, we should ensure that cash compensatory support is allowed on a stable basis on a sufficiently long period e.g. three years in order to instil confidence and thus enable the exporters to take longer term investment decisions.

A fresh review of cash assistance scheme has now become necessary in view of the Tokyo round of multilateral trade negotiations and the imposition of countervailing import duties of 18% on some of the main exports to USA, namely industrial fasteners, castings (like manhole covers), various textile items (mostly fabrics and made-up items) and carpets. According to the agreements negotiated at the Tokyo Round of multinational trade negotiations, which came into effect from 1st January, 1980, there is a provision for countervailing duties in importing countries against exports subsidised by exporting country. Developing countries are, however, allowed to subsidize their exports so long as the subsidies were 'consistent with developmental and competitive needs'. Although developed countries were a party to this agreement, USA has taken a stand that this benefit of Tokyo Round would be extended only to those developing countries which entered into bilateral undertakings with it and phased out their export subsidies over a period of time.

In a competitive export market the rationale for refund of indirect taxes and compensation to exporters for other handicaps is to allow the natural advantage to have full potential in promoting exports. The principle is followed practically all over the world. In order to give a meaningful and justifiable role of export incentives, it is necessary to restructure and redefine our cash assistance to avoid any misunderstanding on the score that our exports are unjustifiably subsidised and dumped.

At present, apart from cash assistance, exporters are entitled to the following cash compensation/incentives.

Development Allowance Till 1979-80, under Section 35B of the Income-Tax Act, domestic companies and non-corporate tax payers resident in India were entitled to a weighted deduction, in the computation of their taxable profits, at the rate of one and one-third times of the amount of qualifying expenditure incurred by them on the development of export markets. The following activities were covered under the provision.

1. Advertisement or publicity outside India in respect of the goods, services or facilities dealt in or provided by the tax payers in the course of his business.

2. Maintenance outside India of a branch office or agency for the promotion of the sale outside India of such goods, services or facilities.
3. Travelling outside India for the promotion of the sale outside India of such goods, services or facilities.
4. Obtaining information regarding markets outside India for such goods, services or facilities.
5. Preparation and submission of tenders for the supply or provision outside India of such goods, services or facilities and activities incidental thereto.
6. Furnishing to a person outside India samples or technical information for the promotion of the sale outside India of such goods, services or facilities.
7. Performance of services outside India in connection with or incidental to the execution of any contract for the supply outside India of such goods, services or facilities.
8. Such other activities for the promotion of the sale outside India of such goods, services or facilities as may be prescribed.

On account of the alleged misuse of those concessions, the scope of fiscal concessions under Section 35B was narrowed down and limited to expenditure on activities 1, 2 and 3, in the Finance Act of 1980-81. Even the residuary benefit of this concession is being derived generally by large exporters, and the benefit does not accrue to all exporters, particularly the small,

Duty Drawback Scheme Under the scheme, exporters are allowed a refund of custom duties and central excise paid on materials - comprising raw materials, component parts and packing materials - used in the manufacture and packing of export products. The drawback rates are laid down either in specific terms or as percentage of f.o.b. value of the export products. The scheme is operated through determination of All-Industry Rates for some products and in respect of products not covered by the All-Industry Rates, the rate of drawback is fixed as a brand rate under Rule 6, if a claim is preferred by an

exporter for refund of duties on materials used in the manufacture of goods exported. The states also give relief from the incidence of local taxation by exempting goods exported from the indirect taxes on final sales. Still, all the indirect taxes are not refunded under the scheme and a part of the indirect taxes not refunded through duty drawback scheme are refunded to exporters through cash assistance.

Credit Facilities for Exporters Pre-shipment and post-shipment credits are available to the exporters at the concessional rate of interest of 11.85%, and a subsidy of 1.5% on export credit is given to lending banks by the Reserve Bank of India.

Freight Concession Railway freight rate concessions ranging from 25% to 50% of freight are allowed for a number of semi-finished goods which mainly belong to the category of non-traditional exports. In case of certain goods like leather goods and fresh flowers, air freight concessions upto the extent of 50% are also allowed.

While export subsidies as a percentage of exports have risen, the amount, about Rs.300 crores today, is still reasonable, and it should be kept in mind that most subsidies compensate for the handicaps of Indian exporter, to enable him to be competitive with his counterparts abroad. High cost of infrastructure and freights, port delays, excise duties and local taxes, high cost of import content and working capital tied up in consequence, are all factors that considerably add to exporters' total cost and handicaps in his competing abroad. Moreover, a part of these subsidies return to the Central and State exchequer in one form or another and therefore the net cost of cash subsidies would be well below what it appears. While, therefore, the subsidy's structure may be re-examined now and again, and rationalised in the face of the prevailing high cost and continuing inflation, it will be fair to continue them, but, it is suggested, on a stable basis with an assurance over the medium term.

Similar advantages are derived by the exporters abroad in the production stage either through tax concessions or measures which lower costs of production, so that our visible subsidies cannot be truly compared with their invisible ones.

The Committee would like to recommend the following issues:

- In the interest of simplification and effectiveness of cash assistance to exporters, and to obviate external objections, different elements of cash assistance may be merged/augmented with other components of compensatory support to exporters as suggested below.

Cash compensatory support is provided on exports of specific products, primarily with a view to compensating the exporter for the unrefunded taxes, imports and levies which he has paid on the exported goods and on the inputs in the manufacture of such goods. This becomes necessary because under the Duty Drawback scheme exporters are allowed a refund of a part of the indirect taxes, namely custom duties and central excise on materials - comprising raw materials, components used and packing materials - used in the manufacture and packing of export products.

The Jha Committee on indirect taxes has pointed out the cascading effects of excise duties and sales tax at various stages of production which lead to a multiplicity of taxes. There are a number of indirect taxes at the Central, State and Municipal levels, including that on energy and transport, which have a cascading effect on the end product.

The need for cash assistance in the case of residuary indirect taxes will disappear if the Duty Drawback Scheme provides for a comprehensive refund of all the indirect taxes through a revised and enlarged scheme. The revised scheme may be designated as Tax Remission Scheme for exporters.

In regard to compensation for freight and other cost differentials, exporters should be made eligible for concessions at the source. In the case of compensation for differentials in interest rates, the

interest rate on working capital needs of exporters should be brought in line with the international interest rates e.g. Euro-dollar market, an average of interest rates prevailing in principal financial markets of its world. The interest rates on working capital for exports should not be related to the interest rate structure in the domestic market. Similarly freight disadvantage for exports from distant places in the country should be provided for by concessional rates on freights charged at the source, thus eliminating the need for a separate provision under this head 'Cash Assistance'.

The Marketing Development Assistance at present provides for grants-in-aid to Export Promotion Councils and other Export Promotion organisations for the development of exports and for meeting the expenditure on export promotion councils and for projects for development of foreign markets for Indian products and commodities. The scope for this fund should be enlarged so that expenditure on 'initial promotional expenditure for new products and in developing new markets', which at present is being financed through cash assistance, is met through the Marketing Development Assistance. The Fund should provide for all types of Export Development Services on a continuing basis.

The existing fiscal relief to exporters in the form of direct taxes is cumbersome and inadequate to meet the exporters' handicaps, specially small exporters in marketing and tendering in competitive export markets. Prior to March 1970, tax credit was allowed to the extent of increase in export earnings in corporate sector. It is suggested that exporters should be allowed a relief in direct taxes on income or profit in proportion to the income or profit derived on export sales as a percentage of total income/profit. A suitable scheme should be devised on these lines to afford direct tax concessions to all types of exporters.

- To the extent that subsidies are meant to compensate for the higher costs, it would be better for the exporter to be rebated as each cost element is incurred, in relation to some international price norm, rather than to be paid a lump sum at the end - and that after some delay. He would then not be subsidised, strictly speaking, but charged a lower price for the inputs comparable with his export counterparts abroad pay. It would have the merit of its realism, especially abroad, where a subsidy has always the appearance of a "bonus", which in fact some small exporters share with the importers through price cutting usually undercutting other exporters. In any case the importers abroad can work out our prices from the subsidies available.
- The Export Management desks in the Ministry could periodically prepare costs schedules for different products and industries, and update them from time to time. This system would also place a premium on efficiency for an exporter able to produce below the scheduled cost - in effect the international price. In addition, some liberal fiscal and financial incentives can be given to make as exports attractive and profitable, and to cover such costs as travel, promotion, sampling.
- Where National Shipping lines are required to provide a promotional service, and adequate cargo is not initially available, some compensation should be provided to the shipping line concerned so that the export trade of the country does not suffer for want of shipping.

In short, the Committee advocates the long-term aim of making exports profitable, by equating inputs to world prices, and freeing them from such regulatory and technological constraints that raise costs. The payment of incentives, especially in cash, is an unrefined and visible form of assistance that attracts retaliation. Instead, we should offer our exporter what he needs and discusses in his export effort, to gain fair competitive.

CHAPTER 18RECENT EXPORT PROMOTION MEASURES

Following the submission of the interim report of the Tandon Committee in May 1980, Government has taken the following export promotion measures.

- i. With a view, inter alia, to increase production for export, the Industrial Policy Statement of July 23, 1980 extended the facility of automatic growth to 19 major groups of industries included in Appendix I of the Industrial Policy Statement of February 1973 in addition to 15 industries which were made eligible for this facility in 1975. As a result of this, all industries of basic, critical and strategic importance for the growth of the economy are now eligible for automatic growth in capacity of 5% per annum or 25% over a five year plan period. This expansion would be in addition to the normal permissible expansion in production by 25% of the approved capacity. The list of a group of total of 34 industries which were now eligible for automatic expansion is annexed (Annexure I).
- ii. The Industrial Policy Statement of July 23 also raised the limit of investment in small scale industries, as under.
 - Tiny units from Rs.1 lakh to Rs.2 lakhs.
 - Small scale units from Rs.10 lakhs to Rs.20 lakhs.
 - Ancillary units from Rs.15 lakhs to Rs.25 lakhs.
- iii. Selective relaxation was announced in the case of restrictions imposed on the growth of industry in the metropolitan cities and the larger towns, to provide for their natural growth and to encourage production for export.

- iv. Decision of the Cabinet Committee on Exports
Production for export will be outside the licensed capacity for any industrial undertaking. This would mean, in determining whether production of industrial unit has exceeded licensed capacity or otherwise, its export will be automatically excluded. Till such time an enabling provision is made in the I(D&R) Act, executive instructions are being issued.
- v. Exports will be kept out while computing the production of an undertaking for considering the question of its 'dominance' as dominance of an industrial unit will be determined only with reference to its sales in the domestic market. MRTP Act is being accordingly amended.
- vi. In allowing automatic expansion in the industrial units including those attracting 'dominance' under MRTP Act, favourable consideration will be given for their previous export performance.
- vii. In executing export commitments, there will be flexibility of operation within an industrial licence. For instance, an industrial undertaking that is licensed for a product under generic description will be permitted production of a product for export which is only a variation and thus obviating the need for licensing formalities. For this purpose, Chairman of the Licensing Committee will be empowered to give such permission.
- viii. With a view to update technology for export production so that international standards of quality, design and performance are met by our exporters, it has been decided that application for technology imports which involve only lump sum payment of royalty would be considered more liberally. The permissible royalty rates for export sales would also be higher vis-a-vis domestic sales. The existing procedures of permitting such imports have also been decentralised and streamlined.

ix. A scheme for 100% export oriented industries has been initiated to be extended to industries manufacturing non-traditional items of export and particularly to industries shown in the illustrative list attached as Annexure II. The product concerned should not be subject to export control quota ceilings which can be reached by existing units in the industry. According to the scheme 100% export oriented units will be given all the facilities of duty free imports of capital goods, raw materials and components, concession in central excise and other central levies and a more liberal foreign collaboration terms on the lines of facilities available in free trade zones. To afford single point clearance to 100% export oriented units, a Board is being set up in the Ministry of Commerce which will include representatives of the Ministry of Industry, DGTD, DC(SSI), Ministry of Finance, Department of Company Affairs, CCI&E, concerned Export Promotion Council and administrative ministry concerned with the particular industry to which the unit relates. The scheme is subject to the following conditions.

- The period of export obligation will be ordinarily 10 years and 5 years in the case of products having high degree of technological change. The gestation period for achieving export target will be 2 years after which export obligation will commence.
- Domestically procured raw materials will be treated as imports for computation of value added at a minimum of 20% or more.
- Procedure for licensing will be harmonised with MRTP procedures as regards time limits for clearing applications and on debonding after the period of export, duties will be leviable as under.
 1. Custom duty on capital goods on the depreciated value but at rates prevalent at the time of import.

- ii. Custom duty on unused imported raw materials, components on the value at the time of import and at rates in force at the time of clearance.
- iii. In respect of excisable goods, excise duty to be levied without depreciation and at rate attributed at the time of clearance.
- x. In addition to the above measures, it has also been decided to give some additional facilities by way of abolition of service charges and grant of concessions in lease compensation in Santa Cruz Electronics Export Processing Zone.

Annexure ILIST OF SPECIFIED INDUSTRIES ALLOWED AUTOMATIC GROWTH

1. Metallurgical Industries:
 - (1) Ferro Alloys
 - (2) Steel Castings and forgings
 - (3) Special Steels
 - (4) Non-ferrous metals and their alloys
2. Boilers and steam generating plants.
3. Prime movers (other than electrical generators):
 - (1) Industrial turbines
 - (2) Internal combustion engines
4. Electrical equipment;
 - (1) Equipment for transmission and distribution of electricity
 - (2) Electrical motors
 - (3) Electrical Furnaces
 - (4) X-ray equipment
 - (5) Electronic components and equipment
5. Transportation:
 - (1) Mechanised sailing vessels upto 1000 DWT
 - (2) Ship ancillaries
 - (3) Commercial vehicles
6. Industrial Machinery
7. Machine Tools, Jigs, Fixtures, Tools and Dies of Specialised Types
8. Agricultural machinery/Tractors and Power tillers
9. Earthmoving machinery
10. Industrial instruments: indicating recording and regulating devices for pressure, temperature, rate of flow, weights, levels and the like.
11. Scientific instruments
12. Nitrogenous and Phosphatic Fertilisers falling under:
 - (1) Inorganic fertilisers under '18 Fertilisers' in the First Schedule to the IDR Act, 1951.

13. Chemicals (other than Fertilisers)
 - (1) Inorganic heavy chemicals
 - (2) Organic heavy chemicals
 - (3) Fine Chemicals, including photographic chemicals
 - (4) Synthetic resins and plastics
 - (5) Synthetic rubbers
 - (6) Man-made fibres
 - (7) Industrial explosives
 - (8) Insecticides, fungicides, weedicides and the like
 - (9) Synthetic detergents
 - (10) Miscellaneous Chemicals (for industrial use only)
14. Drugs and Pharmaceuticals:
 - (1) Drug intermediates from the basic stage for production of high technology bulk drugs; and
 - (2) High technology bulk drugs from basic stage and formulation based thereon with an overall ratio of bulk drug consumption (from own manufacture) to formulation from all sources of 1:5.
15. Paper and pulp including paper products
16. Automobile Tyres and Tubes
17. Plate Glass
18. Ceramics:
 - (1) Refractories
 - (2) Furnace lining bricks-acidic, basic neutral
19. Cement Products:
 - (1) Portland cement
 - (2) Asbestos cement
20. Automobile ancillaries
21. Castings and closed die forgings
22. Tractors
23. Commercial Vehicles

24. Conveying equipment
25. Diesel engines, pumps
26. Cranes
27. Earthmoving, mining and metallurgical equipment
28. Hydraulic equipment
29. Industrial machinery including chemical plants and machinery
30. Machine Tools
31. Textile machinery
32. Power transmission and distribution equipment (other than cables & wires)
33. Power transformers
34. Switchgear

Annexure II

Illustrative list of products which would be eligible for special facilities on the ground of 100% exports.

1. Engineering Goods:
 - 1.1 Engineering goods (excluding prime and non-ferrous metals)
 - 1.2 Electronics products including electronic software.
2. Chemicals Plastics and allied products, namely:
 - (a) Inorganic chemicals, organic chemicals and miscellaneous chemicals.
 - (b) Drugs and drugs intermediates including crude drugs.
 - (c) Dyes and dye intermediates.
 - (d) Toiletries and perfumeries (excluding processed talc).
 - (e) Paints and allied products
 - (f) Safety machines, fireworks, explosives and detonators.
 - (g) Ceramic products.
 - (h) Glass and glassware
 - (i) Wood products and processed wood.
 - (j) Asbestos, cement including clinkers and cement products.
 - (k) Rubber manufactures
 - (l) Paper, paper products and stationery
 - (m) Pesticides and preservatives.
 - (n) Agarbattis.
 - 2.2 Culinary oleo resins.
 - 2.3 Refractories.
 - 2.4 Plastics and Linoleum products.
3. Furniture.

4. Leather and sports goods:
 - 4.1 Finished leather and leather manufactures including footwear and paint brushes.
 - 4.2 Sports Goods.
5. Food, Agriculture and forest products:
 - 5.1 Canned and frozen marine products
 - 5.2 Processed foods, fruits, vegetables and alcoholic and soft beverages
 - 5.3 Meat and allied products
 - 5.4 Packaged tea i.e. tea packed in consumer packs of a size upto 1 k.g. and instant area.
 - 5.5 Instant and packaged ground coffee
 - 5.6 Tobacco manufactures
 - 5.7 Deoiled rice bran and cotton seed cakes, sal seed, fats and animal foods.
 - 5.8 Mango kernel extraction and mango kernel oil
6. Textiles:
 1. Carpets
 2. Readymade garments, knitwear, made-up articles
 3. Rubberised coir and curled coir
 4. Khadi
 5. Natural silk fabrics, garments and made-up articles
 6. Hosiery
 7. Handloom fabrics, made-up articles and garments
7. Miscellaneous:
 1. Handicrafts
 2. Silver and gold jewellery
 3. Fabricated mica

CHAPTER 19NOTE OF DISSENT BY D K RANGNEKAR AND AMIT BHADURI

We find ourselves in disagreement with the main thrust of this report because the question of assigning 'due priority' to export during the 1980s has not really been seriously considered in it. It seems that this Committee on Export Strategy has interpreted its task as one of recommending a series of schemes and methods for promoting exports without being concerned too much about the economic costs and social consequences of such promotional schemes. In effect, this means assigning an almost absolute priority to expansion of exports. This, in our view, is wrong, both in terms of elementary economic logic and social implications. What we need instead is relative priority to be assigned to promotion of exports, in relation to other major economic activities. In other words, a scheme of relative, in contrast to absolute, priorities requires us to consider export promotion as essentially a costly activity and that cost has to be compared with costs elsewhere in the Indian economy and their corresponding benefits. There is absolutely no a priori reason to believe that, for a given stream of benefits, export promotion is the least costly activity in the Indian economy at present. And still, such a presumption runs throughout the report and export promotional activities are considered more or less desirable, almost imperative.

There could have been at least some logical consistency (which is a necessary but not sufficient condition for the desirability of an economic policy) in this blind reliance on export promotion, if the committee had openly argued for an overall macro-economic strategy of 'export-led growth', which it appears to eschew. Yet, in the same breath, the committee claims that "rapid export growth will undoubtedly help the rate of growth of the economy". Such an approach to economic policy is neither feasible nor desirable from the national point of view for certain compelling reasons.

First, the international economic scene is grim and the rich industrial nations, which happen to be our main trading partners, are facing serious economic recession, perhaps the most acute of its kind since the Great Depression of the 1930s. In these circumstances, the aggregate export market cannot be reasonably expected to expand rapidly at least for the coming few years: to talk of a 'quantum jump' in Indian exports in such a situation seems singularly ill-timed to say the least.

The Committee's view that, since India has only a minute fraction of total world export, she can expand her share more easily is misleading. For, she can only expand her exports rapidly only by capturing a rising share of the incremental demand for world exports, or alternatively, by partially ousting her trade rivals. In either case, the cost of relative faster expansion of Indian export compared to the 'rest of the world' is likely to be high, and the Committee has simply been oblivious (except for a few platitudes scattered in the Report) to such cost considerations.

Secondly, a strategy slanted heavily in favour of exports carries a distinct bias against social justice. Basically, one wants to rely on exports for growth rather on the domestic market primarily because one believes that the domestic market is unlikely to expand fast enough. The sluggish growth of the domestic market is a consequence of bad income distribution and a low level of investment. But rather than frontal attacks on these basic causes, the illusory promise of higher growth rates through rapid export would seem to suggest an easy escape route. This escape route does not in fact exist, and even if it did exist, it would not have been the desirable one to follow because economic growth is needed to make the poor people of India better-off, not to by-pass them by relying on foreign markets! The possibility that more export may provide more profits to private business does not make it necessarily good for the country: "What is good for General Motor, is good for the country" is a dictum which we do not believe to be valid in the case of India.

Export growth requires certain preconditions, particularly in terms of heavy financial and marketing infrastructure. These infrastructural investments require time to mature, so that one cannot expect immediate 'quantum jump' in Indian exports. Even if these infrastructural investments are made, exports will pick up only with a considerable time-lag. The arithmetic of a steady ten per cent compound growth suggested by the Committee is false, because the growth rate of exports will be lower in the beginning, and will only gradually pick up towards the end of the 1980s decade, as those investments mature. A more realistic arithmetic of the export growth trajectory would have been to suggest a lower growth in the earlier years of this decade and a higher one towards the end. But this makes the unrealism implied in these projections still clearer; to arrive at the same position by the end of 1980, the growth rate of later years will have to be much higher than 10 per cent, the feasibility of which is open to serious doubt, to say the least.

The Committee has sought to buttress its overall scheme and recommendations by citing the balance of payments case. We disagree with this premise since the balance of payments problem, if put in perspective, would essentially appear as the result of certain policies pursued in recent years. We should like to question the committee's theory of "import inflexibility". Based mainly on the bulging import bill of petroleum, edible oil and seeds, and fertilizers, this has become a convenient peg for the committee's indiscriminating export promotion package, ostensibly to contain a possible foreign exchange crisis. This assumption of an inflexible import bill is fallacious on closer examination.

Contrary to the committee's assumption that our imports are "trimmed of all fats", imports in the last three years or so have in fact been unthinkingly liberalised. There is a strong case for lowering our import bill by a close screening and elimination of "fat", non-essential imports. The real size of the problem would then also appear of an entirely manageable proportion.

Even in respect of the three major imports mentioned above the assumption of inflexibility is superficial. These imports have, no doubt, soared particularly after the 'Oil Shock'. But then the impact of the 'Shock' is exaggerated because the government has taken no significant decision nor adopted any effective measures to curb and contain the growth of wasteful consumption, for example, of petroleum products. The possibility of foreign exchange saving by regulated distribution has not even been seriously considered.

The Petroleum Conservation Action Group has pinpointed industrial fuel savings of up to 33 per cent, and smaller saving possibilities down the line in a wide variety of applications. Also, alternative fuels have not been developed as they should be. Coal production, for instance, has stagnated for three years at around 100 million tonnes. If these facts are attended to, and coal-for-oil substitution encouraged there could quite easily be a 10 per cent saving on oil consumption involving close to 20 per cent cut in oil imports. This in itself would save on foreign exchange spending by something like Rs. 1000 crores or more.

As for the large scale import of fertiliser and oil-seeds referred to in support of the new strain on foreign exchange reserves, it requires far less investment and no drastic policy changes to end these shortages than what the report recommends as necessary for an export thrust.

Indeed, if the domestic infra-structural bottlenecks can be sorted out, the current maintenance imports of steel, cement, paper, and a wide variety of other items can be reduced, if not eliminated altogether. Indeed, before coal and power started causing problems, India was exporting a good many of these items. If the current imports of these items are indeed eliminated, the overall import bill would be pruned further by at least another Rs.1000 crores.

In other words, the projected 1980-81 trade deficit would then appear more manageable, nearer the level we have lived with for much of the last six years, and it would not denote a major foreign exchange crisis of a new order. Correspondingly, the scenario to be laid out as the export strategy for the 1980s would be vastly different from that in the report, for the premise itself would be different.

To the extent that the current imports of many of these items are caused by infrastructural constraints and since these constraints will have to be ended in any case in order to mount any kind of export drive, it could as well be argued that the problem is not one of excessive imports or too little exports. This then boils down to a question of better infrastructural management, higher growth rates, price stabilisation scheme, and better system of distribution and demand management.

We may illustrate our general point (in the preceding paragraph) with specific examples. The report makes much of the burgeoning import bill for edible oils. But instead of planning primarily for cereal exports, a comparable effort in oilseeds would eliminate this import item, and simultaneously avoid dependence on the fluctuating international prices for cereals and the possibility of being forced to dump agricultural exports on a depressed international market. In edible oils and fertiliser also, the "inflexibility" thesis needs to be questioned. Edible oils got out of hand only in 1977-78 and later. The annual imports are:

1975-76	Rs. 17 crores
1976-77	Rs. 118 crores
1977-78	Rs. 738 crores
1978-79	Rs. 552 crores
1979-80	Rs. 750 crores

The period 1977-79 was marked by a sudden spurt in per capital availability of edible oils*. Could it be that the sudden spurt in imports in these years had less to do with domestic supply constraints than with a more liberal import policy?

* Economic Survey, 1979-80, page 90

In fertiliser, the average annual imports in quantitative terms in 1974-78, at 8.35 lakhs tonnes, was only 11 per cent higher than the 1966-70 average figure of 7.52 lakh tonnes. In value terms, as a percentage of total imports, fertiliser accounted for 4.3 per cent in 1977-78 against 3.7 per cent as far back as 1970-71. Does this not put a question mark against the theory of sudden and burdensome import inflexibility? This is not to deny that the import bill has been rising. But one reason for this would be a slowing down of the production growth rate, particularly marked in 1977-79 when compared to earlier years**.

Or take steel. From net exports of Rs.244 crores in 1975-76 and Rs.70 crores in 1976-77 (which was the year of peak capacity utilisation in the domestic steel industry), the situation became one of net imports, the deficit rising with the steady fall in capacity utilisation right through to 1979-80. Once again, the lapse here is to be seen in domestic production and planning. These instances are enough to suggest the alternative thesis that, if some crucial items figure prominently in the import bill, the solution lies in boosting the domestic production base rather than assuming that imports cannot be curbed and that a compensatory export oriented strategy is necessary.

As regards the case of comparative costs, it is by now well established that the law of comparative costs does not generally operate within a framework of ideal conditions. And it is by no means certain that the export regime prescribed in the report will not saddle the economy with inefficient propped up export industries. There is some validity in the argument that the balance of payments effects of the production of import substitutes are likely to be more certain than those of export promotion measures of comparable feasibility. The foreign exchange recovery rates would vary with different cases, but indications are that the recovery rate is likely to be more certain in the case of import substitution than through exports. There are also other questions regarding export development which the committee does not appear to have taken into account.

** Ibid., page 91.

A good part of our present difficulties arise because we slowed down our import substitution programmes or postponed some of these projects. While the initial foreign exchange cost may (or may not) have remained about the same, whatever the time span of a project, every delay in implementation has deprived the economy of the goods (and other benefits) which would otherwise have been produced during the intervening period - imposing exchange costs of importing these goods. This is particularly true of iron and steel, fertiliser and pesticides, and capital goods, the earlier and faster manufacture of which could have given Indian industry an edge and also averted or at least minimised any balance of payments pressures. Once non-essential imports are curbed to the minimum and domestic output restructured, the balance of payments pressures should ease to a large extent. The restructuring must include a programme of import substitution. The world market changes which increased the cost of major imports by India in recent years have also improved India's comparative advantage in some of these production categories. India now has an obvious cost advantage in producing, say, steel and fertilisers - to name two items which accounted for 12 per cent of the total import bill in 1979-80 and payments for which are expected to increase in the coming years. Edible oil imports which are large now provide another opportunity for import substitution, one which also has rural development linkage. In general, we would suggest that a faster growth of domestic capacity and larger production of categories in which India has obvious cost advantage will cut the import bill, ease balance of payments pressure, while still being consistent with the rational allocation of resources.

The report seems to underplay the economic risks, involved in expanding export industries in the face of domestic inflationary pressures, worsening balance of payments position, and flying in the face of social priorities for a development plan in a poor country. The tenor of the report and the underlying implication that the proposed 'quantum jump' in export would solve some of the immediate problems are questionable. Even disregarding the question of ordering priorities for a development plan in the existing social conditions, the mere fact that exports are proposed to be stepped up is not a sufficient justification for the development of particular industries. There may be particular cases in which it would be desirable both to step-up domestic production and restrict exports so as to ensure better balance in the domestic economy and also make a certain foreign exchange saving (in the context of import content of exports) and release domestic resources available for other purposes.

The Committee has given no estimate of the scale of investment required for providing supporting facilities to meet the projected export levels such as shipping, railway facilities, air freight, internal cargo complexes, dry ports, bonded warehouses, free zones etc. And no attempt seems to have been made to examine the feasibility of the required scale of investment, how much of the available investible financial resources these will permit, the downstream effects of these on other priority areas and the repercussions on planning for domestic plenty. In any case, with the 1980-85 Five Year Plan currently being drawn up, the minimum precaution should have been to check with the Planning Commission whether the resource position permits the kind of strategy laid out in the report. If it does not, and if despite this, the recommended policy changes are pushed through, there would be little return in foreign exchange and even less in terms of economic and social benefits. The projected "quantum jump" in export also assumes a high quality of coordination, supervision and management of the economy, in short a "quantum jump" in the system's performing ability. This is, to say the least, a questionable assumption, and, we submit, more serious and determined import management is more within the performing ability of our economic system.

Avoiding unpleasant discussion of these unpleasant but real issues, the report poses export problems and strategy somewhat in a vacuum without relating them to the general process of economic growth and social change in a poor, developing economy seeking planned economic and social transformation in a recessionary world situation. A programme of export development in the Indian context cannot ignore the fact that extremely low incomes and mass poverty also act as a supply constraint on the generation of an investible surplus for reasons that are similar to those that prevent India from generating adequate exportable surpluses at least in the short run. We do not agree with the proposal that India should switch development to export growth without direct linkage with the accepted overall strategy which, among other things, provides for import substitution, employment generation, income redistribution, besides higher levels of domestic consumption.

It is a fallacy to assume that we can achieve high rate of growth through exports as is implied in the report. Exports are rather like investment in the short run except that they generate claims on foreign resources rather than

provide a future stream of domestic resources. In India, domestic consumption requirements have to rise much faster than domestic production potentialities, and it is not clear that an exportable surplus is easily generated without basic changes in the overall development strategy. This is not to discount the possibilities of the development of export industries, but rather to emphasise the point that this development must have a direct linkage with the overall development strategy including the goal of self-reliance.

In conditions of poverty and retarded consumption levels one has got to take into account various considerations. The main thrust of the report seems to overlook some of those considerations which are germane to the pursuit of balanced growth and development at the minimum social cost. After all in a large country like India, where well-nigh half of the population lives at or below the subsistence level, the economic and social costs of turning dramatically towards a production pattern oriented towards export would be very heavy indeed. Allocation of scarce resources in the immediate future in terms of policy to export an increasing proportion of GNP, apart from over-emphasising the role of export earnings, may conceivably tilt the balance of advantage against the basic interest of growth and social justice and defeat the objectives of employment generation, removal of poverty and maintenance of price stability.

The scale of export expansion proposed in the report assumes that the demand overseas for Indian exports is high or rising sharply, and that it is inelastic. This assumption runs counter to world economic trends which are not entirely favourable, and could possibly become worse. There are structural shifts in the demand of Western countries such as synthetic substitutes, the declining raw material content of industrial products, low income elasticity of demand for India's key exports etc. There are unmistakable signs of intense protectionism emerging in the West and to a lesser extent in the developing countries, and this could come down heavily on Indian trade. Protectionist tendencies, besides tariff and countervailing duties, take the form of quota restrictions, quality inspection often intended for rejection of supplies. The scope for the proposed steep rise in exports in changing conditions in the West, even with the help of domestic policies, appears to be over-rated.

It is by no means certain that if a developing industrial economy as potentially powerful as that of India's wanted to ensure a "quantum jump" in export it could do so without very much turning the terms of trade against herself. This is without raising such problems as the willingness of the major countries to open their markets to Indian goods or the availability of adequate world surplus of such essential products as fertiliser and petroleum. India's dependence on such inputs as oil and fertiliser has become very acute in recent years. But then such dependence is itself the result of policies uncritically followed without any serious effort to curb non-essential consumption. If one wished to discuss the question with all options open the fact that trade might play an entirely different role in alternative strategies may have to be faced. What is sought to be emphasised is that export planning and policies have direct and significant relationship to the rest of the economy as also to the changing world situation and environment.

The "quantum jump" proposed in exports over the next ten years does not seem to be based on any serious study of the production costs involved. Cost reduction has to be pursued systematically and consciously through appropriate measures and well-advised schemes of incentives and disincentives. Largely because of heavy protection resulting from circumstances in which Indian industry has developed, there has been little pressure on manufacturers to reduce their costs or to develop competitive ability. The domestic producer has got used to a certain sense of security due to the progressive increases in import duties, subsidies and other props, which have become a regular feature of Indian public finance. And the Committee desires to strengthen this regime. The existing policies already automatically provide protection regardless of whether the industry is old or new. There are other concessions available such as preferential import of materials, priority allocations of scarce materials etc. Likewise, the policy of industrial licensing, though well meaning and perhaps intended to adhere to priorities, has also contributed to the creation of conditions unfavourable to a competitive reduction in costs. The distribution of capacity targets among a large number of producers has also in many cases resulted in the setting up of uneconomic units of production. In other cases, where new technology mattered, the operative conditions have been dictated by the availability of aid or foreign collaboration, and the aid and the collaboration have not always been dependable

or of the most advantageous kind, or on the most advantageous terms. These and more unfavourable features which have become an integral part of India's industrial structure have added to the costs of production and saddled the economy with a heavy burden of subsidies when competition for foreign market is involved.

These are elements impinging on economic and social costs which warrant close examination in order to be able to assess the relative viability of those industries which are considered for inclusion in an export plan. A number of countries do undoubtedly incur economic and social costs in order to speed up their exports, but in India the burden seems to be of a higher order particularly in the context of pressing poverty. The question here essentially boils down to whether and to what extent can a poor country carry the burden of subsidies and other economic and social costs for purposes of promoting exports and earning foreign exchange?

All export incentive schemes have direct economic implications and indirect social costs. Apart from the well publicised scheme of cash assistance, we today have in operation several other schemes, including import replenishment scheme, advance import licences, preferential import of capital goods, supply of raw materials at or below international prices, concessional credit, drawback on customs and excise duties, railway and air-freight subsidies, besides financial assistance for export promotion and blanket permission for export promotional tours abroad etc., etc. The report recommends cash, fiscal and financial support of an extensive nature allegedly to make "exports profitable". But the report has failed to make any aggregate assessment of the real and implied economic costs in relation to actual or projected export earning. Nor has it provided any analysis of fiscal incentives and actual export profitability trends. Considering that the incentive schemes have been in operation for sometime, it is surprising we know so little about the elasticity of export promotional expenditure, actual and concealed, and the impact on foreign exchange earnings. The growth rate of export promotional expenditures, must be justified by tangible results in terms of export growth rates.

An attempt has been made in Table 1 to estimate the public cost of known or quantifiable export promotional

expenditures. These include budgetary expenditures on trade and export promotion, duty drawback and estimated export credit subsidies. Duty drawback schemes may not technically be regarded as a direct subsidy in the sense that it is not an across the board payment like cash assistance. But it does have an element of subsidy in so far as it provides relief of incidence of customs and central excise on raw material and components at various stages of production for export. The scheme entails a loss of government revenues and the benefit is restricted to certain production for export. The scheme has now become an integral part of India's export promotion programmes. The rates are fixed either for a class of products made by manufacturers generally known as "all-industry rate" or for a specific product manufactured by a particular producer known as "brand rate". In effect, thus, subsidy benefit is derived by specific manufacturers for export of a range and order not available to all producers nor to production for the domestic market.

Under the concessional export finance scheme, exporters are eligible to get concessional export credit facilities on a liberal basis both at the pre-shipment and post-shipment stages. From time to time the ceiling rates of interest on export credits are revised in line with the changes in the interest rates on domestic credits and also the overall credit policy. In order to compensate the banks for the reduced interest earnings on export credits, the government operates an interest subsidy scheme through the Reserve Bank under which subsidy at 1½ per cent per annum from the Marketing Development Fund (MDF) of the Commerce Ministry is granted. The subsidy cost of export credit should be considered on the basis of effective maximum lending rates. At present, the maximum lending rate (effective rate) is 18 per cent. Average export lending rate is 12 per cent. So commercial banks lose 6 per cent interest. But MDA compensates the banks to the extent of 1.5 per cent. The public cost of subsidy on export credit is thus reckoned at 4.5 per cent on export credit outstandings.

In the case of certain types of deemed exports like supplies made in India under global contracts for projects financed by IDA/IBRD etc., refund of customs and excise duties is allowed by way of supplementary cash assistance and additional cash assistance. Cash assistance is given from the MDA primarily with a view

to compensating the exporter for the unrefunded taxes and levies paid on export goods and on inputs. According to the Ministry of Commerce, the objective of cash subsidy is to enable exporters to meet competition in foreign markets, to develop marketing competence and to neutralise disadvantages inherent in a developing economy. Cash assistance given by MDA is included in the budgetary expenditures. Such assistance to the "deemed exports" should therefore be considered as an expenditure on effective cost of export promotion.

According to the data compiled budgetary subsidies and expenditure on export promotion have increased from Rs.54.16 in 1971-72 to Rs.77.97 in 1972-73 to Rs.77.55 in 1973-74 to Rs.88.38 in 1974-75 to Rs.160.89 in 1975-76 to Rs.288.61 in 1976-77 to Rs.346.87 in 1977-78 to Rs.419.80 in 1978-79. Taking into account the fiscal support on duty drawback and subsidised credit, the total financial cost of direct subsidies would appear to have gone up from Rs.110.27 in 1971-72 to Rs.145.80 in 1972-73 to Rs.150.80 in 1973-74 to Rs.183.07 in 1974-75 to Rs.280.40 in 1975-76 to Rs.452.57 in 1976-77 to Rs.532.34 in 1977-78 to Rs.625.55 in 1978-79. The estimated public cost of export promotion has already thus reached a staggering Rs.625 crores. And indications are that export subsidies as a percentage of exports are already rising. The tally would look forbidding if unpublicised aids are taken into account. Exporters receive several other dispensations from the government such as subsidised freight charges on raw materials and finished product, import entitlement subsidy on supply of materials etc. If all these categories of assistance were to be quantified and added up, the question will have to be faced whether the government's wide ranging export promotional aids are justified by the net return to the economy.

Other things remaining the same, a rise in import content of export should normally lead to a reduction in the quantum of subsidy. However, the manner in which the subsidies are administered in India the larger interests of the economy are not always kept in view. One wonders if there are any proper norms in this respect at all. A recent report of the Comptroller and Auditor General has provided some startling data on this subject. In a case involving export of black pipes, for example, the expected f.o.b. realisation was Rs.2.39 crores and the estimated c.i.f. value of the import content was Rs.1.78 crores. Yet the cash assistance allowed was Rs.71.70 lakhs, giving a percentage of cash assistance to net foreign exchange earned of as much as 118 per cent.

Hot rolled strips to the extent of Rs.92.96 lakhs were imported in another instance for enabling export of steel pipes and tubes valued at Rs.1.17 crores. Cash assistance here was of the order of Rs.35.10 lakhs and the percentage of cash assistance to net foreign exchange realised was 146 per cent. In yet another case, hot rolled strips worth Rs.90.43 lakhs were imported so as to make possible the production and export of galvanised black steel pipes of the f.o.b. value of Rs.1.09 crores. The cash assistance in this case was Rs.32.70 lakhs, or 176 per cent of the net foreign exchange earned. In a similar case, hot rolled steel strips worth Rs.1.83 crores were imported in order to produce for export galvanised steel pipes worth Rs.2.18 crores. The cash assistance was approximately Rs.62.40 lakhs and the percentage of cash assistance to foreign exchange earned was 250 per cent.

The two most grotesque cases mentioned involved the import of mild steel rounds and hot rolled steel strips in coils. Mild steel rounds worth Rs.3.79 lakhs were imported for enabling the export of bright steel bars and shaftings of the value of Rs.3.83 lakhs, that is to say, the net foreign exchange realised was only about Rs.4,000. The cash assistance offered was, however, in the region of Rs.1.15 lakhs and the percentage of cash assistance to net foreign exchange earned was thus 2,875 per cent. In the other case, hot rolled steel strips in coils were imported to the tune of Rs.31.12 lakhs for the production and export of galvanised and black pipes with an f.o.b. realisation of Rs.22.02 lakhs; here, instead of any net accretion of foreign exchange, there was in fact a loss of foreign exchange to the extent of Rs.9.10 lakhs. Even so, the party concerned received cash assistance of Rs.6.60 lakhs.

The advance report of the Comptroller and Auditor General of India released in mid-1980 also cites several cases of wasteful disbursement of cash assistance and other export incentive schemes. For example, the government had a scheme to encourage the production and utilisation of rice bran oil in the manufacture of vanaspati, soap etc. and had evolved an elaborate incentive scheme to compensate for production losses on rice bran oil and export of rice bran extractions. The government spent an aggregate sum of Rs.15.40 crores on incentives including cash assistance between 1971 and 1978 without any cost study, but the figures analysed by the Ministry of Finance proved no loss and confirmed

profitability of exports. Payment of cash assistance with retrospective effect was obviously unjustified. The scheme provides for prompt review of cases of default in this regard and recovery of the payments of cash compensatory support and other benefits paid to the exporters in such cases.

Till June 1979 no action on the reports of defaults received from the Reserve Bank as per the prescribed procedure had been taken. Defaults on the part of exporters as on December 31, 1977 involved 2451 items and Rs.723.80 lakhs. During 1976-77, 1977-78 and 1978-79 payments on cash compensatory support aggregating Rs.44.10 crores, Rs.69.96 crores and Rs.95.85 crores respectively were made on export of various items, but there was no uniformity in fixing export obligations against import licences. A test check of 90 cases, where import licences were involved, revealed that in 50 per cent cases there was failure to comply with the export obligation.

Since the various export assistance programmes in their totality mean so much erosion of scarce fiscal and monetary resources, they involve a certain opportunity cost, reflected as much in aggravation of inflationary forces as in denial of social benefit of other development projects which have either to be put off or abandoned because of consequential resource constraint. We regret, therefore, that the committee did not care to go into the cost-benefit aspects of export subsidies and props and has gone on to recommend a more sumptuous package of subsidies and incentives, including any compensation for higher costs on each element in relation to some "international price norm" - all to be given on a 'stable basis' and for 'long periods'. Apart from the fact that such a package can open Pandora's box ostensibly to help the exporter become competent, the financial burden on the exchequer, which incidentally has not been estimated, could well become prohibitive throwing the entire budgetary scheme off balance.

There is also no suggestion for the reverse situation, which indeed is more frequent: Indian exporters getting a large number of items at prices considerably lower than those ruling internationally. Indian coal and steel to name but two are still about the cheapest in the world.

In such cases, will the exporters be charged at the international rates? If not, why not? Perhaps it needs to be accepted that, on balance, Indian exporters get their inputs - including labour - quite cheap, and there is no case for any special subsidising effort. There is the attendant danger that, as in the duty drawback scheme, the amount of money refunded to exporters may not be available on any aggregated basis on time thus defying any direct evaluation. Already there are cases of the return on exports of a value added item being less than the cost of the raw material plus the subsidies/inducements/incentives paid out. Such cases could multiply under the scheme in the report, and there would be no way knowing early enough how often this is happening.

There is no attempt made by the committee at working out the modalities of the whole exercise, the complexities of administering the proposed scheme, and the probability of large-scale misuse. For instance, benami buying of raw materials through connected agents at inflated prices is a common enough practice in industry for diverting funds from corporate kitties to private pockets. This practice could spread rapidly if there is any long term official subsidy or compensation for higher input costs. Other loopholes too are bound to be exploited. It is strange that the report should make such major proposals on incentives without adequate (indeed any) study of the working of the existing subsidy schemes. It would be instructive, for example, to find out what sectors have claimed the bulk of the cash aid so far, and what has been their track record, what success has been achieved because of cash aid in terms of export diversification etc. Should not a cost-benefit study of all these issues be made before additional subsidies and hand-outs are proposed?

As we have already pointed out in an earlier section the committee has been oblivious of social costs and consequences of an indiscriminate export promotion strategy. Such costs, in our view, would be enormous if the government were to follow the committee's recommendation that even supply of items of daily intake may have to be curtailed in order to generate export surpluses or "shortages shared" to use the committee's euphemism. Sustained withdrawal of sensitive consumer products from the domestic market could conceivably disturb the delicate balance of supply and demand, and, among other things, create shortages - real and artificial - and push up prices disproportionately.

The committee's recommendation that the "stop-go" policy should be ended in the case of agro-based products, even if there were periodic shortages, shows blissful ignorance regarding the damage to food standards already done by soaring costs of daily consumption not to mention the likely political consequences of such a ruthless policy.

Many of the recommendations contained in the report run counter to the accepted sense of direction of public policy and the strategy of growth with social justice. Thus, the committee recommends that production for export should be completely freed from licensing constraints, with asset limitation of MRTP houses to be raised from Rs.20 crores to Rs.50 crores, automatic expansion of capacity be granted by 10 per cent annually and 50 per cent over a five year period, that exports should be excluded while computing production of an undertaking for determining whether or not it is a "dominant undertaking", that access to foreign technology be freely allowed, that restrictions on location of industrial units and expansion of existing units in metropolitan cities should be relaxed, and that reservation of certain products for small sector to be relaxed in favour of "export oriented" undertakings etc.etc. In effect what is being recommended is that every measure or aspect of industrial or economic policy relating to regulation of investment and production and concentration of economic power should be abandoned, and where the framework is retained policy be diluted. The suggestion that all this is linked to export promotion carries no conviction because production for export and that for the domestic market cannot be distinguished either in the case of a group or individual industrial units. Concessions made in the name of exports tend in practice to subserve an altogether different purpose. In our view recommendations such as these go against the accepted directions of socio-economic development and are unwarranted even in the name of export promotion.

The Committee has made no empirical study or analysis to justify such drastic policy changes. The implications of the entire package of concessions is unacceptable to us in so far as they seriously undermine the nation's Industrial Policy Resolution (1956) and other policies relating to regulation of investment and production and restricting the growth of monopolies and concentration of economic power. The concept of balanced development and self-reliance is undermined. Even the policy of regional

dispersal of industry and protection of small industry is proposed to be thrown to the winds. We do not subscribe to such a scheme which dilutes fundamental national objectives and policies in the name of the new God of exports. It seems to us that exports are only a pretext to bend the well established policy framework to subserve the interests of free enterprise and multinationals, if these are accepted, it is quite likely that India would end up by actually importing more than exporting. There will be, for example, substantial outgo on technology payments, machinery imports, export tied imports, payments on account of royalties, foreign office expenses plus import of non-essentials, which are inevitably a part of the 'open door strategy' proposed. The return in the form of exports may come at best after a time lag of some years (if at all), while the period in between could well witness a rapid escalation of trade deficit with unmanageable consequences. It bears pointing out here that even the present burgeoning of the trade deficit has coincided with the slackening of the rigorous of the import regime without marked improvement in exports.

Past experience should be a warning. There is good reason to believe that the policy exemptions and concessions proposed can be misused. There cannot be any guarantee that what is initially cleared in the name of export will not eventually find its way into the home market. We already have the experience of numerous companies reneging on export commitments given at the time the licence was granted. If exporting units are to be allowed to expand capacity at will there would be an effective end to licensing, there is the strong possibility that a good part of the fresh capacity will be used, clandestinely or with official connivance, to feed the home market. Even in the case of the export zones, the demand has already been raised that some of the production should be permitted to enter the domestic market. This emphasises the danger of making policy exemptions under the guise of export promotion objectives.

We feel concerned that under the guise of recommendations, a regime of indiscriminate transfer of technology may be implemented, which may even become inconsistent with the operation of Foreign Exchange Regulation Act. The substantive recommendations in respect of economic policy, free access to technology and wide ranging concessions will have the effect of defeating the purpose of protecting society from being subject to monopolies

and multinationals and prevent the country from reaching the goal of technological and economic self-reliance. While exports are the excuse made by the committee for domestic policy changes, no explanation has been offered about the range of products which the multinationals will produce and export, how much domestic investment by them will be allowed, on what terms etc. We are familiar with the frequent complaints from organisations like Business International Corporation (representing US big business) and others about the poor investment climate in India - despite the well-known fact that multinational corporations' branches and their subsidiaries have been earning mostly fatter margins in India than in their home markets. Throwing the economy open to the multinational corporations at this stage will, in our view, only increase the country's vulnerability to them through greater dependence on their services. This vulnerability will be still more acute when technological dependence is perpetuated in the name of a liberalised access to foreign technology.

It may be noted here that nearly one-half of the foreign technical collaboration agreements involve restrictive clauses on exports. The sectors that depend on foreign technological collaboration account for a very small, almost negligible, part of India's export earnings. Transfer of appropriate technology does not take place even when liberal terms are offered to foreign companies. Few in India have been able to break through the secrecy barrier and those companies which have done well have done so mainly on the strength of their own indigenous technological base. While the foreign companies are reluctant to part with real know-how they are ever willing to palm off obsolescence in design and equipment. Even multinationals which have been operating in India for several decades have preferred the role of traders rather than as catalysts of technological change. This is borne out by independent studies on the question of transfer of technology, multinationals and exports.

A recent study sponsored by the Council of Scientific and Industrial Research underlines the futility of pursuing a liberal regime in the name of export promotion. Multinationals and big corporations associated with foreign companies in key industries, including engineering, are shown to have relatively poor export record*. Another

* K.K.Subrahmanian and P.Mohanan Pillai, Multinationals and Indian Export, 1979

survey brought out that companies having technical collaboration with foreign companies or equity associations have limited their own possibility of exports. Many of the respondent Indian corporations "admitted that their agreements contained restrictive clauses on their exports from India, limiting the possibilities of exports either to certain products only or to some markets only"*.

Another (preliminary) study on export obligation and technology transfer in the field of electronics also came to an adverse conclusion**. These studies suggest that even a domestic firm places itself in a weak position and disadvantageous one when it relies on foreign technology or is subordinate to a multinational company, particularly in the matter of exports. Multinational and foreign corporations, which allegedly "transfer technology" or set up subsidiaries are not really interested in building up India's technological base, much less her exports. They are interested in capturing domestic sales. That explains why they insist on restrictive clauses on exports by associated Indian companies. In the light of evidence and past experience, the committee's recommendations must be seen as being biased in favour of multinationals.

According to the report the national technology policy will have to be radically altered sacrificing the suitability of such a policy for the domestic economy for the sake of so-called export-suitability. Its implications in terms of capital-intensiveness, industrial employment, etc. are completely ignored. These could be drastic, though the degree cannot be estimated since the report fails to specify any sector. In any case, the recommendation that imports of technology should be placed on OGL suggests that large-scale technology imports are to be encouraged without any parallel export commitments from the importing unit. There is no effective precaution either against repetitive import of the same or comparable technology, involving a waste of scarce foreign exchange, and harm to established domestic enterprises and R & D.

* Charan D. Wadhwa, Export Development Policies and Balance Between Macro-Micro Prospects 1979 (Mimeographed).

** I. S. Gulati & Swaraj K. Bansal, Export Obligation Technology Transfer and Foreign Collaboration in Electronics, 1980 (Mimeographed)

The committee seems to have overlooked the fact that multinationals, which have been in operation in India for as many as 50 years or more had not developed any basic technology worth the name, and it was only FERA which pushed them into a search for 'sophistication' of technology to minimise dilution of equity capital, and, at the other hand, pressurise the government for the dilution of FERA, as for the argument that the present Rs. 50 or Rs. 60 crores annual outgo for foreign technology is "not excessive" in relation to the current level of merchandise export earnings, the simple point is that the comparison is not valid. Most of the Rs. 6421 crores of exports (1979-80) comprise items that require no foreign technology input. The sectors that pay out technical fees abroad account for considerably smaller proportion of export earnings, and the ratio of this figure with the outgo on technology would probably be seen as being not insignificant.

Instead of trying to do what no other continental scale economy (US, USSR, Brazil and China) has done - export 16 per cent or more of GNP, more assured results will follow from concentration on expanding GNP itself. The US exports a mere 6 per cent of its GNP, Soviet Union 5.25 per cent and Brazil 8 per cent. As the rate of growth of Indian GNP rises, the country would then be a lot better equipped to export a much larger proportion of the GNP than it is today. While recognising the need for an export drive, it is well to remind ourselves of our present poor growth performance. Any approach to export in these conditions must, therefore, aim at strengthening the economic base. That would involve a strategy entirely different from the package proposed by the committee, including modification of MRTP, FERA acts, the nation's technology policy of self-reliance, the licensing policy, et. al. There is an attendant danger in freeing the most powerful sectors of the industrial superstructure - the MRTP and FERA companies - from all restrictions in the name of exports. To the extent that exports are given a top priority in respect of licensing, credit facilities, raw material supplies, budgetary support, tax exemption and much else, it will be the FERA and MRTP companies which will tend to be the kingpins of the export thrust. This in turn will give them vastly increased leverage and lobbying power for bending domestic policy in other areas to their liking.

The export projections in the report make it clear that in order to achieve the projected much faster growth of exports at constant prices the country will have to achieve an enormously faster growth of GNP in real terms. The implicit deterioration in the terms of trade should raise questions of self-reliance and the net loss involved to the economy. Indeed, with protectionism in the West assuming ever more serious proportions, attempts at pushing for a substantially larger export sector will probably result in the need for substantially larger export subsidies - thereby adding, in yet another way, to the net drain on the economy. Incidentally, little thought seems to have been given to the market penetration problems involved in increasing our share of total world trade.

A wise recommendation should clearly be one of expanding the domestic production base where export expansion should be the consequence rather than the cause of expanding gross national product. This line of reasoning is strengthened by simple arithmetic: between 1976 and 1980, global exports as a percentage of global GNP rose from 14.25 to 14.96 per cent - a marginal increase. Simultaneously, however Indian exports as a percentage of national GNP went up significantly from 5.80 per cent to 7.41 per cent.

If this was not reflected in a larger Indian share of world trade, the fault is not with too low a percentage of GNP being exported, but with the GNP itself growing too slowly. This re-emphasizes the need to concentrate on expanding GNP and the domestic market as the foundation for faster export growth. Striving for exports in a relatively stagnant economy of India's nature is to misread this causal relationship. It also overestimates the willingness of Indian entrepreneurs to invest in exportable surpluses. Past experience repeatedly shows that they turn to exports only when domestic demand is slack. The draft new export policy resolution should not suggest that a rapid growth in exports "will have to be one of the strategy instrument" in the drive towards industrialisation but rather than self-reliant growth is what should lead to a rapid growth in exports. The report makes this actual causation stand on its head:

The quantum jump in exports proposed involves investment costs. Will such additional investment be easily forthcoming? Will it confer benefits on the economy commensurate with the costs? Or will it be channelising the benefits of investment to the private owner?

First, from the social standpoint, the important consideration would be the likely balance of payments benefit, taking into account import content of the new export oriented investment, the incremental capital-output ratio, or the ratio between required imports and the foreign exchange, the recurrent import needs, and the additional export prospects. None of these questions have even been posed, let alone the question of quantifying some of these problems. In the absence of such an exercise we may have to reckon with wasteful investment in industries producing goods wholly or largely for export, which either because of the cost situation at home or market situation abroad would not be exported. The burden then of carrying idle capacities could become formidable.

The committee seems to assume that the establishment of a new export oriented industry or the removal of restrictions on MRTP and FERA companies would automatically ensure the export of additional output. It does not seem to realise that in certain conditions it pays the owner of an industry to keep part of his capacity unutilised particularly if there are monopolistic elements. Apart from inflationary conditions, the existence of monopoly and monopolised conditions which can defeat the objective of maximising exports do not seem to have been considered.

It can be argued that targetting on the basis of the percentage share of world trade is itself a meaningless arithmetical exercise, divorced as it is from any question of what the economy actually needs, what the world environment is likely to be or from such parameters as domestic demand, fiscal trends, domestic price trends etc. Many of the figures presented would, therefore, require a closer scrutiny from the point of view of what is realistic, feasible and even consistent. Even without going into detailed statistics, it may be qualitatively obvious that the country can do better in electronics than it has been doing so far. But some thought should be given to the fact that this is an area where the time lag between product innovation and obsolescence has been reduced to a few months in many cases. The outlays required to keep pace with such a market will be ultra-heavy, and it is questionable whether scarce capital and technical resources should be concentrated in this high-risk field. Similarly, take the proposal regarding export of motor-cars. The scale of production required to achieve cost-effectiveness in the face of international competition is gigantic, and if adequate export outlets

are not achieved in a tight market with well entrenched sellers, the venture could prove a disastrous white elephant. It needs to be added that the latest trends in motor-car technology, in Japan, for instance, are towards almost complete automation. So a giant plant would probably provide employment for a few hundred. This is a good example of the counter-productive nature of the recommendation that follows from wanting to keep pace with world technology for the sake of exports at any cost.

Finally, we emphasize that while we do need an export strategy, exports or development "export" industries should not be considered as an artificial transplant on to a system that is already weak and vulnerable. This will have the effect of relegating to the background some of the basic problems of mass poverty and social injustice apart from upsetting the economic logic of development. Any artificial transplant will take a still greater toll in subsidies, distortions of priorities and market disruption which could bring about a change in the process of development, spell hardship, generate inflation, retard technological development and make the Indian economy even more vulnerable in general than it is today. In our attempt to prevent such a course of development of the Indian economy it then becomes our intellectual duty to express our disagreement with this report.

Table A.1Effective Public Cost of Export Promotion

Year	Rupees in crore			
	Budgetary expenditure on trade and export promotion	Fiscal support in the form of duty drawback	Cost of subsidised export credit	Estimated public cost
1971-72	54.16 (+31.4)	35.50 (+7.6)	20.61 (+29.5)	110.27 (+22.4)
1972-73	77.97 (+43.9)	47.00 (+32.4)	20.83 (+1.1)	145.80 (+32.4)
1973-74	77.55 (-0.5)	42.25 (-10.1)	31.00 (+48.8)	150.80 (+3.4)
1974-75	88.38 (+13.9)	60.00 (+42.0)	34.69 (+11.9)	183.07 (+21.4)
1975-76	160.69 (+81.3)	82.50 (+36.7)	37.71 (+8.7)	280.40 (+53.4)
1976-77	288.61 (+79.6)	120.00 (+46.3)	43.96 (+16.6)	452.57 (+61.4)
1977-78	346.87 (+20.2)	133.00 (+10.8)	52.47 (+19.4)	532.34 (+17.4)
1978-79	419.80 (+21.0)	150.00 (+12.8)	55.75 (+6.3)	625.55 (+17.4)

Sources: Union Budget, Explanatory Memorandum, Government of India, Ministry of Commerce, Annual Reports, Reserve Bank of India, Currency and Finance, relevant years.

* Export credit outstandings are considered according to calendar year and December outstandings are taken as yearly average.

* Figures in brackets indicate the rate of growth in per cent over the preceding year.

A P P E N D I C E S

Appendix 1EXPORT TRADE IN RETROSPECT 1938-1978

While focussing mainly upon the last two decades of 1958 to 1978, we also present some data about the two earlier decades of 1938 to 1958 which in addition to its historical interest give the study a longer perspective to India's share in world trade. The four statements below, tracing India's export performance against the world in the past four decades 1938-1978, reveal some interesting points.

- India had a significant 2.91% share of world trade in 1938, which has progressively declined 40 years later to 0.49% in 1978, at constant prices dropping to 0.42% in 1979.

Table A.2India's Share in World Exports

Year	World \$ m	Decennial growth %	India \$ m	Decennial growth %	India's share %
1938	21,000	-	614	-	2.91
1948	53,900	9.8	1,387	10.40	2.57
1958	96,600	5.9	1,222	2.40	1.27
1968	237,800	9.5	1,716	8.00	0.72
1978	1,303,000	18.50	6,415	13.26	0.49
1979	1,509,000		6,398		0.42

- The decennial growth rate of India's export was above the world level between 1938 and 1948, but declined in the following decades.

Table A.3Exports - World and India

1978-1979	World	India
Exports increase per annum		
- at current prices	10.65%	13.20%
- at 1975 prices	5.40%	5.10%
Highest increase		
- at current prices, 1974 - world and India	47.20%	31.90%
- at 1975 prices - World 1972 India 1975- 76	16.90%	18.00%

Table A.4World Trade in Total - 1979

		World	India
GNP	\$ bn	9,579*	984.00
Exports	\$ bn	1,320**	57.70
GNP's share of exports	%	13.80	5.86

We shall now examine more closely the last decade of 1968-1979 of a spurb followed by a lowered tempo in value and volume and increased prices.***

* Estimates based upon data from World Development Reports 1978 and 1979; World Bank, and UN Monthly Bulletin of Statistics, October, 1979.

** Estimated on basis of data for first two quarters of 1979; UN Monthly Bulletin of Statistics, October, 1979.

*** UN Year Book of International Trade Statistics, Vol.I, 1977 and UN Monthly Bulletin of Statistics, October, 1979.

Table A.5Exports in Last Decade - World

Years	Value of exports (current prices) \$ bn	% increase per annum	Volume of exports (1975 prices) \$ bn	% increase per annum	% increase per annum in export prices
1968	237.8		482.3		
1969	245.6	3.3	552.4	14.5	- 11.2
1970	279.8	13.9	596.0	7.9	+ 6.0
1971	314.2	12.3	596.0	0.0	+ 12.3
1972	372.9	18.7	697.0	16.9	+ 1.8
1973	519.0	39.2	780.0	11.9	+ 27.3
1974	763.0	47.2	815.0	4.5	+ 42.7
1975	788.0	3.2	872.0	7.0	- 3.8
1976	897.3	13.9	970.0	11.2	+ 2.7
1977	1,017.0	13.3	1,011.0	4.2	+ 9.1
1978	1,173.0	15.3	1,068.0	5.6	+ 9.7
1979	1,320.0*	12.5	1,085.0	1.6	+ 10.9

*Provisional

A more detailed analysis of India's recent performance, 1970-71 to 1978-79 shows that the growth in the value of India's exports between 1972-73 and 1976-77 was due more to rising unit export values than increase in the volume of goods exported. The increase in the unit value of exports in turn was the combined effect of rise in export prices due to inflation, shift in the pattern of exports towards higher value-added manufactures, and fluctuations in exchange rates.

Table A.6Export in Last Decade - India

Year	Value of exports Rs. crores	Value growth rate % per annum	Volume index: exports (1974-75=100)	Volume growth rate % p.a.	Growth rate unit value % per annum
1970-71	1,535		80		
1971-72	1,608	4.7	86	7.5	- 2.8
1972-73	1,970	22.5	86	0.0	+ 22.5
1973-74	2,523	28.0	96	11.6	+ 16.4
1974-75	3,328	31.9	100	4.2	+ 27.7
1975-76	4,043	21.4	118	18.0	+ 3.4
1976-77	5,146	27.3	105	-11.0	+ 32.3
1977-78	5,405	5.0	102	- 2.6	+ 7.6
1978-79	5,645	4.5	-		

WORLD BY TRADE REGIONS :

For export data and performance consideration, world is today divided into four trading regions.

Table A.7

- DMEs	18 Developed Market Economies
- OPEC	7 Organisation of Petroleum Exporting countries
- DCs	88 Developing Countries
- CPEs	12 Centrally Planned Economies

India is in the DCs group.

Table below, showing India's position among the world regions, points to the same conclusions as the previous section of a low performance.

Table A.8

India and World Economic Regions, 1976

Groups	Population Million	GNP \$ bn	Exports \$ bn	GNP per capita \$	Exports per capita \$	World exports shares %	Expor share of GNP %
DMEs	661	4,240	623	6,416	997	64.16	14.69
DCs	1,981	976	120	483	60	12.35	12.30
OPEC	160	239	134	1,494	804	13.80	56.07
CPEs	1,276	1,354	94	1,061	75	9.68	6.94
World	4,078	6,809	971	1,670	287	100.00	14.26
India	620	93	5.42	150	9	0.55	5.83

In 1976, the distribution of total and per capita GNP, and the total and per capita exports by economic regions was highly uneven.

- 18 DMEs with a total population of 16.2%, accounted for 62.3% of the aggregate world GNP and a 64.2% share of world exports. They had besides the highest per capita GNP.
- 88 DCs with 49% of world population had only 14% share of world GNP; exports share of only 12% of the world trade; and the lowest per capita income.
- 7 OPEC with 4% of world's population had a 3.5% share of world GNP, but 13.8% of world exports. Their per capita income of exports was next to DMEs and above the CPEs.

- CPEs had 32% of world's population but 29% of its GNP, and a 10% share of world exports. Their per capita GNP was higher only than the DCs.

Capacity of a region and its countries to export appears thus to depend upon its economic development.

India's exports to major economic regions of the world in 1960-61, 1975-76 and 1976-77 are shown below.

Table A.9

India's Share of Regions' Exports

At Current Prices

Groups	1960-61		1975-76		Growth rate 1960-61 to 1975-76 %	1976-77		Growth rate in 1976-77 over 1975-76
	Rs.Crores	%	Rs.Crores	%		Rs.Crores	%	
DMEs	415	66.50	1,990	49.20	10.29	2,683	53.80	35.00
DCs	137	22.00	1,060	26.10	13.64	1,230	24.70	16.02
OPEC	22	3.50	300	7.40	17.54	298	6.00	-0.77
CPEs	50	8.00	688	17.30	17.81	770	15.50	11.92
World	624	100.00	4,038	100.00	13.25	4,981	100.00	23.25

DMEs They have always been the largest customer group of India. In 1960-61, 66.50% of India's total exports went to DMEs. During the following 15 years, upto 1975-76, they increased at an annual rate of 10.29% and in 1976-77 over 1975-76 by 35.00%. However, this increase was not big enough because DMEs share of India's total exports declined from 66.50% in 1960-61 to 49.20% in 1975-76, recovering to 53.80% in 1976-77. The reasons for decline were, as explained elsewhere, problems with price, quality, delivery dates, irregular supplies, and of course the DMEs' growing protectionism in products like textiles and leather.

USA, UK and Japan were the major importers of Indian products, but while the share of USA and UK declined, Japan's remained stable.

India's main exports to DMEs consist of textiles, leather and leather products, tea, garments, spices and coffee.

DCs As the second largest customer group, their share in total exports from India was 22.00% in 1960-61 increasing to 26.10% during the next 15 years upto 1975-76, at an annual rate of 13.64%. Textiles, engineering goods and chemical products were the major export products. In 1976-77, exports increased by 16.02% over 1975-76 but the share declined to 24.70% from 26.10%. Evidently India's current growth rate in exports to DCs is not fast enough to maintain existing shares and expand exports in these countries.

OPEC India's exports to this group increased at 17.54% per annum and the group's small 3.50% share in 1960-61 increased to 7.40% in 1975-76, after which it declined to 6.00% in 1976-77. Yet OPEC offer potential markets for India's exports for a wide range of products- basic and packaged food products and beverages, textiles and garments, modern luxury goods, electronics, construction material, engineering products and high value-added gem and jewellery, apart from industrial, construction, and professional talent.

CPEs CPEs share in India's exports was 8.00% in 1960-61 increasing to 17.30% in 1975-76, and a growth rate in exports of 17.81% per annum during the period of 1960-61 to 1975-76, after which it declined to 15.50% in 1976-77.

CPEs are trying to raise their consumption levels, which are well below their European neighbours, and this is likely to continue during the 1980's, providing opportunities for India for a wide range of products like textiles, leather products, garments, household utensils, crockery cutlery, cosmetics, tea, coffee, cashew, engineering and manufactures, and even services, if not within the CPEs in collaboration in third countries.

INDIA'S TRADE BALANCES WITH ECONOMIC REGIONS

The changes in India's direction and balances of trade by economic regions are shown below. For long Indian export growth came mainly from East European countries; elsewhere it was meagre or negative. In the 1970's, however, India began to exploit new opportunities elsewhere and in OPEC, but perhaps not enough in other DCs (and NICs).

Table A.10

India's Direction of Trade

	1960		1970		1974		1976	
	\$ mn	%	\$ mn	%	\$ mn	%	\$ mn	%
DMEs	905.5	65.0	1,110.5	54.9	2,062.3	53.0	3,347.8	56.6
OPEC	43.8	3.2	132.3	6.5	479.6	12.3	908.9	15.4
DCs	319.5	23.0	388.5	19.2	632.7	16.3	910.1	15.4
CPEs	119.9	8.6	393.1	19.2	717.5	18.7	748.7	12.6
Total	1,388.7	100.0	2,024.4	100.0	3,892.1	100.0	5,915.0	100.0

Table A.11

Balance of Trade

	1960-61	1975-76	1976-77*
	Rs. crores	Rs. crores	Rs. crores
DMEs	-456.3	-1,229.2	-129.3
DCs	- 9.5	+ 490.8	+752.7
OPEC	- 34.3	- 601.5	-853.9
CPEs	+ 5.3	+ 111.3	+301.5
World	-494.8	-1,228.7	- 71.0

*Provisional

In 1960-61 India had a large adverse balance of trade of Rs.456 crores with DMEs; small adverse balances with DCs and OPEC, but a small surplus of Rs.5.3 crores with the CPEs. The net result was an aggregate adverse trade balance of Rs.495 crores. In 1960-61 to 1975-76, adverse balance with DMEs rose steeply and reached a level of Rs.1,229 crores, nearly 2.7 times the 1960-61, while with OPEC it rose from a negligible figures, on account of the steep rise in oil prices to Rs.601 crores. Amongst DMEs, USA, UK and West Germany account for major deficits.

In 1975-76, India acquired a favourable trade balance of Rs.491 crores with DCs, while the favourable balance with CPEs increased to Rs.111 crores, but overall India still had an unfavourable trade balance of Rs.1,229 crores.

The overall position showed a striking improvement, when the adverse trade balance of Rs.1,229 crores in 1975-76 was converted to plus Rs.71 crores in 1976-77. This is contributed by a sharp decline in DMEs adverse balance from Rs.123 crores in 1975-76 to Rs.150 crores in 1976-77, an increase in the positive balance with DCs from Rs.491 crores in 1975-76 to Rs.753 crores in 1976-77; and an improvement in the positive trade balance with CPEs from Rs.111 crores in 1975-76 to Rs.301 crores in 1976-77. With OPEC, the adverse balance increased from Rs. 601 crores in 1975-76 to Rs.854 crores in 1976-77 for reasons quite obvious.

Exports share in GNP of India vis a vis the economic regions and individual countries shown below, is worth some thought.

Table A.12

Exports Share in GNP in 1976 - by Region and Country

	GNP \$ bn	Exports \$ bn	Exports as % of GNP
World	6,821.00	972.00	13.96
DMEs	4,236.00	616.00	14.55
OPEC	255.00	134.00	52.55
DCs	976.00	133.00	13.60
CPEs	1,354.00	89.00	6.57

India	93.10	5.30	5.70
Taiwan	17.40	8.15	46.20
South Korea	24.10	7.70	31.98
Portugal	16.90	4.43	25.60
U.S.A.	1,667.00	113.30	6.80
U.S.S.R.	708.00	37.10	5.20
Pakistan	12.00	1.10	9.20
Indonesia	32.00	8.50	26.60
Philippines	18.00	2.40	13.30
Ivory Coast	4.00	1.60	40.00
Morocco	4.00	0.18	4.00
Tunisia	5.00	0.79	15.80
Brazil	125.00	10.13	8.10
Argentina	34.00	3.92	11.50

In 1976, Indian exports' share in GNP has been lower than any economic region of the world, including the DCs. The OPEC are of course a case apart. India's exports' share of GNP at 5.70% was the lowest except USSR and Morocco.

The statement below shows India's export performance compared with some developed and developing countries in 1976. Even among the developing except Mexico, India is at the bottom of the list.

Table A.13

Export Performance of Some Developed and Developing Countries, 1976

Country	Population million	Per capita income \$	Per capita exports \$	World Exports Share %	Exports share of GNP %
DEVELOPED					
USA	215	7,890	475	11.46	6.01
Canada	23	7,510	1,658	3.86	22.07
West Germany	62	7,380	1,646	10.32	22.30
France	53	6,550	1,053	5.65	16.08
Japan	113	4,910	595	6.80	12.12
UK	56	4,020	826	4.68	20.55
Spain	36	2,920	242	0.88	8.30
USSR	257	2,760	145	3.76	5.25

DEVELOPING COUNTRIES

Greece	9	2,590	283	0.26	10.91
Portugal	10	1,690	182	0.18	10.77
Brazil	110	1,140	92	1.02	8.07
Mexico	62	1,090	53	0.33	4.86
Taiwan	16	1,070	510	0.83	47.64
Malaysia	13	860	439	0.58	51.05
Peru	16	800	85	0.14	10.63
South Korea	36	670	214	0.78	31.99
Ivory Coast	7	610	231	0.02	13.87
Ghana	10	580	80	0.08	13.79
Philippines	43	410	57	0.25	13.90
Thailand	43	380	69	0.30	18.16
Kenya	14	240	47	0.07	19.58
Tanzania	15	180	31	0.05	17.22
Pakistan	71	170	16	0.12	9.41
India	620	150	9	0.55	5.83

Judged by different criteria, India's comparative exports performance is low in the world, particularly when it is considered against the high level of its endowments, the trained talent, technical manpower, industrial agricultural and raw materials base and potential. Many countries, that were far behind India in all respect, not so long ago, have surpassed India.

It has been observed that countries with larger population generally exported a smaller proportion of their GNP than those with smaller populations. India's limited export performance is often justified on the ground that it is a "continental" economy, and it is therefore to be expected that its export's share of GNP and world trade will be small. It depends of course upon how a "continental" economy is defined and what are its attributes, apart from its large domestic market and self-sufficiency; but if we accept a large land mass and a big population as the obvious criteria, the viewpoint will receive limited support from the statement below, which lists USA, USSR, Brazil and India, all of whom with large populations and land mass. Although Japan has a sizeable population, its area is small; and we have therefore left it out.

Table A.14

Size of the Country and Relative Export Share
in GNP, 1976

Country	Population (estimated) Million	Area Sq.km. '000'	Per capita income \$	Per capita exports \$	Share in world exports %	Export as % of GNP %
USA	215	9,363	7,890	475	11.46	6.01
USSR	257	22,402	2,760	145	3.76	5.25

Brazil	110	8,512	1,140	92	1.02	8.07
India	620	3,288	150	9	0.55	5.82

We took a sample of 25 countries and studied the relationship between population and exports as percentage of GNP and obtained the coefficient of correlation of -0.36 , which shows no significant relationship between the two variables.

A more logical explanation for a low percentage of GNP exported will appear to lie in the fact that where per capita income is low a country, in order to sustain a minimum living standard, feels impelled to reserve as much of its GNP as possible for domestic consumption; unless chooses to make a special sacrifice of current consumption and makes a special effort to create exportable surpluses. We have usually accepted neither solution. There have been cases in India of suddenly cutting back non-traditional exports of vegetables, meat and onions, and leaving the nascent export markets suddenly because a domestic shortages has developed. And we have done the same in traditional exports like tea and vegetable oilseeds and products, whenever there was an absolute or relative shortage.

USA as an example of continental economy, with a low export's share of GNP, can at least be justified on the ground that even with 6.01% share of its GNP exported in 1976, it still had a high 11.46% share of total world exports.

Interestingly, countries with high percentage of exports' share of GNP are those with relatively low GNPs but high per capita income, and especially the economies which have gone in for export-led growth. In case GNP is low and per capita income is high, a small amount exported is likely to show a high percentage of GNP - this is so for Japan, Taiwan, South Korea and Brazil.

WORLD TRADE BY PRODUCT GROUPS

During the period 1963 to 1978 levels, shares and growth rates of world exports (in value) are shown below by the commonly distinguished product groups of agriculture, minerals, and fuels, manufactures.

	1963		1973		1975		1978*	
Agriculture	\$ bn 45	29	121	21	150	17	213	17
	% 100		269		333		473	
Minerals and Fuels	\$ bn 26	17	96	17	207	24	273	21
	% 100		369		796		1,050	
Manufactures	\$ bn 82	54	347	62	501	59	788	62
	% 100		423		252		333	
Total	\$ bn 153	100	564	100	858	100	1,274	100
	% 100		369		561		833	

1963-1973 The share of the industrial groups declined for agriculture by 17.7% from 29% to 21%; minerals and fuels remained steady at 17%; and manufactures rose by 14.7%, from 54% to 62%.

1973-1978 There was a dramatic change. Mineral and fuels' share rose from 17% to 21%, while manufactures remained steady, and agriculture's share dropped from 21% to 17%. In fact, after the first impact of the oil prices hikes between 1973 and 1975, while manufactures fully recovered their lost share, and minerals and fuels lost a part of their initial gains, a price was paid by the agricultural group, whose loss seems permanent.

In the 15 years as a whole, between 1963 and 1978, agriculture has lost 12% of its share of total world trade, of which the beneficiaries have been minerals and fuels by 4%, and manufactures by 8%. This leads one to ask what will be the developments in this regard in the next decade situated as the oil producers are in a monopoly position that cannot be assailed, at least within the next decade, and the manufactures exporting countries also in a position of some strength? India has fortunately all options open to

* International Trade, 1977/78, GATT, p.185.

it, at least in promise and theory, well placed as it is in agriculture, some minerals, and in a broad and growing range of manufactures. It can develop along the whole line, given a sound strategy.

The statement below states the position of the three groups in another manner, but reflecting again the pre-eminence of manufactures.

Table A.15

Export Index by Sector

	1963	1973	1975	1978*
World exports in value	100	231	232	284
Growth rate per annum %	8.14	Neg.		7.08
Agricultural products	100	147	149	179
Growth rate per annum %	3.80	0.68		6.57
Minerals & Fuels	100	195	176	190
Growth rate per annum %	6.91	-4.94		2.89
Manufactures	100	280	290	363
Growth rate per annum %	10.70	1.90		7.80

*GATT International Trade, 1978/79, Appendix Table A1.

An analysis of the annual average rates of increases in value compared with volume reveals that volume increases in exports were slower than value increases during this period of 1963 to 1978, especially between 1973 and 1978; also that improvements in agricultural prices lagged behind manufactures minerals and fuels, emphasising once again the strength of manufactures:

Table A.16

Growth Rates in Exports - Value and Volume

	1963-1973		1973-1978		Price Increases	
	Value	Volume	Value	Volume	1963-1973	1973-1978
			(% per annum)	(% per annum)		
World Exports	5.30	8.14	17.74	4.10	-2.84	13.66
Agriculture	10.42	3.89	11.94	4.01	6.53	7.93
Minerals & Fuels	13.87	6.90	23.30	-0.50	6.96	23.80
Manufactures	15.51	6.00	17.49	2.66	9.51	14.53

So far we have discussed product groups, we shall now turn to individual products in a more recent context of 1973-1978.

Table A.17Export by Major Commodity - World

	1973	Share	1978	Share	Additional	Share	Growth
	\$ bn	%	\$ bn	%	exports	%	1973-1978
					1973-1978		% per annum
<u>Primary Products</u>							
Food	86	15.3	162	12.7	76	10.7	13.5
Fuels	64	11.3	221	17.3	157	22.1	28.6
Others and minerals	15	2.7	24	1.9	9	1.3	9.9
Non-ferrous metals	17	3.0	28	2.2	11	1.5	10.5
Raw Materials	35	6.2	51	4.0	16	2.3	7.9
A. Total	217	38.5	486	38.1	269	37.9	17.5

Manufactures

Chemicals	42	7.5	99	7.8	57	8.0	18.7
Clothing	12	2.1	28	2.2	16	2.2	18.5
Engineering products	188	33.3	440	34.5	252	35.5	18.5
Other consumer goods	25	4.4	58	4.6	33	4.7	18.4
Other semi-manufactures	29	5.1	65	5.1	36	5.1	17.5
Iron and Steel	28	5.0	57	4.5	29	4.1	15.3
Textiles	23	4.1	41	3.2	18	2.5	12.3
B.Total	347	61.5	788	61.9	441	62.1	17.8

Total Exports (A+B)	564	100.0	1,274	100.0	710	100.0	17.6
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It is interesting to observe that apart from fuels, which became a case apart when their prices rose steeply in this period, manufactured products, individually and as a group showed better growth rates. In fact, agricultural and raw materials' exports increased at the lowest rate of 7.9% compared with minerals and non-ferrous metals at 10%, food exports at 13.5%, manufactures 17.8%, and chemicals, clothings and engineering at 18% plus rates.

Among the product groups, engineering goods led all other products, even fuels, in the total world trade.

	1978	Average for 1973-1978
	%	%
Engineering Goods	34.5	35.5
Fuels	17.3	22.1
Food	12.7	10.7
Chemicals	7.8	8.0
Other semi-manufactures	5.1	4.9
Other consumer goods	4.5	4.8
Iron and steel	4.3	4.1
Agricultural raw materials	4.0	2.2
Textiles	3.2	2.5
Ores and minerals	2.2	1.3
Clothing	2.2	2.3
Non-ferrous metals	2.1	2.2

Apart from fuels, whose case is fortuitous, leading shares belong to high value-added products. The low value-added and the labour-intensive, as also the agricultural and raw materials, fare less well, especially in climate of inflation and growing protectionism.

Some recent observations and exhortations of OECD in this regard are interesting, though they are perhaps less likely to be followed than their logic should impell; but at least they reflect a new perception and appreciation of the problem.

Emergence of dynamic new exporters of manufactures in the developing world has given rise to disquiet in advanced industrial countries.

It is important to note, moreover, that competition from newly industrialising countries (NICs) can make an important contribution to industrial efficiency and to fight against inflation in advanced industrial countries, and thus improve the chances of achieving non-inflationary growth and higher employment.

It appears that the recent changes in trading patterns with NICs have been concentrated on a few products and this has added to adjustment problems in some sectors but if appropriate policies are followed on both sides, considerable mutual benefits will continue to be derived from increasing trade in manufactures in both directions with NICs. For advanced industrial countries, these benefits will take the form of cheaper goods for consumers, a spur to increased productivity, reduced inflation at home, and new and prosperous markets abroad. For NICs, they include higher investment, productivity and real incomes, and foreign currency needed to help finance accelerated economic development.

* The Impact of the Newly Industrialising Countries on Production and Trade in Manufactures: Report by the Secretary-General, OECD, Paris, 1979.

The statement below shows that in India's exports, a major shift towards manufactures has occurred between 1960-61 to 1970-71.

Table A.18

India's Exports - Share of Manufactures

Years	Total exports Rs. Crores	Exports of manufactures Rs. crores	Export of other products Rs. crores	Manufactures exports as % of total exports
1960-61	660	287	373	43.5
1970-71	1,535	959	576	62.5
1971-72	1,608	1,009	599	62.7
1972-73	1,970	1,243	727	63.1
1973-74	2,523	1,616	907	64.1
1974-75	3,328	2,130	1,198	64.0
1975-76	4,043	2,518	1,525	62.3
1976-77	5,146	3,177	1,969	61.7
1977-78	5,404	2,958	2,446	54.7

In 1970-71, manufactures accounted for 62.5% of India's exports; they then increased rather slowly to 64.1% in 1973-74, and thereafter declined to 61.7% in 1976-77. This sudden drop was due to fall in exports of sugar, vegetable oils, textiles, leather products and apparel. Out of a total fall of Rs.219 crores, sugar accounted for Rs.131 crores. In 1977-78, manufactures formed only 54.7% of the total exports. Compared to this, the share of DMEs' manufactures in their total exports in 1977 amounted to about 77%*, and of DC's 40%**.

However, India's declining share of manufactures, in its total exports since 1973-74, accompanied by export volume increasing at lower rates than the export value, also indicates that in recent years, increases in India's export value have been mostly due to inflation.

We have analysed in the following pages performance of India's manufactures exports vis-a-vis world performance and their relationship to GNP.

* Fish and Fish products, sugar, tea, coffee, oil cakes, vegetable oils and lubricants, are included in exports of manufactures.

**Based on data from International Trade, 1977/78, GATT.

Table A.19

Share of Manufactures in Exports by Economic Regions*

	World		DMEs		DCs		CPEs		OPEC	
	1960	1976	1960	1976	1960	1976	1960	1976	1960	1976
Total Exports	\$bn 313.0	978.0	185.4	616.0	36.5	128.0	60.0	239.0	36.1	90.0
Manufactures exports	\$bn 143.0	577.0	117.0	467.0	8.2	55.0	NA	NA	17.7	55.0
Manufactures as % of exports	45.7	59.4	63.1	75.3	22.5	43.0	NA	NA	49.0	61.1

World trend, shared by DMEs, DCs and OPEC is towards increasing shares of manufactures in their respective group exports. Between 1960 and 1976, world share of manufactures exports increased from 45.70% to 59.40%, DMEs 63.10% to 75.30%, DCs 22.50% to 43.00% and OPEC 49.00% to 61.10%.

Compared to world performance, India's manufactures exports performance is given in the statement below.

Table A.20

Share of Manufactures in India's Exports

	1960-1961	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978
Total value of exports	Rs. 660	1535	1608	1971	2523	3320	4023	5146	5405
Value of manufactures exports	Rs. 287	859	1009	1243	1616	2130	2518	3179	2958
Manufactures as % of total exports	43.50	62.50	62.70	63.10	64.10	64.00	62.30	61.70	54.70

*Based on data from World Development Report, 1979 World Bank, and International Trade, 1977-78 and 1978-79, GATT.

Total exports % growth rate p.a.	8.78	4.36	22.50	28.00	31.90	21.10	27.91	5.0
Manufactures % exports' p.a. growth rate	12.84	6.10	23.20	30.00	31.80	18.22	26.17	-6.9
Non-manufactures % exports' growth rate	4.40	3.99	21.37	24.76	32.08	27.30	29.12	24.23

It will be seen that India's manufactures exports share increased from 43.50% in 1960-61 to 62.50% in 1970-71, since when it increased at a slower rate to 64.10% in 1973-74. After 1973-74, it has been declining; substantially so, from 61.70% in 1976-77 to 54.70% in 1977-78.

A rise in the share of manufactures exports in the 1960s and early 1970's was largely due to the predominance of factory made agricultural products, like cotton textiles, jute textiles, tea, tanned and dressed hides and skins, vegetable oils, and higher relative prices which they commanded in the international markets.

India's manufactures exports share in GNP and per capita term in 1976 at 2.10% and \$ 3 respectively, were also lowest in the world. Share of manufactures in GNP and in per capita terms of India and the world are given below:

Manufactures Share in GNP in 1976

	GNP	Export of Manufactures	Manufactures' export as %age of GNP
	\$ bn	\$ bn	
World	6,821	577.0	8.7
DMEs	4,236	467.0	11.0
DCs	976	55.0	5.6
CPEs	1,354	55.0	4.1
India*	93	2.1	2.3

*1976-77 estimates.

Per Capita Exports of Manufactures
in 1976

Dynamic DCs*	Per capita exports of manufactures
South Korea	188
Turkey	11
Thailand	7
Taiwan	425
Greece	138
Brazil	21
Spain	169
Mexico	38
Ivory Coast	17
Tunisia	36
Philippines	6
India	3

In 1980 the share of manufactures of total world exports is expected to rise from 62.70% in 1980 to 71.10% in 1990.

India, to obtain its due share, will have first to stem the recent decline and next to improve it. This will require considerable effort in both deepening and widening domestic industrial base and to win market abroad.

Predominance of agro-based manufactures in India's exports in the 1950's and early 1960's, was beneficial to India, as they mostly have a low import content, high value adding, fetching a net foreign exchange a gain of 90% to 95% of their export value. However, they have some drawbacks also that we have to guard against.

Being labour intensive products, they have comparative cost advantage in a low labour cost country like India, and are therefore subject to tariff and non-tariff barriers in DMEs which are their main export markets.

* 1976-77 estimates.

- Outdated technologies deployed for their manufacture may dilute their comparative cost advantage relative to competing countries like Taiwan, South Korea and Japan, which deploy most modern technologies.
- Based as they are on agricultural raw materials, their prices are subject to larger fluctuations, relative to sophisticated skill-based products like engineering goods, electricals and electronics and chemical products.

Since 1950-51, when India accepted planned economic development the growth rate of India's exports by major product groups and their shares in the country's total exports are analysed below.

Table A.21

Exports from India - Manufacture and others

GR = Growth Rate % per annum

All Manufactures

Years	Total Exports		Agrobased		Mineral based and chemicals		Total	
	Rs. crores	GR	Rs. crores	GR	Rs. Crores	GR	Rs. crores	GR
1950-51	500		406		3		409	191
	100.00		67.70		0.51		68.20	31.80
1955-56	596	-0.10	396	-0.50	29	57.10	425	0.77 171
	100.00		66.40		4.80		71.20	28.80
1960-61	660	2.01	263	-8.50	30	0.70	293	-7.80 367
	100.00		39.80		4.80		44.30	55.70
1965-66	809	4.05	470	12.30	39	5.70	510	11.72 299
	100.00		58.20		4.80		63.00	37.00
1973-74	2523	15.10	1173	12.10	443	35.50	1616	15.50 907
	100.00		46.50		17.60		64.10	35.90
1974-75	3329	31.90	1646	40.30	484	9.25	2130	31.80 1190
	100.00		49.40		14.60		64.00	36.00

1976-77	5146	24.30	2120	13.50	1057	47.80	3177	22.10	1969	28.1
	100.00		41.20		20.50		61.70		38.30	
1977-78	5404	5.00	1681	-29.10	1277	20.80	2958	-6.90	2446	24.1
	100.00		31.10		23.60		54.80		45.20	
1950-51	600		406		3		409		991	
to		8.48		5.40		25.14		7.55		9.1
1977-78	5404		1681		1277		2958		2446	
1960-61	660		263		30		293		367	
to		13.10		10.50		24.68		15.80		11.1
1977-78	5404		1681		1277		2958		2446	

Certain long-term characteristics of the period 1950-51 to 1977-78 deserve consideration.

- Total exports grew at 8.5% per annum.
- Manufactures exports' annual growth rate was 7.6% (agro-based at 5.4% and, mineral-based at 25.14%), and the raw materials' 9.6%.
- The higher growth of raw materials pushed up their relative share of total exports from 31.80% to 42.50%, while manufactures' share declined from 68.20% to 54.80%.
- In the manufactures group, agro-based manufactures' share declined from 67.70% to 31.30%, and mineral-based manufactures, chemicals etc. increased from 0.50% to 23.60%.

This situation of a rising raw materials' share and declining manufactures' points to the need for developing an even more important role for manufactures because of the contribution they make in added-value. The decline in the share of agro-based manufactures should also be remedied because they generate higher unit value - therefore higher foreign exchange earnings than the mineral-based manufactures - and have no import content. A sudden fall in agro-based exports by 20.70% in 1977-78 over 1976-77, reversing the earlier rising trend, is therefore a matter of concern.

In the short-term, from 1974-75 to 1977-78, it is significant that while the total exports growth rate declined steeply from 31.90% to 5.00%, raw materials' decline was much less, from 32.20% to 24.20% pointing to their continued strength.

While we should therefore naturally support and strengthen manufactures' exports, we should not under-emphasise in any manner the traditional strength of raw materials; adding value of course wherever we can. The new emphasis and success of our manufactures' exports in the last about two decades, has somehow given our commodities, even the value-added processed ones, an undeserved and needlessly downgraded image, that their very appellation the traditional, connotes. And yet, as recent experience has shown, they have a world trading strength which we ought to rediscover; and this we discuss below.

INDIA'S TRADITIONAL EXPORT PRODUCTS

Recent position of India's traditional, the old and established export products, is shown below.

Table A.22 - Exports from India by Major Commodities

	Exports 1976-77		Share of total ex- port value %	Produc- tion 1976 Qty.	Produc- tion expor- ted	1977-78 over 1976-77 %
	Qty.	Value Rs. Cr.				
Cotton fabrics mtrs mn.	562	603	12.1	4164	13.5	-10.0
Handloom -do-	68	60 (est)	1.2	4080	1.4	+ 4.4
Yarn & Thread tons 000		55	1.1	1008		
Jute Manufact- ures -do-	456	201	4.0	1186	38.4	-51.3
Woollen Goods sq.mts mn	3	49	1.0	-	-	+ 0.0
Tea Kg.mn.	243	293	5.9	519	46.8	+ 0.7
Leather & Leather Products*	-	264	5.3	-	-	+ 4.5
Sugar Prepara- tions tons 000	580	148	3.0	4731	12.3	-35.6
Oil Cakes	-	224	4.5	-	-	-52.1
Iron Ore & concentrates tonsmn	24	238	4.8	43	55.8	- 3.0

*While leather exports are traditional, leather products are non-traditional.

Spices	-	73	1.5	579	10.8	+87.7
Tobacco tons 000	80	97	1.9	400	20.0	+ 9.3
Coffee -do-	48	114	2.3	100	48.0	+14.9
Manganese do Ore	783	19	0.4	1697	48.1	-60.0
Cotton 170 kg. Bales 000	180	39	0.8	6000	3.0	- 41.0 (1976 & 1977)
Mica tons 000	14	17	0.3	14	?	-20.0
Vegetable Oils	-	49	1.0	-	-	-
Fruits & Vegetables	-	161	3.2	-	-	-28.0
All Products (A)		2704	54.3			
Total Exports (B)		4981	100.0			
A) share of (B)	%		54.3			

The statement brings out the importance of our traditional exports, particularly, where they have added value. All traditional export products are in effect processed, and account for 54.30% of India's annual exports, and their exports in many cases form a significant proportion of their total production in 1976-77.

Iron ore	55.8%
Coffee	48.0%
Manganese ore	48.0%
Tea	46.8%
Jute Manufactures	38.4%
Tobacco	20.0%
Textiles	19.2%
Sugar	12.3%
Spices	10.8%

+2.20% of India's exports are agro-based manufactures, with high value-added, and as they process agricultural products they need little or no imported inputs.

Textiles, leather and leather goods, in particular, are the targets for protection in DMEs, which are our major export markets. Tea, sugar, and coffee, on the other hand, face competition in DMEs from other producing countries in the DCs.

In 1976-77 and 1977-78, exports of cotton fabrics jute manufactures, sugar, oil cakes, manganese ores declined while those of tea and handlooms increased at a slow rate. However, exports of spices, coffee and tobacco, went up by 87.00%, 14.90% and 9.30% respectively, during 1976-77 and 1977-78.

India's Non-Traditional Export Products

As a result of diversification of Indian economy in general and industries in particular since the 1960's, we have begun to export a range of new products, commonly referred to as non-traditional. Their growth between 1960-61 to 1976-77 is traced below.

Table A.23

Non-Tradition Exports

Commodity	1960-61	1974-75	Annual Growth	1976-77	1974-77 1976-77 Annual Growth
	Rs.Cr.	Rs.Cr.	%	Rs.Cr.	%
Engineering Products	6.1	289.9	31.76	451.8	24.83
-Metal manufactures	2.2	76.4	29.13	156.4	42.68
-Electrical machinery	1.0	57.3	33.53	82.9	20.23
-Other machinery	2.4	90.5	29.60	119.6	14.85
-Transport equipment	0.5	65.7	41.69	92.9	25.14
Fish & fish products	4.6	66.2	20.90	180.3	65.08
Clothing	Neg.	86.0	Large	264.0	75.20
		Estimated		Estimated	
Footwear	2.4	20.8	16.26	29.6	19.83
Chemicals	1.3	27.1	24.24	31.4	7.50
Pharmaceuticals	1.0	23.0	25.13	23.4	0.86
Iron and Steel	9.8	21.1	5.64	283.0	369.00
Cashew Kernel	18.2	118.1	14.34	106.0	-5.00
Gem and jewellery	5.0	89.0	22.82	180.0	42.23
Total	48.4	741.2	21.52	1549.5	47.33
Indian exports	642.0	3329.0	12.46	4981.0	22.07
% share of new exports to total exports	7.5	22.26		31.13	

Exports of new, non-traditional products have shown a dynamic growth between 1960-61 and 1974-75, and as a group their value increased at 21.52% per annum. In the next two years, the growth rate of the group rose to 47.33%. This was a much higher growth than total exports, which rose at 12.46% during 1960-61 to 1974-75 and 22.07% in the following two years, 1975-76 and 1976-77. This high growth rate of non-traditional products was shared by all new product groups, except chemicals, pharmaceuticals and cashew kernels, whose growth rates slacked during 1974-75 to 1976-77.

Certain products showed a special dynamism.

Growth 1974-75 to 1976-77
% per annum

Iron and steel	369.00
Clothing	75.20
Fish and fish products	65.08
Metal manufactures	42.68
Gems and jewellery	42.23
Transport equipment	25.14
Electrical machinery	20.23
Footwear	19.83
Other machinery	14.85

As a result of their high growth, the new, non-traditional export group rapidly increased its share in the all-India Exports, from a low 7.7% in 1960-61 to 31.10% in 1976-77, since when, however, due to the decline in demand in DMEs, high world inflation, protectionist policies, and partly India's own shortcomings, many products have experienced a setback.

India's own shortcomings are mostly non-price factors, such as an overall image of indifference as an exporter, poor quality, delayed deliveries, uncertainties of supplies, and shortages in the home market. These factors need to be carefully studied and remedied. They can all be overcome; and we should take full advantage of the opportunities in the 1980's.

Appendix 2

REPORTS OF THE SUB-COMMITTEE

i. AGRICULTURE

Due to various adverse factors, chiefly recession in world trade and pressure of domestic demand on certain mass consumption goods, the growth of exports from India has been under considerable strain in recent years. Consequently, the rate of export growth which had risen to about 27.0% per annum during the three years, 1973-76, decelerated to 5.10% in 1977-78 and 5.90% in 1978-79. The adverse factors continue to operate, and exports in 1979-80 recorded an improvement to 12.2%, still well below the 27.0%.

The traditional items contributed to the deceleration of tea, coffee, cashewnuts along with non-traditional exports like engineering goods, gems and jewellery.

Country's mounting trade deficits, and the importance of exports to national objectives of self-reliance and rapid economic growth, make it essential that the thrust of our economic policy is directed to maximise exports through expansion and diversification. This report attempts to bring out the potential of agricultural exports during the next decade, 1981-90.

Agriculture is the backbone of our economy and our most important occupation. In 1960-61, the agricultural sector contributed about 50% of the GDP and agricultural exports, comprising food items and raw materials for agro-based industries about 38% of total exports. Though industrialisation has reduced agriculture's share gradually, the fall in agricultural exports' share of total exports has been even sharper. As a result, from 50.0% in 1960-61, agriculture accounted for about 40% of GDP in 1978-79, while its share of total exports fell from 38.0% to 27.5%.

Table A. 24

	Agriculture share of GDP	Exports
1960-61	49.8	38.0
1965-66	46.5	36.1
1970-71	47.3	31.7
1975-76	41.7	37.7
1976-77	40.6	29.7
1977-78	41.2	29.7
1978-79	39.7	27.5

Even the improvement in India's share in world agricultural exports from below 1% in 1973 to 1.30% in 1975 has declined again to below 1.0% in 1978.

Table A.25

Agriculture Exports

	World	India	India's share
1973	120.50	1.04	0.86
1974	150.50	1.54	1.02
1975	148.40	1.90	1.28
1976	168.50	1.91	1.13
1977	191.10	2.10	1.09
1978	208.00	1.97	0.95

The main reasons for this gradual decline have been a stagnant output and the low per-acre yield, due in turn to the relatively lower investment in agriculture. Production of primary export commodities could not keep pace with the increasing domestic demand, leaving less therefore for maintaining export supplies.

The slow growth in world trade caused by the drastic fall in the requirements of raw materials per unit of manufacturing output in industrialised countries, the effects of restrictive trade practices and protectionist measures adopted by the developed nations, the increased production of natural raw materials within the industrialised countries, and the intensified use of synthetics - rubber, fibres, plastics etc. - accelerated this decline.

FAO Normative Scenario FAO in its publication World Agriculture in 2000 A.D. has prepared a scenario* for growth of agricultural output and exports of 90 countries, excluding the OPEC, for the next twenty years.

Annual Output Growth Rate

1980-2000

Total agriculture	3.80
Cereals	3.20
Other food crops	3.90
Non-food crops	3.70
Livestock	4.70

These estimates take into account the projected increase in population and consequent demand, improvements in purchasing power and nutritional standards etc. in the 90 countries.

*Reflecting FAO's advance assessment of growth upto the year 2000 A.D.

According to this normative picture there may be a rapid increase in the exportable surplus of mass agricultural products in developing countries during the next two decades and their share of world agricultural exports could rise to about 50.0% by 2000 A.D. To realise this position, FAO envisages a growth rate of 1.20% in agricultural exports of developing countries during the 15 years, 1976-1990, compared to only 1.70% during the past 12 years, 1963-1975. The World Development Report 1979 projects the growth of primary products - food and non-food agricultural - of developing countries during the 15 years, 1976-1990, at 3.30% per annum, which is broadly the same as the FAO projections. Keeping past performance in view, actual growth of agricultural exports may be around 2.70% to 3.0% during the next decade.

The position of trade balances of developing and developed countries for some important commodities in 1990 and 2000 A.D., projected in the normative scenario is shown below.

Table A.26
Net Trade Balance

	1990		2000	
	Developing countries	Developed countries	Developing countries	Developed countries
	Tons mn			
Meat - mutton and Lamb	-0.80	-0.20	1.30	-0.40
Milk and milk products	-21.30	+8.90	-35.40	5.70
Sugar	16.20	-13.50	23.80	-16.60
Oilseeds and vegetable oils	7.30	-4.40	11.80	-3.40
Citrus fruits	6.20	-12.80	12.50	-21.50
Other fruits	6.90	-5.20	14.00	-11.00
Coffee	3.90	-4.20	5.00	-4.80
Tea	0.50	-0.50	0.60	-0.60

As these trade balances are related to the somewhat optimistic growth projection of exports of 3.20%, actual realisation may be lower. However, they are of interest to us as they bring out the scope for expanding our exports, and the need for increasing production in the different sectors.

Prospects and Potential for Exports Agricultural output in India increased at about 2.45% per annum during the 12 year 1961-62 to 1973-74, the rate of growth for food crops being somewhat higher at 2.72% than that of non-food crops. The index of agricultural production (1967-68 to 1969-70=100) which stood at 112.4 in 1973-74 rose to 125.3 in 1975-76 and 138.0 in 1978-79. Over the years, Indian agriculture, it is clear, has considerably diversified. The rising level of agricultural production is a clear pointer to the progressive strengthening of the technological base of Indian agriculture. With the increase in area under irrigation, dependence on monsoons has been considerably reduced. The level of agricultural output even in a drought year like 1979 shows that agricultural production in India has stabilised on an appreciably higher plane, and a degree of reliability has become a part of the scene of agricultural production in the countries. This augurs well for the future prospects of output and a long-term export strategy.

It has however to be recognised that inspite of the progress over the years, our productivity levels remain quite low compared to some competing countries, for instance, the per hectare 1978 average yield of 1,477 kg. wheat in India against the world average of 1,902, 6,567 kg. in Netherlands, 5,409 kg. in Belgium, 3,333 kg. in Egypt and 1,712 kg. in Argentina. In rice, Indian per hectare yield of 1,975 kg. was far below the world average of 2,594 kg., Japan's 6,250 kg., Egypt's 5,431 kg. and Pakistan's 2,551 kg. In ground-nuts, against the Indian yield of 861 kg. per hectare, Malaysia get 4,305 kg., USA 2,958 kg. and Egypt 1,997 kg. The same is true of commodities like tobacco, sugar, coffee, tea. It will, therefore, not to be an exaggeration to say that the average Indian yields are often less than half the highest yields in the world and considerably lower than the world averages. Besides, there are large inter-regional disparities in the yields of various commodities within India.

Table A.27

Yields Disparities in Selected Crops in India
1977-78

		Kg/Hectare	
Wheat		Rice	
Punjab	2,537	Punjab	3,363
Haryana	2,099	Haryana	2,605
Orissa	1,735	Tamil Nadu	2,210
Madhya Pradesh	909	Bihar	987
Maharashtra	792	Madhya Pradesh	938

Sugarcane		Groundnut	
Tamil Nadu	104,570	Haryana	1,185
Maharashtra	94,795	Tamil Nadu	1,135
Andhra Pradesh	78,369	Orissa	1,128
Uttar Pradesh	47,745	Maharashtra	682
Bihar	35,796	Madhya Pradesh	571

If India succeeds in increasing the productivity of the various crops even up to the levels of the world averages, which by themselves are well below the higher yields in many developed and developing countries, it can increase its output levels substantially. Agricultural production in general is highly labour intensive, investment requirements for raising agricultural output are relatively low, and gestation period much shorter. It is therefore of crucial importance to ensure adequate investments in agriculture to raise substantially our production of foodgrains and commercial crops, including plantation crops, to meet the rising domestic demand and strengthen export capability. Unutilised capacity in Indian agriculture is high indeed. Increased inputs, like fertilisers and pesticides, better technology, a close link-up between research and extension, steady increase in the area under irrigation, and increased availability of institutional credit, are factors which should stimulate productivity in the coming years. An increased export orientation is likely to give the much needed support in ensuring fair returns to farmers. A marked shift has taken place in the last decade transforming an economy based on subsistence to a market-oriented agriculture. Time has now come when exports of agricultural products, according to a well defined policy frame, can become a strong growth factor in the same manner as has happened to manufactures.

According to earlier calculations it was envisaged that gross value-added in agriculture would rise by 3.15%, 3.41% and 3.70% per annum during the 15 year period 1977-78 to 1992-93. The following table brings out the perspective of growth of 5 major agricultural commodities over the 15 years 1978-1993.

		1982-83	1987-88	1992-93	Growth Rate
Foodgrains	Million tons	142-146	166-168	187	2.69
Sugarcane	"	207	250	303	3.47
Jute and mesta	Lakh bales	86	106	121	3.60
Cotton	"	85-90	113-118	142	4.73
Oil seeds	Lakh tons	112-115	130-133	158-164	3.87-4.13

According to the framework of the new Sixth Five Year Plan, 1980-1985, "a rate of growth of agricultural production of around 4% would need to be aimed at". The total production of foodgrains is projected in 1984-85 at around 153 million tons. Keeping in view these production targets and the growing demand for increasing population, as set out in the above perspective, the new Sixth Plan Framework envisages a real export growth of about 10.0% per annum over the 5 years 1980-1985. The export projections in this Report for the period upto 1984-85 and 1989-90 have been made in the light of the above targets, slightly modified on the basis of actual realisations, present unit values and international market environments. Compared to the agricultural exports of Rs. 1,741 crores in 1979-80, potential for 1984-85 and 1989-90 is estimated at Rs. 3,450 crores and Rs. 4,920 crores respectively, indicating growth rates of 14.7% per annum over the 5 years ending 1984-85 and 10.9% per annum over the decade. This would raise India's share in world agricultural exports to 2.1% in 1984-85 and 2.5% in 1989-90. Statement below shows the details of export potential by major agricultural goods.

Table A. 28

Estimated Exports Potential of Agricultural Goods

Group/Items	Export Potential			Growth Rate %		
	1979-80	1984-85	1989-90	1984-85	1989-90	1989-90
	Rs. Crores			over	over	over
	1979-80	1984-85	1989-90	1979-80	1984-85	1979-80
Plantations	579	835	1,040	7.6	4.5	6.0
Cereals and preparations	131	288	445	13.0	13.0	13.0
Processed foods	120	265	425	17.1	9.9	13.5
Commercial crops	331	641	800	14.1	4.6	9.2
Marine products	253	550	810	16.8	8.0	12.3
Fruits, vege- tables and flowers	118	223	320	13.6	7.5	10.5
Others	209	261	400	4.5	8.9	6.7
Total.	1,741	3,063	4,240	14.7	7.4	10.9

The export potential projections have been made at present international prices and generally on unit value realisations in 1979-80. These projections are based largely on the growth rates stipulated in the report of the Task Force on Agricultural Exports*. In the case of plantations, tea, coffee, and cardamom, cashew kernels and spices, the quantitative projections and growth rates suggested by the Export Promotion Councils and Boards in their memoranda to the Committee for Export Strategy in 1980s have been adopted. The export projections for cereal and cereal preparations in 1989-90 have assumed that about 3% of the total cereals output could be made available for exports, without affecting prices in the domestic market. Production targets and future outlook for major crops, as indicated in the perspective for 1987-88 and 1992-93, have been taken into account. The FAO trends and future prospects for world exports of farm products have also been taken into consideration.

The OPEC, especially the Middle-East, which had aggregate agricultural trade deficit of around \$ 2 bn in 1975, were expected to experience a continuing widening deficit in later years, rising to \$ 10 bn in 2000 A.D. A substantial part of this deficit is expected to arise in cereals, particularly rice and wheat, providing India, with its proximity, good prospects for expanding agricultural exports in these flourishing economies. It would be necessary to provide quick transport, wherever necessary by air, to these new demand centres, especially for perishable commodities like fruit and vegetables. Provision of adequate storage and refrigeration facilities would therefore have to be reiterated. The deficits in the Middle Eastern and East European countries in food, plantation crops and fibres present a unique opportunity to give a substantial boost to our prospects of agricultural production and exports. For mutual benefit, these problems will require a continuous study.

The sharp increase in petroleum prices and the consequent energy crisis would in general increase viability and profitability in the long run of low cost labour-intensive exports from developing countries. In particular, it would shift to natural fibres like cotton and jute. There is therefore substantial scope for expansion of exports based on these agricultural products.

*Report of the Task Force on Agricultural Exports, Ministry of Agriculture and Irrigation, New Delhi December, 1978.

The "Sixth Five Year Plan 1980-1985 - a Framework", also stresses the importance of export-oriented agriculture and the related measures necessary.

"It should be our endeavour to give an export-orientation to agriculture after ensuring that basic needs of our population for various food items are fully met. Full advantage should be taken of growing opportunities for international trade. For this purpose, it will be necessary to strengthen arrangements for transport and shipping in addition to packaging and forwarding. Simultaneously, steps should be taken to improve our export earnings from all the traditional agricultural items. Stability of supply, quality of produce and price competitiveness will determine our success in becoming an important country in international agricultural trade".

It needs no emphasis that any export strategy for agricultural commodities should be based on creation of genuine surpluses through increasing production. Price stability being a crucial requirement for growth, rapid increase in the output of these commodities particularly those which enter into the consumption basket of the common man e.g. potatoes, onions, other vegetables, foodgrains etc. is of utmost importance so that export growth is realised without raising the domestic cost of living. Careful watch may be kept on the price movement of these commodities and a system of monitoring devised for the purpose. Keeping in view the competing claims of domestic and export demands the existing public distribution may be strengthened and, if necessary, enlarged to regulate the flow of these commodities in the domestic market at reasonable prices. Maintenance of price stability at home would also increase the competitive strength of our exports.

The position regarding existing export and production levels as also targets for the next decade in respect of a few important agricultural commodities are discussed below. (Tea has been discussed separately, elsewhere in this report).

Coffee:- Coffee Board has made demand projections for exports and internal consumption of coffee, based on an annual growth rate of 5.5% and 3% respectively with production rising to 1.59 lakh tons by 1984-85. The National Commission on Agriculture has projected growth of coffee output at 2 lakh tonnes by 2000 A.D. The increased production will be achieved through increased productivity in the existing area and expansion of coffee cultivation in an additional 0.38 lakh hectares by 1984-85 and 1.3 lakh hectares by 1993-94. Of this, 72,000 hectares would have to be expanded in non-traditional states, mainly in the Eastern region, found suitable for coffee, with the remaining 58,000 hectares in the traditional states. The proposed increase in productivity and expansion of coffee cultivation would require an additional investment of Rs. 175 crores.

Proper input services and adequate extension and research support should be provided in non-traditional areas through demonstration farms, seed farms, setting up regional research stations, curing works to process coffee, and training facilities for coffee workers. Arrangements to provide for the credit needs of small growers at concessional rates of interest would also be necessary. In the traditional area, the main thrust of production strategy should be to maximise yield levels through proper replantation and intensive cultivation programmes. Financial incentives for fresh planting could ensure quick results in increasing output.

The proposed National Bank for Agricultural and Rural Development should set apart fairly large sums of money for expanding the area under tea and coffee particularly in the North Eastern States where the soil and climatic conditions are ideal. Production of high value crops in this region would provide employment opportunities and remove to a large extent the existing feelings of neglect among the people in the region.

During 1979-80, export of coffee amounted to 63,000 tons, valued at Rs. 179 crores. The Coffee Board envisages exports to rise to 94,100 tons in 1984-85, valued at Rs. 260 crores. The exports for 1989-90 are projected at 1.2 lakh tons valued at Rs. 330 crores.

Cashew Kernels:- Cashew exports, which largely depend on import of raw cashew kernels, have been declining for some time. It is becoming increasingly difficult to obtain enough quantities of raw cashew, since the producing countries are establishing their own processing industries. This underlines the need for self-reliance and raise domestic production on a priority basis.

The total production of cashew kernel in India at present is about 1 lakh tons while exports in 1978-79 amounted to 27,000 tons, valued at about Rs. 80 crores. The Cashew Export Promotion Council has projected a gradually rising export target of 35,000 to 40,000 tons of cashew kernels valued at Rs. 95 crores to Rs. 120 crores annually during the next decade which will require urgently an increase in production through additional plantations in suitable areas. Accordingly, it is proposed to cover an additional area of 4.5 lakh hectare under cashew. In order to increase internal production, a Multi-State Cashew Project with an outlay of Rs. 38 crores is under negotiation with the World Bank. An additional 55,000 hectares would be brought under plantation to increase output by 55,000 tons. Besides, there is scope for a sizable investment of Rs. 100 crores in 10-20 years to extend the area and improve the existing plantations. The Council has also suggested the need for setting up of a central agency, like the Coffee Board to coordinate all aspects of cashew from the growing state to exports.

Spices:- Spices, especially pepper and cardamom, are important export-oriented commodities. In 1977-78, the value of exports mainly of cardamom and pepper, amount to Rs. 137 crores compared to Rs. 75 crores in the previous year. There is little scope for expansion of cultivated area, but there is scope for improving existing yields through replanting, rejuvenation, etc. which calls for an investment of about Rs. 100 crores for the entire area. We should also consider setting up of a Spices Board to plan production programmes and take an integrated view to push up exports.

There is considerable scope for introducing and expanding the area for plantation crops, especially tea and coffee in the North Eastern States. Early steps should be taken to expand area under tea and coffee cultivation. It would help speedy development if a separate Plantation Board or Corporation is set up to undertake development of such crops in these states with support from financing institutions. This is discussed separately elsewhere in this report.

Silk and Silk Products:- are another important export-earner whose current exports amount to about Rs. 30 crores per annum. By the end of the Sixth Five Year Plan, a target of Rs. 100 crores is expected to be reached. Under a project being negotiated with the World Bank to modernise and expand sericulture industry in Karnataka the production of raw silk is expected to double in five years with a greater part in improved varieties, which would further boost and expand exports of silk and silk products. There is scope for sericulture activity both of mulberry type as well as of tasser type in several states, including Tamil Nadu, Andhra Pradesh and Eastern States. The potential in this regard needs to be studied and a project prepared for seeking IDA assistance.

Sugar During 1978-79, exports of sugar amount to 7.8 lakh tons valued at Rs. 136 crores. According to the Task Force on Agriculture Exports, India can have a regular export of 10 lakh tons of sugar, worth Rs. 250 crores, per annum, without creating any domestic sugar problem.

Production of sugar in 1977-78 reached a record level of 6.5 million tons in 1978-79 it declined to 5.9 million tons, and in 1979-80 it is estimated at about 4.0 million tons. The perspective Plan for Agriculture envisages sugarcane production to rise from 181.6 million tons in 1977-78 to 303 million tons in 1992-93. About 80 sugar factories have already been licensed in different parts of the country and some investment has already been made. The Industrial Finance Corporation of India would have to ensure the balance of funds. A perspective plan for establishment of more sugar factories in the country should be drawn up so that sugar output in the next five years can be raised to 10 million tons. The sugar machinery required for new factories is all available in the country. Sugar prices in the world are prevailing high and there is a steadily increasing sugar market for our exports. The additional output envisaged above would be sufficient to meet the domestic demand and export requirements.

It is now apparent that the earlier attempt to curb the growth of new sugar factories was misplaced and should not be repeated. The country possesses the potential for increased sugar production both to meet the growing internal demand as also the exports. The proposed NABARD should help setting up of new sugar factories and ensure that sugar production in the country expands quickly.

Oilseeds Export of vegetable oil, oilcakes and oilseeds depends upon the production of oilseeds in the country. Export of these three major items amounted to Rs. 142 crores in 1978-79. The Task Force on Agriculture Exports have recommended specific HPS export quotas of 2 lakh tons and 0.5 lakh tons in years of normal and bad crops respectively to sustain our markets abroad. In respect of animal feed, there is considerable scope for increasing export earnings of oilcakes by improving the quality of extractions and enforcing proper standardisation.

Production of five major seeds, e.g. groundnut, castor seeds, sesamum, rapeseed, mustard and linseed increased to 95.5 lakh tons in 1978-79 compared to only 90 lakh tons in 1977-78. The perspective of development drawn up for the period 1978-1993 envisages the oilseeds output to rise to 112 to 115 lakh tons in 1982-83, 130 to 133 lakh tons in 1987-88 and 158 to 164 lakh tons in 1992-93.

Vegetable oil supply, comprising nine types of oils, is currently estimated at a total of 2.75 million tons. With the improved production strategies and technological innovations, it can increase significantly in the next five years.

Our edible oil imports have increased sharply in recent years and early steps should be taken to increase oilseeds output; it is likely otherwise that world supplies may fall short of India's demand. We may besides not have enough foreign exchange to import.

We are at present tapping only 25% of the potential resources available for production. This vast untapped production reservoir even at current levels of technology should be developed so that the country becomes self-reliant in its edible oil requirements in the shortest possible time. Assured marketing and remunerative prices to growers would encourage indigenous production. Support prices, which now cover about 75% of the total oilseed production, need to be announced early. Purchase operations may be entrusted to a public sector corporation on a long-term basis so that the necessary infrastructure can be built up for timely procurement operations. Suitable system of subsidies and loans may be evolved to help small farmers to take advantage of emerging new technologies and production.

Tobacco Production of tobacco in 1978-79 amounted to 4.56 lakh tons, showing a fall of 8.6% over the previous year. About 90% of our total exports of tobacco comprise of the virginia flue cured variety. In 1978-79 exports from India amounted to 68.6 thousand tons, valued at Rs. 110.6 crores, mainly to U.S.A. and U.S.S.R. Of late, there has been a decline in our exports of manufactured tobacco, and the unit value realised has also declined.

The Task Force for Agriculture Exports has projected an annual level of one lakh tons valued at Rs. 170 crores by the end of the Sixth Plan period, comprising mainly of the virginia flue cured variety. On the basis of the same rate of growth, the exports by the end of the decade may be estimated at 1.50 lakh tons, valued at Rs. 225 crores at current value realisation. The Task Force has recommended that the area under light soil virginia flue cured tobacco should be increased without adding to total area under virginia flue cured tobacco. In order to make Indian tobacco competitive and allow farmers reasonable remunerative prices from the exportable varieties of tobacco, minimum export prices are announced by the government. We should consider using modern tobacco technology e.g. green leave threshing plant for mechanical threshing of the tobacco leaves to separate the stem from the leaf, which is now universally adopted.

Rice and Cereals India has attained a self-sufficiency in food. Imports of foodgrains have been completely stopped for the last few years; rather, there have been marginal exports of cereals, mainly of wheat and rice to Vietnam, Bangla Desh and neighbouring countries for the last few years. Rice exports in 1979-80 amounted to 5.7 lakh tons. The target for 1980-81 is placed at around 10 lakh tons. As explained earlier our productivity levels are still quite low compared to other competing countries, which points to the large scope for increasing foodgrains output at home.

The foodgrain production in the country is envisaged to increase at around 4.0% per annum to reach a level of 153 million tons by 1984-85 rising by 1992-93 to 187 million tons. The internal demand for foodgrains is expected to increase by about 3% per annum and the surplus available can find ready markets abroad. Exports of rice and other cereals have been projected to increase to 3 million tons, valued at Rs. 675 crores, in 1984-85 and 5 million tons at Rs. 1,125 crores by 1989-90.

Presently there is a pressing demand for rice in the international market particularly in the neighbouring Middle-Eastern and East European countries, and there are indications that this demand will grow fast in the coming years. Keeping, however, in view the need to raise nutritional standards at home, every effort would have to be made to provide additional investments and raise output of foodgrains particularly rice, wheat and pulses. The requisite farm technology is already available in the country.

Vegetables, Fruits and Flowers There is a large potential for stepping up exports of fruits and vegetables to the neighbouring countries and cut flowers to West Europe. Imports of fresh cut flowers and foilage into West Europe amounted to over Rs. 700 crores in 1978 and had been growing during the 8 years, 1970-1978 at over 23% per annum. In view of the increasing costs of temperature control consequent of increase in energy prices, for production of these flowers in Europe, with our favourable tropical climate we can give a large thrust to exports of at least Rs. 100 crores per annum during the next five years, provided suitable measures for imports of quality seeds, requisite inputs infrastructure facilities for post-harvest operations, including storage, marketing and transport, are taken. Their exports have the added advantage of a highly labour-intensive production, which does not compete with the domestic market.

Raw Cotton India has made rapid strides in the cultivation of cotton in recent years, whose production at 57.8 lakh bales in 1976-77 has risen to 81 lakh bales in 1980-81, the substantial output is accounted for mainly under long staple varieties and has been achieved through expansion of area and higher yields. Cotton supply position has therefore been comfortable for the last few years and imports have been stopped completely.

The country has a significant exportable surplus in the current years; and about 6 lakh bales, worth Rs. 80 crores, are likely to be exported. By 1984-85, the end of the Sixth Plan, the export potential of cotton has been broadly estimated at 12 lakh bales, valued at Rs. 150 crores. The world prices of cotton have tended to rise due to higher world demand, emergence of the Republic of China as a massive buyer, reduced offerings by several large producing countries and increased speculation in the commodity. The cotton output, according to the perspective of development is estimated at 135 lakh bales by 1989-90 and 142 lakh bales in 1992-93. The exports are, therefore, projected to increase to 16 lakh bales with exchange earnings of Rs. 200

crores at the end of 1980's. With sharply expanding output, India should be in a position to export more and more of medium and long staple cotton fetching higher unit values.

Marine Products Marine products constitute an important item of exports and hold promise for sharp expansion in our export trade. Exports of marine products have risen from 17,000 tons valued at Rs. 4.1 crores in 1961 to 92,000 tons, Rs. 253 crores in 1979-80. The increase in the last 5 years has been substantial.

India has a long coast line, with 200 miles of exclusive economic zone over which India has jurisdiction, with a large sea wealth. Our total strength of deep sea fishing trawlers is very small indeed compared to the large fleets of other, even smaller nations like Japan, Taiwan and Mexico. This should be remedied, and the country should have a minimum of 1,000 trawlers in the next few years.

The marine fisheries production is expected to grow from the current level of about 10 lakh tons to about 23 lakh tons in the next few years. The bulk of this production in the coming years is anticipated from the operation of deep sea fishing vessels to be introduced for exploiting the huge potential of our marine fishery resources. The marine product exports are, therefore, projected to increase to 1.5 lakh tons valued at Rs. 550 crores in 1984-85. By the end of the decade, the exports are estimated to increase to 2.5 lakh tons valued at Rs. 810 crores.

At present, nearly 80% of our exports of marine products are frozen shrimps. It would be necessary in the coming years to diversify catches to other types of exportable varieties of fish particularly priced varieties like prawns, lobsters, oysters, squids.

Development of large fish farms in brackish water and other inland water areas under swamps, jheels, lakes can also provide substantial increase in output.

Research and survey into the nature and distribution of fisheries in Indian waters to identify location of the available varieties will have to be emphasised, and a priority given to positive measures to strengthen our capacity to exploit these resources.

Adequate infrastructure facilities for landing and berthing would also have to be created at major fishing harbour centres. Refrigeration facilities for the storage and transport linking production centres and marketing points will need to be expanded. The Marine Product Export Development Authority (MPEDA) will have to undertake survey of export potential in the maritime states as also study demand in major external markets.

Meat and Meat Products While traditionally India has been a hides exporting country, it has been moving into leather and leather products of late both adding value and creating a diversified range. But what has been ignored until quite recently is the valuable high value-added range of meat and meat products, for which there is a growing demand not only from the neighbouring gulf countries but also the world over. While our leather exports have risen from Rs. 165.5 crores to Rs. 425.4 crores between 1974-75 and 1978-79 meat and meat products have risen from Rs. 3.5 crores to Rs. 26.7 crores. While the rise is significant in percentage terms, it is small in value terms and barely cratches the surface of expected demand.

Looking yet further ahead, a valuable potential lies in development of vital biological by products insulin, papsin, heparin, blood and hormonal products and other life-saving drugs. Developing a well organized, modern meat and meat products industry will not only greatly improve the quality of hides, and therefore leather and leather products, as against the poor quality hides at present obtained mainly from fatten cattle, but also open new export areas of fresh meat, processed canned products, biological products and drugs.

This breakthrough will require certain steps being taken, such as

- Livestock improvement and disease free zones.
- Adequate and suitable transport and storage facilities.
- Modern pricing and packaging technology and facilities.

- Consideration may be given to forming a separate meat board to plan for the cattle and for advanced technology, financing and exports of what is virtually an underdeveloped but highly promising new export area.

Agricultural Products The Committee makes the following omnibus recommendations.

The basic problem of increasing agricultural exports is one of raising productivity and diversifying the commodity mix. In view of the very low yields in our country, there is need to undertake requisite investments in the agricultural sector to increase productivity.

The present Export Policy Resolution does not lay enough emphasis on agricultural exports. It should be amended accordingly.

It is necessary to draw up a long-term export policy for agricultural products. Exports of certain commodities in times of crops failures should be considered keeping in view the commitments already made.

Forward/future trading in agricultural commodities e.g. tea, apples, potatoes, cotton, castor seeds and linseeds etc. should be strengthened as it would encourage setting up of adequate storages, including cold storages, stabilise prices and help quality control and strengthen the bargaining position of Indian exporters of such agricultural commodities.

Provision of infrastructural facilities, particularly credit and power at reasonable rates by increasing output of export-based agricultural goods would greatly help growth of such exports.

Integrated type of financing in respect of export oriented agricultural products, right from the stage of planting to the stage of exports, should be introduced. The areas and crops (e.g. contract-cultivation) where such financing will be suitable, will have to be identified.

At present subsidies are available for new plantations taken up for coffee, cashew etc. Instead, it would be desirable to create a revolving fund through control budgetary support or other means at the level of the National Bank for Agricultural and Rural Development (NABARD) so that it could be in a position to provide soft loans to export-oriented crops. A separate Wing for agricultural and rural development to exclusively attend to export-oriented crops in all respects should be set up in the new NABARD.

Jute goods have been losing international markets over time. In view of the sharp increase in crude oil prices and the chances of these prices even going up further, there are prospects of shifting demand to natural fibres. Efforts should, therefore, be made to remove constraints in raising jute production so as to meet the prospective demand.

In respect of plantations like tea, coffee, etc. a package of long-term measures, e.g. expansion of area under cultivation, new plantations, replanting, replacement planting, use of scientific methods to improve quality, etc. should be taken up early to realise production and export targets.

There is need for setting up of a Spices Board to plan production and take an integrated view of demand and supply to push up exports.

Separate Corporations should be set up for development of plantations crops, particularly tea and coffee, in North Eastern States. The entire equity capital for the Corporations may be provided by the Centre and the re-finance assistance by the ARDC/NABARD.

In regard to plantation corporations in other States, equity capital may be shared between the Centre and the States on 50 : 50 basis and re-finance assistance up to 90% may be provided by the Banks.

It would be necessary to design a new policy framework and action programme, including formulation of projects, to step up financial assistance to raise production of these crops. A small Committee under the chairmanship of the head of the proposed National Bank of Rural Development and comprising Chairman ARDC/Deputy Governor, RBI/NABARD, incharge of agricultural credit and Secretaries, Ministries of Agriculture, Commerce, and Planning Commission should look to the various aspects of this proposal and make suitable recommendations. A perspective plan for establishment of more sugar factories should be drawn up so as to raise sugar output to 10 million tons in the next five years.

- In respect of oilseeds early measures may be taken to increase production at home keeping in view the rising import bill and world supply shortages. Remunerative support prices should be announced well in advance. Purchase operations may be entrusted to a Public Sector Corporation on a long-term basis and a suitable system of loans and subsidies may be evolved to help small farmers.
- The area under light soil VFC tobacco should be increased without addition to the total VFC tobacco area.
- Production plans for certain perishable commodities like fruits, vegetables and flowers should be formulated in selected areas around big cities on contract-cultivation basis.
- There is need for encouraging fruits preservation and processing units for the export market, particularly in hilly areas.
- The question of increasing exports of cereals and fresh vegetables in the Middle East and Eastern Europe should be examined in detail, taking the relevant elements, like production, domestic demand, etc. into account.

- Regular surveys of the Persian Gulf and Middle-Eastern countries should be undertaken, and effort should be made to meet the entire demand of agricultural goods of these countries, particularly foodgrains, poultry, mutton, etc.
- Import policy and procedure for imports of seeds and other agricultural imports should be liberalised and simplified.
- The development of animal production should be properly organised. It may be desirable to set up a Meat Board for regulating domestic production marketing and export of meat.
- Greater involvement of states in the production plans of export-based agricultural commodities would greatly help the export efforts.

ii. INDUSTRY

This report has been sub-divided into three sections.

Section I gives the salient trends in world trade growth in manufactures in developed and developing countries, and the prospects for the 1980's. It also indicates the export projections for manufactures from India, taking into account our capability and the likely growth in external demand.

Section II deals with the general policy issues for a sustained increase in industrial production during the 1980's.

Section III follows with specific recommendations for securing a rapid increase in export of important industrial goods like engineering products, electronic items, leather goods, gems and jewellery, chemical and chemical products, and textiles.

SECTION I

Following upon the oil crisis and world recession of 1974-75, expansion in world trade received a setback from about 9% per annum between 1965-1973 to just over 4% a year during 1973-1977. In 1978 the volume of world exports recorded a slight improvement to 6%. The steep increase in oil prices in 1979; high rates of inflation in most countries; spectre of recession in industrialised countries; and the huge external deficits for all but the oil exporting countries: all combined are bound to adversely affect world trade growth once again. Infact future forecasts seem to confirm that the present difficulties are far from transitory and will leave their mark for a number of years. It is in this context that we must evolve our future strategy for exports of manufactures during the 1980's.

A redeeming feature is that despite the slowing down in world trade since 1974, trade in manufactures has shown greater buoyancy. In value terms, world trade in manufactures experienced an annual rise of 25.4% between 1973-1978 up 100% over the annual growth of world trade during the preceding 10 years. During 1973-1978, while manufactures' exports from industrially developed countries showed an

annual increase of 25% in value terms, exports of developing countries, other than OPEC, recorded an annual increase of 41.5%.

Trade in manufactures has thus been a leading growth sector in exports from developing countries. Between 1973-1977, manufactures exports of developing countries recorded an annual average growth of 11% in real terms when world trade in manufactures recorded 5.5% growth. Progress of manufactures exports from developing countries has thus out-paced the growth in overall world trade, as well as the manufactures from developed countries. Similarly for imports of manufactures, OPEC have shown the highest rate of 79.6% increase during 1973-1978, when manufactures imports by other developing countries increased by 27.7% and of the developed by 21.8%.

Despite this growth, manufactures exports from the developing countries, form only one-fifth of total exports as against 70% plus for the developed. Moreover, the developing countries' share of manufactures exports in the consumption of manufactures in most developed countries is only 2%. This share is even lower at 1% in the case of transport equipment, industrial machinery, chemicals, rubber, paper and wood products. The share of manufactures imports in consumption is yet lower in Japan and many EEC countries. The market share of manufactures imported by socialist countries is also small, but the scope for such imports has markedly improved owing to the great attention the socialist countries are paying for improvement of the living standard of their people. India thus has a wide scope for increasing its manufactures' exports, and in this it has an edge over most developing countries because of its well developed industrial base, a large reservoir of skilled manpower, technical and managerial competence of a high order, with adequate backing of financial institutions and a well developed banking system.

Of the total exports of manufactures from developing countries, about one-third are destined for intra-developing country trade. India sends 70% of its manufactures exports to developed countries, including Centrally Planned Economies, and 30% to developing countries. The recent increase in these exports to developing countries is partly due to the emergence of OPEC as a big importer of manufactures products and partly due to the freight advantage and complementary nature of the economies of the neighbouring developing countries.

According to the World Development Report, prepared by the IBRD in 1979, exports of manufactures from the developing countries as a share of world exports is likely to increase from 10% in 1976 to 16% in 1990. In 1978, India's share of manufactured exports to the world total was about 0.50%. On the basis of World Bank projections, world exports of manufactures are likely to increase annually by 7% during the 1980's. India should target to double its world share to 1% by 1990, rising an annual compound rate of 15% in real terms during the next 10 years. To plan for this, we must first try to carefully analyse the major constraints which have retarded the growth of our manufactures exports in the recent past. Briefly, they are the following.

- i. Inadequate performance of our infrastructure, notably, power, transport, coal and ports.
- ii. Industrial relations and law and order problems.
- iii. Procedural and policy bottlenecks, especially in the creation of new capacities for generating exportable surpluses.
- iv. Lack of adequate incentives.
- v. Emergence of some developing countries as major competitors.

The growing protectionism in industrialised countries against imports of manufactures from developing countries will also persist, in spite of Brandt Commission's exhortations:

Protectionism threatens the future of the world economy and is inimical to the long term interests of the developing and developed countries alike. Protectionism by industrialised countries against the exports of developing countries should be rolled back; this should be facilitated by the improved institutional machinery and new trading rules and principles.

Total exports of manufactures from developing countries grew at 15% annually between 1970-76; and as Southern competition began to enter its markets, the North put more non-tariff barriers mostly in the form of quotas. These imports of manufactures met more and higher barriers than those from other industrialised countries.

Recent steps by U.S.A. against industrial fasteners from India is an example.

Notwithstanding all this, the Sub-Group feels that a 15% annual increase in real terms can be achieved, provided we remove the immediate constrictions and produce an export plan with vision and foresight supported by vigorous efforts to remove the bottlenecks and production constraints besides providing incentives. In addition, essential prerequisites too are a progressive policy approach to creation of new capacities for export, and the import of technology.

India's destination priorities for manufactures exports should be OPEC, followed by DCs, CPEs and DMEs. As a result of the steep hike in oil prices the developed countries are experiencing pronounced inflationary pressures, and consequently are seriously considering vacating certain areas of manufactures with high labour content. Notwithstanding the inflation, India still enjoys a price advantage in manufactures of sophisticated capital goods or consumer durables through its lower skilled and semi-skilled labour wage levels. This potential advantage India must use well. Joint contracting with industrialised countries, in combination of our manufacture and managerial resources and their higher technology is another area where a lot can be achieved.

We have come to a stage where greater complementarity of production among the developing countries using their national resource endowment should be attempted. A good illustration is the proposal now under consideration for pallets produced in India, based on our large iron ore resources, converted into sponge iron in Indonesia, using their natural gas for development of their steel industry. A tripartite arrangement using natural resource endowment of two countries, using the sophisticated technology from the third, a developed country could be to the mutual advantage of all. Regional cooperation of this type amongst the developing countries must grow rapidly. As the Brandt Commission puts it, there is a vast potential for special economic relations, exchange of know-how and reduction of dependence.

Developing countries must also shift progressively from the export of raw materials to value added processing such as our concept of Kudremukh, Orissa alumina and aluminium plant, and the possibilities in Kuwait and Zambia, will have capacity of 800,000 tons of alumina and 218,000 tons of aluminium.

India should export a century and more of experience and know-how on the exploration and development of mineral resources to other developing countries. A systematic and determined approach in this area can help alleviate the non-oil producing developing countries' problems, wherever they have mineral resources.

India's exports of manufactured goods increased from Rs. 803 crores in 1970-71 to Rs. 3,570 crores in 1978-79. The compound rate of growth of 16% in 8 years has been projected through the next decade in the table below.

Table A. 29

Export Projections - Manufactures
(at constant prices)

	1978-79 (actual)	1979-80 (estimated)	Projections 1989-90	Growth Rate 1979-80 to 1989-90
	Rs. Crores			
Engineering Goods	717	650	2,632	15.0
Leather & leather goods	330	390	1,324	13.0
Gem and jewellery	728	590	3,088	18.0
Textiles (including cotton, silk, woollen and manmade)	763	880	1,970	8.4
Basic chemicals, pharmaceutical and cosmetics	175	180	468	10.0
Chemicals and allied products	155	156	487	12.0
Plastics and linoleum	30	35	100	11.0
Handicrafts	257	225	765	13.0
Sports Goods	24	25	95	12.0
Others	391	450	1,167	10.0
	<u>3,570</u>	<u>3,581</u>	<u>12,096</u>	<u>12.9</u>

According to 'Annual Survey of Industries' the gross output of the factory sector in 1977-78 was Rs. 38,860 crores. In 1978-79, the estimate of gross industrial output may be placed at Rs. 40,000 crores of which about Rs. 3,600 crores, or 9% was exported. Assuming that exports of industrial goods will increase at the rate of 15% during the 1980s, and share of exports in total production will increase from 9% at present to 18% in 1989-90, the industrial output in 1989-90 will have to increase to over Rs. 80,000 crores, involving a compound annual increase in real terms of 7.6% during the decade of 1980s. This is both in accordance with the plan projections and well within our reach.

Our Sub Group has identified some general and sectoral specific policy issues and recommends the following.

SECTION II

General Recommendations Since February 1973, a total of 807 items have been reserved for production in the small scale sector, and although the policy is supposedly flexible, experience shows that in its implementation there are inordinate delays which affect exports and contributes to poor quality standards. It is necessary to introduce an expeditious system for permitting additional capacities for items, even when they are reserved for the medium or large scale sector, provided, the capacity is meant to produce for exports.

Notwithstanding the reservations for small scale sector, additional capacity should be licensed on the basis that 75% exports of the production arising from the new capacity will be exported. The basic aim of encouraging small scale industry should be fulfilled through helping them with their basic difficulties with raw material, financing, quality control, etc. and not by curbing exports. The Sub Group welcomes the recent enlargement of limit for investment in small scale industry to Rs. 20 lakhs and the proposed scheme for buffer stock of critical inputs for small industries.

* It covers all establishments using power and employing 10 or more workers and those not using power but employing 20 or more workers on any day of the preceding twelve months, prepared by CSO.

Since September 1975, a list of 15 industries was allowed automatic expansion in registered or licensed capacity to the extent of 5% per annum or 25% in a Five Year Plan period. The Industrial Policy Statement of July 23, 1980 has already extended the facility of automatic growth to the group of industries included in Appendix I to the Industrial Policy Resolution Statement of 1973. The facility of automatic growth should be extended to all exporting units which export more than 10% of their production, except in the case of MRTPL and FERA companies which will be subject to task force discipline.

The Import Policy should be so designed that sufficient tradeable inputs are easily available to all exporting units at competitive prices. This is particularly relevant to Import Replenishment and Duty Free Imports for exports. At present, duty free imports are only for 55 items. This number should be extended to cover all quantifiable items. Procedure for bonded warehouses of imported raw materials for exports also needs to be simplified and augmented. Government should ensure that the necessary inputs of raw materials are made available to exporters on a priority basis and at near international prices.

Cash assistance allowed on exports is currently aimed at compensating for freight and other cost differentials and to meet initial promotional expenditure for new products and new markets, apart from compensation for those indirect taxes or levies which are not refunded through the duty drawback system. In view of the abnormal price rise in India last year, the existing compensatory cash assistance on exports should continue to be provided and procedures for disbursement of cash assistance, drawbacks, etc. should be simplified. There should be a mechanism to ensure automatic and expeditious adjustment in the rates of drawback on the basis of changes in customs, excise duty and prices of imported components. Credit facilities for exporters also need to be streamlined and expanded as a result of the recent decision to set up the EXIM Bank.

Duty Drawback The report of the Committee for the Review of Drawback Procedures and Practices has highlighted the fact that despite measures to facilitate quick payment of drawback, delay in settling claims for drawback persist. Most of the delays occur in fixing the brand rates. In order to reduce delays following measures are suggested.

- Area of all Industry Rates should be enlarged and the process of identification of new items for inclusion in the All Industry Rates schedule be undertaken at the earliest.
- As it is not possible to ascertain precisely the amounts of duties actually suffered by export products at various stages of its manufacture, some approximation is unavoidable. A more flexible and liberal approach should be followed in determining the rates of drawback.
- Because of growing diversification of industries and fast changing technology, new products constantly come to figure in the list of export trade. As the need for fixing brand rates in some cases cannot be eliminated altogether, every attempt should be made to avoid delays in determination of brand rates.

Export Obligations Export obligations, although considerably diluted over the past three years, are still cumbersome and in certain cases lead to exports at uneconomic prices. Since exports is a specialised activity, more emphasis should be laid on basic policy incentives that lay a solid foundation for a satisfactory rate of growth. The Sub-Group recommends that instead of an export obligation there should be a denial of preferential treatment facilities extended to exporting units who default on exports. The Group feels that exports obligations should be given up totally except in marginal cases, as an exporting unit has been exempted from the reservation for small industries or a locational policy. Even in such marginal cases export obligations should be selective and never so high that they are penal or impractical and deprive the entrepreneurs of any manouverability in fulfilling his commitment. Furthermore, export obligations should be applicable only after the unit reached optimum production according to the capacity.

Concerted efforts are required to improve our market intelligence abroad through improvement in quality and magnitude of our representation abroad and dissemination of necessary information to exporters, particularly in selected countries where greater export potential exists. There should be standardisation of periodic commercial information by our representatives abroad including market-size trade relationships, quantitative restrictions, tariff system, packaging and labelling requirements, marketing channels, etc.

Value added in manufactures, though skilled or semi-skilled labour intensive and processed exports be accorded a priority, because we must now aim at switching exports of primary and unprocessed goods to value added, processed and capital goods

Quality Control The concept of self-certification should be accepted and its scope gradually enlarged depending upon performance of each unit and the systems which have been established for in-house inspection and quality control. There should, however, be no question of any further export inspection where the product carries ISI certification. Small scale sector should also be rendered necessary assistance in quality control through consortia approach or other mechanisms like transfer of technology and common testing facilities. In this respect, the Sub-Group suggests that the proposed Franchising Corporation for small industries have an important role to play.

SECTION III

Engineering Goods Exports of engineering goods have expanded at about 25% per annum in value terms during the decade ending 1978-79. At this rate engineering exports can increase from Rs. 1,000 crores in 1980-81 to Rs. 10,000 crores by 1990-91 in value terms. In 1979-80, exports of engineering goods received a setback on account of shortage of the necessary inputs and lack of infrastructure facilities. In the short term we should remove the domestic constraints on export production; in the long term, it is necessary to expand the production base to generate more exportable surpluses at the same time as we launch an aggressive marketing drive with adequate financial support

According to the Annual Survey of Industries the value of output of engineering industries was Rs. 10,750 crores in 1977-78, with the following breakup:

	<u>Rs. Crores</u>
Basic metal and alloy industries	3,808
Manufacture of metal products and parts except machinery and transport equipment	949
Manufacture of machinery, machine tools and parts except electrical machinery	2,191
Manufacture of electrical machinery, apparatus, appliances and supplies and parts	2,099
Manufacture of transport equipment and parts	1,703
	<hr/>
	10,750
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On the basis of output growth of 8% in the two years 1978-79 and 1979-80, the gross value of output of engineering goods at the end of 1979-80 is estimated at Rs. 12,000 crores of which Rs. 717 crores or 6% to 7% was exported. Assuming the percentage of exports to production to increase to a level of 10% by the end of the eighties, the value of production of engineering goods in 1990-91 will have to increase to over Rs. 26,000 crores, consistent with an annual increase of 15% in export of engineering goods in real terms during the decade. This implies an average annual increase of 8.5% in production of engineering goods in real terms during the next 10 years, which may be considered the minimum to fulfil the export targets.

The high growth rate in exports of engineering goods achieved in the last ten years was achieved by the existence of a substantial unutilised capacity in various industries. The limitation of existing capacity is already proving a constraint on production for export in several sectors of engineering goods, including hydro turbines, power transformers, wood screws, forged hand tools, pumps, electric fans, radios, lamps and bicycles. This trend highlights the need and importance of increasing capacities in the manufacturing sectors. In order to ensure a steady growth in export of engineering goods, the Sub-Group suggests the adoption of following recommendations:

- i. Exports and the possibility of foreign demand should be an integral parameter for the creation of additional industrial capacity. This approach is of equal relevance to investment and project planning in public enterprises.
- ii. Export production should be encouraged in industrial undertakings, including MRTP companies, notwithstanding the restriction in terms of licensed capacity; the licensed capacity restriction should be applicable only in relation to domestic production and distribution. The Industrial Policy Statement of July 23, 1980 has recognised the need for expansion of the existing units exclusively for export and for allowing higher production for exploiting fully the emerging export opportunities. Follow-up action to implement this, decision should be expedited.
- iii. The present facility of allowing separate endorsement for export production and capability has not been adequately publicised. This should be done and even the MRTP companies should be allowed to avail of the facility and necessary amendments to the MRTP act be brought about.
- iv. While determining the dominance of undertakings, production for export should be kept out, and for this purpose appropriate revision of the definition in the MRTP act should be made. (It has been decided by the Cabinet that dominance of an industrial unit should be determined only with reference to its share to its sales in the domestic market).
- v. The Industrial Policy Statement of July 23, 1980 envisages that where a larger production base would increase the competitiveness of Indian industry abroad, Government will consider favourably the introduction of advanced technology and will permit creation of capacity large enough to make it competitive in world markets provided substantial exports are likely. As this involves value judgement and may be difficult to implement more liberal treatment for the import of latest technology should be extended to all exporting industries. Import of latest technology should be freely allowed for export industries, wherever

it is without foreign equity participation. In other words, in such cases involving no foreign equity, technology imports should be on Open General Licence. (Cabinet has decided that import of technology involving lump sum payment of royalty should be considered liberally. Import of technology on Open General Licence was not accepted.)

- vi. As projects exports are going to become important for engineering exports in the 1980s, and as such exports require large financial resources, some special financing arrangements will have to be considered. Such arrangements could avail of the Euro-dollar markets where India enjoys high creditability. The proposed EXIM Bank should be equipped to meet the financial requirements of projects and services exporters adequately.
- vii. At present on all bought out items required for project exports, excise duty has to be paid for which refund can be claimed later on. This is not only a time-consuming process, but also adds to the total cost of the export project. As such, it acts as a serious constraint. Sub-Group is strongly of the view that in the case of bought out items also, the same procedure should be followed as in the case of manufacture exports wherein a bond furnished by the manufacturer exporter is accepted and payment of excise duty is to be waived.
- iii. Since our main thrust in the 80s will have to be on project exports, we will have to ensure quick and smooth transportation arrangements. Higher priority should be given in the allocation of wagons including special type of wagons required for project exports.
- ix. Urgent action should be taken to explore new markets, particularly for project exports in Africa and Asia. Our technology and experience is particularly relevant to some of the developing countries in Africa. Oil rich countries in the Middle East have thrown up unlimited opportunities in the field of construction activities and our achievements in this regard have been only marginal so far. India's participation should be both

directly as well as indirectly through reputed companies of the developed countries.

- x. Public sector undertakings, including railways, producing engineering products should pay urgent attention to increase their marketing abroad particularly of heavy equipment, consultancy, turnkey jobs and construction on the basis of pooling their experience and resources.
- xi. One of the important pre-requisites for encouraging exports of engineering projects and services, is an up-to-date information system. While TDA, FIEO and EEPC can continue to collect information relevant to their activities, it would be necessary to make use of organisations like MECON, EPI, NIDC, Railways, FCI and BHEL to collect the specialised data and information for heavy engineering exports, consultancy, turnkey projects, joint ventures, etc. The expenses on this account could be met from MDF.
- xii. Following the pattern of developed countries, we should encourage our consultants to take up preliminary studies free of cost to the recipient countries which are considered potentially, rewarding. Indian consultancy organisations, where they feel it necessary, should be encouraged to establish links with similar organisations in advanced countries.
- iii. Our capabilities in the field of design, consultancy and engineering should be publicised abroad by preparing a roster of top level experts and specialists, both public and private sectors, and by publishing a brochure on consultancy services obtainable in the country, with detailed reference to work done by them in India and abroad.
- xiv. Considering the comparatively small requirement of power by engineering industry, the power cuts as applicable to them should be less severe and should be applied by stipulating a ceiling or maximum demand for energy. Export-oriented engineering units who wish to set up their own generating sets should be allowed to do so, with a subsidy, and they should be assured of adequate supply of diesel oil for the operation

of the generation sets for which the allocation should be made by the Central Government on the same analogy as the allocation of furnace oil for DGTD industries. This procedure could be further extended for essential inputs like coal, coke and pig iron required by exporters.

- xv. The restrictions on setting up of industrial units in the vicinity of urban areas for a population of more than 5 lakhs should be relaxed for export-oriented industries, exporting more than 10% of their production. Such units should be accorded special facilities in respect of availability of inputs, finance, etc. The Industry Policy Statement of July 23, 1980 has recognised that it would not be in public interest to permit licensing procedures or a rigid locational policy to stand in the way of maximising production.
- xvi. Industrial units which export more than 75% of their production continuously over a period of three years should be allowed to import duty free capital goods. In the case of 100% export-oriented industrial units, all imports requirements, including capital goods, raw materials and fuels, should be allowed to be imported duty free under bond, as in the case of Free Trade Zones. All licensing formalities in case of all such units should be streamlined and Ministry of Commerce should be made responsible for clearing all the licensing for these units.
- xvii. In order to enable engineering industry to launch an aggressive export drive, entrepreneurs should be encouraged through financial and other assistance for participation in exhibitions, delegations, study teams and other promotional activities. It is also necessary to ensure that all displays in the exhibitions held in foreign countries should project a total image of our manufacturing capabilities and therefore in all cases include sophisticated and high-technology items. To ensure this, Ministry of Commerce might consider some assistance from Marketing Development Assistance or through similar agencies. The Sub-Group was also informed that items of display when they are reimported into this country from abroad are subjected to different levels of countervailing duties. This should be done away with.

- xviii. As new capacity for export-oriented industrial projects is hampered by rising investment costs, the Committee recommends the following fiscal concessions for encouraging investment in export production units.

Prior to March 31, 1970, tax credit was allowed to the extent of increase in export earnings in corporate sector. This should be revived.

In the Finance Act, 1976, the scheme of development rebate and additional depreciation allowance was replaced by a scheme of investment allowance @ 25% of the cost of new plant and machinery. According to the modification effected in 1977, investment allowance in respect of machinery and plant is allowed to all small scale industrial undertakings. However, in the case of other industrial undertakings it is available only in such cases where the machinery and plant installed for the purpose of construction, manufacture or production of any article except certain articles of low priorities listed in Appendix I. The appendix contains a number of articles like tobacco, electronic goods, aerated water, electric fans, furniture, sanitary wares, glassware, detergents pigments and colours, etc. which have a high export potential. New units in all such industries, which are important from the point of view of exports should be deleted from the appendix and made eligible for investment allowance.

The Jha Committee has brought out the seriousness of cascading effects of excise duties on raw materials and intermediates on the finished products. Some method should be devised to rationalise the indirect tax structure on the export-oriented units so that they are exempted from the incidence of excise duties on raw materials and intermediates.

To encourage joint ventures abroad, taxation of dividends received in India by Indian participants should be exempted from income tax. To take care of escalation of investment costs the Group is of the view that the current limit of allowing equity participation of Rs. 2 million in joint ventures should be raised to Rs. 5 million.

Electronic Goods According to the report of the Review Committee on Electronics, there are immense potentialities of growth in export of electronic items. The Committee has estimated that exports can increase from the current level of Rs. 40 crores to Rs. 500 crores in 1953. Urgent action should be taken to implement the recommendations made by the Sondhi Committee. Some of the important recommendations regarding exports of electronic goods are summarised below :

- i. The Export Zone cannot really take off unless it offers facilities which are at least on par with those offered by other similar Zones in the neighbouring countries (Sub-Appendix 3).
- ii. The Development Commissioner Export Processing Zone should be fully authorised to take and communicate decision on all matters including Central customs/excise questions. The status of the Development Commissioner should be such as to enable him to effectively discharge these functions. The SEEPZ Board should be abolished and its duties and powers handed over to the Development Commissioner, SEEPZ.

Exemption from corporate tax and tax on dividends for SEEPZ units, existing and to be newly set up for a period of five years with an inbuilt provision to review the question of tax holiday for a further period on the merits of each case at the end of the five years

A higher rate of depreciation for Zonal units, which should at least be 30% every year.

Abolition of the service charge levied by SEEPZ Administration.

An ad hoc but appropriate percentage of export value to be allowed as compensation towards Central Sales-Tax, State Sales Tax, Octroi, Electricity Duty etc. be worked out by the Development Commissioner in the case of each unit and allowed under the Market Development Fund which is in fact meant to remove such disincentives of export.

- iii. Proposals for joint ventures abroad from Indian entrepreneurs in the field of electronics be henceforth received and cleared by the Electronics Approval Board; keeping in view the paramount need to have an integrated organisational approach to the growth of the electronic industry which differ from other industries in many respects.
- iv. - A rate of 20% cash support to electronics exports would be appropriate and the rate should remain unchanged for at least three years.

Drawback rates be empirically fixed on the basis of a percentage to be applied to the f.o.b. value of exports, if necessary, in three or four distinct groups of related equipment and components taking into account the likely incidence of customs and Central excise duties entering into products covered by each group.

A simple application from the exporting units of what they require by way of duty free imports, supported by a chartered agency's certificate, should be adequate for granting the duty exemption; in case of misuse or non-performance panel duties may be levied. The facility should be extended to programmed but committed exports without insistence on firm orders, subject of course to the usual bonds/bank guarantees.

Replenishment rates would be necessary and need to be rationalised to facilitate import of new generations of components, designs and prototypes for product development, special toolings and drawings. Adequate flexibility should also be given to the exporting units in their shopping lists taking into account the fact that there are rapid changes in the circuitry designs.

- Liberal grants be given from the Market Development Fund not only to approved organisations and eligible merchandising Export Houses but also to individual units with an export performance and potential of over Rs. 10 lakhs and Rs. 1 crores per annum respectively.
 - Electronics export items other than those which require mere assembly activity with indigenously available components should also be eligible for the more liberal packing credit terms.
- v. There is need for facilities available in the field of electronics in the country being pooled and coordinated for effective quality assurance services to the exporting units as well as to their foreign customers. Export promotion organisations in the field should assist exporting units by making available to latter at little or no cost, codified reprints of standards, including English translations, on request.
- vi. For a concentrated export drive in electronics, which offers tremendous scope, there should be a distinct and separate Export Promotion Council consisting inter alia of representatives of the Ministry of Commerce and the Department of Electronics. The administrative jurisdiction of this Export Promotion Council should properly vest with the Department of Electronics which should have the overall and integrated responsibility for growth in electronics which needs to be stimulated also by exports.

Public Sector Exports With an investment of over Rs. 15,000 crores in non-departmental public sector undertakings of the central government, the export of manufactured goods by the enterprises increased from Rs. 96 crores in 1970-71 to Rs. 422 crores in 1976-77. The increase was mainly due to exports of steel and with the fall of steel exports, the exports fell to Rs. 260 crores in 1978-79. The role of public sector in the expansion of exports has not been stressed so far, although this is an important area of national importance as self-reliance is one of the objective of public sector undertakings. Only a few productive units in the public sector undertakings have so far paid deep

attention to exports. The often repeated grievances against the public sector arising from low profitability and under utilisation of capacity will abate if public sector undertakings take a more active role in export promotion. In order to increase exports of public sector undertakings, the following steps should be taken.

- i. Specific export targets of public sector enterprises should be fixed by the administrative ministries concerned in consultation with the Ministry of Commerce and Bureau of Public Sector Enterprises and the enterprises should be made responsible for fulfilling them as a part of production and corporate planning.
- ii. Public sector enterprises should set up separate cells for export promotion which should be equipped with the necessary intelligence and other data.
- iii. An export division may be set up in the Ministry of Commerce for monitoring and evaluation of exports by public sector undertakings.
- iv. Public sector enterprises should be permitted to enter into technical collaboration and increase in capacity, even if it involves further investment, in order to diversify its operations for increasing their export earnings.
- v. Greater autonomy should be given to industrial enterprises in the public sector in investment decisions, for the purpose of increasing export earnings; additional investment upto Rs. 10 crores should be allowed to be made by such enterprises without approval by the Public Investment Board.

Leather and Leather Goods Exports of leather and leather manufactures increased to Rs. 390 crores in 1978-79 as against Rs. 82 crores in 1970-71. The ban on export of raw hides and skins has led to the diversification of production thereby increasing the export of finished leather and footwear. At present 30% of our leather exports are in form of semi-finished leather. Even if the entire existing production of leather is exported in finished form, the exports can increase to Rs. 1,000 crores. A gradual switch over from exports of raw and semi-finished leather to finished form will enable up to increase export earning at an average annual rate of 15% during the decade of 1980s. In order to achieve the tentative target,

the following measures are commended :

- i. There should be optimum utilisation of domestic hides and skins and liberal imports should be allowed to improve availability of raw materials.
- ii. The import of latest machines, chemicals and technology for leather should be encouraged to achieve higher unit value realisation and a quantitative shift for production of superior grade of finished leather.
- iii. An accelerated thrust should be made to explore new markets by continuous process of identification of fast changing fashions and designs.
- iv. In order to supplement the supply of finished leather to exporting units, the sale made by finished leather units to export-oriented units of leather manufactures should be set off against the export obligation of the former.
- v. Liberal and concessional finance should be made available to the industry for stimulating the conversion of the industry for production of high value leather manufactures.
- vi. In view of the high demand and prices of reptile skin and crocodile skin in Italy and other international markets, export of non-reptile skins in processed form may be allowed on a limited basis.
- vii. The reservation of manufacture of footwear by small scale sector should not be applicable to large exporting units and export obligation may be introduced in a phased manner so as to allow such units to come up to full capacity.
- viii. Export of sophisticated products like fashion shoes, leather garments, leather woollen garments, jackets, overcoats and fashion textile garments etc. should be encouraged through foreign technical collaboration and marketing arrangements. The emphasis on higher unit value items of export is necessary to circumvent the present restrictive measures which are aimed at restricting quantities and not the value of imports by developed countries.

Gem and Jewellery India's exports of gem and jewellery items rose from a meagre level of Rs. 21 crores in 1963-64 to a level of Rs. 727 crores during 1978-79 denoting a 34 times increase although it has received some set back in 1979-80 due to world recession. Of all the gem and jewellery exports, diamonds and precious as well as semi-precious stones constitute over 90%. The export potentialities of the remaining items of gem and jewellery which include gold and silver jewellery, pearls, synthetic stones and imitation jewellery have not been exploited so far. World demand for finished jewellery alone is expected to grow up from \$ 10 billion in 1980 to \$ 25/30 billion in 1990-91. Thus tremendous potential exists for the export of gold jewellery, silver jewellery and cutlery, synthetic stones, imitation jewellery, costume jewellery, etc.

What is noteworthy about the gem and jewellery exports is their employment intensive character and the value added in these items is as high as 40 to 45%. The success of our exports in the present situation would largely depend upon the degree to which the Indian gem and jewellery industry and trade are able to adjust to the fast changing market situation. Our exports of gem and jewellery are capable of registering an average rate of growth to the tune of 20% per annum and reach a target of Rs. 4,500 crores by the end of 1980's if the following measures are undertaken:

i. Alternative sources for raw material availability

The supply of roughs to the industry should be increased by a more liberal import policy, diversification of the supply sources and setting up the tempo of mining activity in the country. Liberal treatment in imports should also be extended for import of machinery, testing apparatuses, synthetic stones, etc., required for export production.

- ii. Market Surveys and Research Specific market surveys on a continuous basis should be conducted to identify market potentials for different gem and jewellery products in carefully selected markets. Some of the important markets which need to be surveyed by the professionals are the USA, Canada, Japan, Western Europe, Eastern Europe, Middle East, Hongkong, Singapore, Taiwan, Korea, Brazil, Egypt and Argentina. This should be supplemented by market research to be conducted by the professional within the country of the production and quantity available of different products for export markets. Market orientation teams consisting of professionals and small as well as medium exporters should be sent to important overseas markets.

- iii. Organising Exhibitions and Participation in Trade Fairs India should organise Jewellery Exhibitions in important world markets atleast once in every three years as they have become effective instruments to project the technological development and higher standards of manufacturing achieved. The major regions suggested for such Exhibitions are: the USA & Canada, Japan, West and East Europe, Middle East, South East Asia, North Africa, Latin America, Australia and New Zealand. Similarly India should annually participate in important international jewellery trade fairs.
- iv. Design Development Centre Design Development Centres should be established to study the fashion trends prevailing in foreign countries and creating oriental designs to suit foreign buyers. A Centre for development of international trading and Marketing should also be set up. Jewellery Market Research and Monitoring Centres should be set up at London, New York, Tokyo and Kuwait. A National Design & Dechnology Institute should also be set up at Bombay or Delhi.
- v. Training Programmes Training programmes for artisans should be organised to apprise them with the latest techniques and designs of manufacture. The ultimate aim of such a training programme should be to set up a 'Ratnalaya' in every district of the country. Such training programme should be started at five levels.
- Massive training programme for Artisans of Lapidary Crafts (diamonds, precious stones and semi-precious stones)
 - Jewellery Manufacturers' Training Programme
 - Training in Gemmology
 - Apprenticeship Training
 - Upgradation of skills.

Development of a Senior Technical Cadre is also essential to modernise the industry. No trained technical cadres are available at present. Sending 100 persons or more abroad for training in various fields of diamond cutting and polishing, pearls, precious, semi-precious stones, designing, gold jewellery, etc. for a year or more would prove to be very helpful. They can, on return, change the face of the future industry and impart training to many more within the country.

vi. Hall-marking, Gem Testing & Diamond Grading

With a view to standardise the product and to give proper boost to gold jewellery exports in particular, hall-marking institutions should be set up at Bombay, Jaipur, Delhi, Madras and Calcutta. Such Hall-marking institutions should be modelled after the hall marking institutions working in England and other European countries. Machinery and expertise for this purpose should be imported from these countries with the assistance of ITC/SIDA etc. while special techniques should be developed for Indian enamelled gold jewellery. Gem Testing Laboratories on the lines of Delhi and Jaipur should be set up at various important supply centres of the country. Similarly for certification of bigger diamonds and their classification Diamond Grading Laboratories should be set up at Bombay and Surat. Equipments and expertise for this purpose could be imported with the assistance of ITC/SIDA.

vii. Schemes for Gold and Silver Jewellery Exports

Suitable schemes should be revised for export of gold and silver jewellery with minimum value added stipulation and provision for import of gold. Provision for covering the order with gold at the reigning price should be made and export should be allowed on that basis. Fluctuations in the price of raw gold should not be an impediment for jewellery exports and the policies followed by the leading jewellery exporting countries like Italy, Spain, Hong Kong, etc. should be studied in depth for implementation in India. Tremendous potential exists in metal jewellery exports with a low added value of 15 to 20% including articles, particularly for the West Asian and South East Asian markets, which should be suitably reimbursed by quantity or value whichever is higher.

Government of India Mint should evolve various modern alloys such as white gold, coloured gold and other purities (karat contents) of gold as required by the jewellery fabrication industry.

- viii. Co-ordination amongst Principal Agencies Presently there are a number of Government agencies like the Gem and Jewellery Export Promotion Council, All India Handicrafts Board, Handicrafts & Handloom Export Corporation and the State Trading Corporation which handle the export of gem and jewellery. There is an urgent need for the demarcation of their respective areas of activity. These activities should, however, be coordinated by one single committee or agency to put everything in proper perspective.
- ix. Product Diversification Incentives should be provided to the entrepreneurs for diversifying their production so as to encourage them to make use of expensive and better quality of diamonds. In case of precious and semi-precious stones calibrated production with the help of latest technique and machinery should be encouraged. Cultured pearl farming should be undertaken within the country and if necessary foreign assistance should be sought in this respect. Alloy and plating technology should be developed with respect to pure metal jewellery. For giving export orientation to our jewellery products modern equipped factories on a pilot basis should be set up.
- x. Exporting Artwares Items like utensils, plateware, silverware, cutlery gold, and silver chains for ornamental purpose, watch straps and other ornamental articles have a tremendous potential in export markets which need to be exploited. There is also a large potential for export of synthetic stones, imitation jewellery and costume jewellery to the overseas markets.
- xi. Data Bank A Data Bank should be set up for the trade and industry which should be like a Central Pool of Information regarding raw material availability at mining countries, competing countries' capability and monitoring research and developments the world over, designs etc.

- xii. Foreign Exchange Accounts Fluctuations in exchange rates have been detrimental to exports of gem and jewellery because of high input content. This could be avoided if exporters are permitted to have foreign currency accounts.
- xiii. Import Licensing Replenishment import licences are presently being issued on the basis of Bank certificates as produced by the exporters of their foreign exchange earned of the exported products. Procedural delays could be minimised and such issue of REP licences can be made sooner if the Bank certificate format could be redrafted and the bank remittance received certificates in itself be made valid as an Import Licence for import remittance and customs import formalities.
- xiv. Bombay is becoming an important international procuring centre for gems and jewellery and diamonds in the Eastern Hemisphere even over Hongkong.

Antwerp is the Western Hemisphere as the international Trading Centre has a turnover of \$ 7 billion annually with a large infrastructural base.

The next decade should visualise the development of International Trading Centre and Internal Market base at Bombay, buyers from world over coming to Bombay and growth of a Gem Exchange in the Eastern Hemisphere.

Chemicals and Chemical Products Exports of chemicals and allied products increased from Rs. 80 crores in 1970-71 to Rs. 338 crores in 1979-80. Chemicals and allied products consist of a very large number of items, some of which have high export potential to developing as well as developed countries. The broad items covered under the Group consist of basic chemicals, pharmaceuticals and cosmetic, allied chemicals, plastics and linoleum.

The basic chemicals industry is generally capital-intensive, and a large capacity created remains unutilised for want of basic raw material and adoption of outmoded technology. Competition in chemical products is also severe, not only from developed countries but also China and South Korea, where the chemical industry is being developed with modern technology. The same is true of drugs and pharmaceutical industry. However, there is large potential for increasing exports of chemicals and drugs to developing countries in Asia, Africa and South America provided more attention is paid to research and development of natural

products. As regards dyestuffs and intermediates, highly developed countries like Japan, USA and Western European countries are vacating the manufacture of these items because of labour shortage and problem of pollution. The industry is labour-intensive and its exports to developed countries can be increased on a selective basis particularly in respect of varnishes and dye intermediates.

Exports of perfumes, cosmetics and toiletries, can also increase appreciably by improvement and diversification of products and research and development. So far, exports were generally restricted to sandalwood oil, plamarosa oil and lemongross oil which are suffering from substitution by synthetic products. The basic chemicals also consist of aggarbatties and dhoop for which the market potential has not been fully exploited.

Allied chemicals include a number of important export items like rubber products, paints and varnishes, glass and glassware, furniture and plywood, ceramics, paper and paper boards, refractories, books and publications, matches, fire works, glue and gelatine etc. A number of these items particularly rubber manufactured products, including footwear, wooden furniture and plywood, fire works, cement tiles, refractories material offer excellent scope for rapid expansion in exports within a short span of time. Basic raw materials however will have to be made available at international prices, together with improvement of quality, augmentation of infrastructure facilities, and modernisation of production units. For paints and varnishes, large manufacturing units with foreign collaboration and idle capacity could be persuaded to take active interest in the development of exports, as also in the case of drugs and pharmaceutical units.

Export of plastic and linoleum products increased by 20% in 1979-80 but the industry is facing severe competition from South Korea, Taiwan and Hongkong and lack of adequate raw materials at reasonable prices. Items like spectacle frames, fountain pens, plastic electrical accessories, helmets etc. and linoleum have good export potential, but they are suffering from high cost and low quality. Similarly export of matches and fireworks could be encouraged through supply of adequate raw materials and setting up of modern units.

Sub-Group feels that it will not be difficult to achieve a rate of volume growth of 10% - 12% in the export of chemicals and allied products if the problems of individual items under this group receive proper attention. These problems arise principally from lack of raw materials at reasonable prices and the common infrastructural constraints like power-cuts, shipping and transport difficulties, high freight rates, etc.

Books and Publications They offer excellent scope for rapid expansion, but their raw materials will have to be made available at international prices, and infrastructure facilities and modernisation assured. While publishing units undertaking their own printing of books and publications, litho printing are treated as industry others are not so treated and are deprived of the export incentives. In view of the large export possibilities, publishing should be declared an industry without qualification; for which trade discount should be liberalised and air cargo rates on exports of books and publications rationalised.

Textiles Export of cotton textiles, including cotton hosiery, readymade garments, cotton yarn and handloom piece goods and handloom made ups is estimated to have reached a level of Rs. 754 crores in 1979-80 as against Rs. 638 crores in 1978-79. It is possible to increase the export of cotton textiles by a minimum of 7% per annum, silk goods by 11% per annum and woollen goods by 15% per annum provided the following recommendations are implemented.

- i. There is a virtual ceiling on weaving capacity in the organised sector of the industry. The creation of additional capacity and specific export targets may be considered. Public sector NTC mills should be geared to play a more important role in promoting exports of textiles as the rising prices of synthetic fibres in the wake of hike in oil prices has tilted the balance of advantage in favour of natural fibres, specially cotton.
- ii. Imports of wide width looms, terry looms and other sophisticated processing machinery of width between 60" and 100" for production of such varieties are canvas, terry towels, pillow covers, bed sheets and other made-ups and fabrics for which there is a very large demand in the international market, should be allowed exclusively for the purpose of export.

- iii. Import duty on raw wool should be abolished or reduced to encourage the export of woollen textiles and woollen carpets.
- iv. Adequate yarn at reasonable prices and of right quality should be made available to handlooms which export more than 10% of their production either in the form of cloth or made-ups.
- v. The ban on creation of additional powerloom capacity and recognition of existing powerlooms should be removed provided they export more than 10% of their production.
- vi. Recent market surveys of the Textile Committee show that there is a large potential for increase in exports of blended fabrics which are fast replacing the use of pure cotton fabrics in the international market. Given the supply of raw materials at international prices, export of blended fabrics can increase annually at the rate of 16%. The supply of man-made fabrics to handlooms and powerlooms at reasonable prices for export production should be improved and beginning may be made for the introduction of polyester khadi for export.
- vii. The development of export based silk textiles industry should be encouraged by augmenting supplies of silk through increase in domestic production, import of silk and blending of silk with artificial fibres.
- viii. There are five Export Promotion Councils for the promotion of exports of textiles - Apparel EPC, Cotton Textile EPC, Handloom EPC, Wool and Woollen EPC and Silk and Rayon Textiles EPC. In addition, export effort in the field of silk and silk products and hand knitted carpets are supplemented by Central Silk Board and All India Handicrafts Board. The need to reduce multiplicity of the agencies should be examined, as also the need for better coordination of their export activities. The formation of an apex body, with subsidiary agencies should be considered.

Sports Goods The industry spreads mainly over the small scale sector and is somewhat unorganised. Present export of about Rs. 25 crores can be increased annually by 15%, if the following recommendations are considered :

- i. The production base of the industry is organised and strengthened by modern large scale production with due attention to quality.
- ii. Supply of all the necessary raw materials to the industry and improvement of marketing arrangements.
- iii. Arrangement of specialised displays, exhibitions and publicity abroad.

Fabricated Mica Our abundant natural resources of mica have not been exploited and exports which are mainly in the form of low-valued unprocessed and semi-processed forms have been less than Rs. 20 crores per annum for several years. With the rise in petroleum prices the use of fabricated mica in electronic and other industries is bound to increase in preference to synthetic substitutes which were competing with mica in international markets. Exports can increase appreciably if quality of processed and fabricated could be improved according to international requirements with high value-added items. A committee was set up in July, 1980 by the Department of Mines to consider the problems of mica industry. The Committee should particularly look into the steps that should be taken to improve the quality and value of mica exports.

Foods Apart from the export possibilities of manufactured goods mentioned above, the two other areas which hold large promise for exports are the handicrafts and processed food industries. Training programmes, improvement in technology, wider publicity and intensive market services can result in large increase in export earnings of these labour intensive industries which do not require large capital.

Sub-Appendix 2(ii)

Comparison of Facilities and Incentives at
Export Processing Zones of various Countries

1. Import of raw materials including packing materials and capital goods including tools, office equipment and other components.

In India, Taiwan, South Korea, Singapore, Hong Kong and Philippines, imports are duty free and no restriction on composition. Republic of Ireland, Malaysia and Sri Lanka also seem to follow this.

2. Export Credit.

In India packing credit at 11.5% but in Singapore it is liberal at 6.0% interest. In Taiwan and South Korea, rate is as for domestic market. In Philippines, Republic of Ireland, Malaysia and Sri Lanka it is assumed to be liberal.

3. Cash Subsidies on Exports.

Nil in India, Taiwan, South Korea, Singapore, Hong Kong, Philippines and the same is assumed for Republic of Ireland, Malaysia and Sri Lanka.

4. Export Obligation.

In India, Taiwan, South Korea and Philippines it is 100% including scraps but there is no ban on domestic sales in Singapore and Hong Kong.

5. Supporting Industries.

Very good in India and fairly good in Taiwan, South Korea, Singapore and Hong Kong. Not good in Philippines.

6. Approval of Project Licensing.

In India, Taiwan and South Korea there is a single point scrutiny and clearance takes one month in India, 7 days in Taiwan and rapid in South Korea. In Singapore no permission needed.

7. Import Export Procedures.

In India there is unified authority linked to customs, in Taiwan also there is unified authority linked to zonal authority. In South Korea there is instant endorsement. In Singapore and Hong Kong free import/exports.

8. Preferred Industries Items.

In India high specifications and value added, in Taiwan labour intensive and light industry, in South Korea labour intensive in electronics and precision machinery. In Singapore trade limited manufactures.

9. Tax Exemption and Holidays.

In India, it is partial for hinterland. 5 years tax holiday Taiwan, South Korea, Singapore, Malaysia and Sri Lanka. In South Korea after tax holiday wages and salaries of the foreigners exempted. In Singapore after tax holiday 4% for next 10 years. In Malaysia after tax holiday, tax credit at 25% to 40% on fixed capital but no tax on dividend and in Sri Lanka extension for another 5 years granted. In Hong Kong 15% maximum tax, no tax on profits granted abroad. In Philippines, no export tax; no municipal provincial tax or licence for 10 years, dividend tax 15%. In Republic of Ireland no income or corporate tax till 1990, dividend exempted from tax, investment allowance 20%.

10. Grants.

In India there is no grant. Information for Taiwan, South Korea, Hong Kong, Philippines and Malaysia is not available. In Singapore there is a capital assistance and training scheme whereas in Republic of Ireland there is non-repayable capital grant upto 50%, 100% on training cost and rent reduction.

11. Plant Depreciation.

In India it is the same for EFZ and domestic. For Taiwan and South Korea information is not available. In Singapore, it is upto 100% in one year based on obsolescence; in Hong Kong 20% in first year. In Philippines 20% and in Malaysia 100% accelerated depreciation is allowed. In Sri Lanka generous capital allowance and indefinite carry forward of losses.

12. Foreign Equity Participation.

In India, it is allowed on merit whereas in Taiwan, South Korea, Singapore and Hong Kong there is no restriction. For Philippines, Republic of Ireland, Malaysia and Sri Lanka information is not available.

13. Service Charges.

In India exports 1% and imports 0.5%; in Taiwan exports 2.5% and imports 0.1%; in South Korea exports 2.5% and imports 0.1%. For the remaining countries information is not available.

14. Rents.

Land - In India Re 1 per sq metre/year in Taiwan Re 0.5 per sq metre/year. For others no information available.

Factory - In India Rs 60 per sq metre/year plus municipal tax (50% for the first 3 years). In Taiwan offered on hire purchase basis payable in 10 years. In South Korea Rs 60 per sq metre/year, in Singapore Rs 3 per sq feet/month. For the remaining no information

15. Personal Income Tax.

It is payable in India, Taiwan, South Korea, Singapore and Hong Kong.

16. Personal Income Tax for Foreigners.

In India, exemption is only in hinterland whereas in Taiwan, South Korea, Singapore and Hong Kong it is completely exempted. In Sri Lanka exemption is upto 5 years.

17. Repatriation of Capital, Dividends, Royalties, etc.

In India as under the existing laws in hinterland. In Taiwan, South Korea, Singapore and Hong Kong it is free. For Philippines, Republic of Ireland, Malaysia and Sri Lanka no information is available.

iii. BANKING INFRASTRUCTURE

The Committee limited its consideration to the following four aspects of the infrastructure for exports.

- Financial aspects relating to Export Credit.
- Exchange Control Regulations relating to exports.
- Market intelligence within the country and abroad.
- Export Documentation.

Financial Aspects of Export Credit The Committee feels that the Indian exporters should get credit at rates of interest that would enable them to compete in international markets; and, where necessary, the rates of interest subsidy payable from the Marketing Development Assistance (MDA) may be increased. The possibility of correcting differences between the rates of interest of export finance in India and abroad through periodical adjustments in the rates of cash incentives may also be examined by government.

The Committee noted that the concessional rates of interest on export finance seem to act as a disincentive to banks, who despite the refinance facilities from Reserve Bank of India, appear reluctant to grant advances to exporters. Unless the banks are assured a reasonable rate of return on their advances, comparable with the earnings on other forms of lending, the Committee feels that the availability of credit to exporters is likely to be adversely affected.

The Committee Recommends

- Necessary steps should be taken to make the banks interested in export financing, so that no worthwhile export proposals suffer for want of adequate credit facilities.

Although it is appreciated that in the context of domestic monetary policy, it may not at all times be desirable to allow the financing of exports from funds raised abroad, yet for making the country's exports competitive through taking advantage of the lower rates of interest abroad.

The Committee Recommends

- Exporters may be allowed, on a selective basis, to raise finance abroad.

The Committee notes with satisfaction that the Standing Committee on Export Finance of the Reserve Bank of India has already constituted a sub-committee to examine the possibility of exporters raising finance from commercial resources abroad, to identify the various sources and to evolve schemes and procedures for the purpose.

The existing period of concessional pre-shipment credit for several products, particularly those manufactured by small scale industries, appears inadequate. Transport bottlenecks, power-shedding, port congestions and delays generally upset production schedules and delay exports.

The Committee Recommends

- The periods for concessional pre-shipment credit allowed at present may be reviewed in the light of the prevailing situation.

The Committee noted that government has already decided to set up an Export-Import Bank. Its major functions and role, the Committee feels, may cover the following areas.

1. Provide direct finance, in collaboration with commercial banks, in respect of medium and long-term exports, both at pre-shipment and post-shipment stages.
2. Provide refinance facilities to commercial banks in respect of medium and long-term export credits.
3. Provide investment finance for export oriented projects and export promotion, e.g., for product development, setting up quality control measures or upgrading technology.
4. Provide term credit to finance overseas equity investments by Indian promoters in their joint ventures abroad.
5. Provide overseas Buyer's Credit. The financial aid provided by India to various developing countries may also be routed through the Export-Import Bank.
6. Issue bid bonds and guarantees for supply of goods on deferred payment terms, turnkey projects, and construction contracts abroad.

7. Identify exporters, products and markets, and help the generation of exportable surpluses.
8. Handle payment arrangements in respect of countries with which India has bilateral payment arrangements.
9. Counsel exporters in preparing their offers, negotiations with overseas importers, and drawing up contract documents.
10. Collect and disseminate economic and commercial information on importing countries and importers.
11. Handle financing of import trade, particularly the imports financed by foreign aid and loans.
12. Undertake any other functions in the interest of export promotion.

The Committee feels that while medium and long-term export credit may be primarily provided by the proposed EXIM Bank, the present system of commercial banks granting short-term finance for exports of non-capital goods should continue as before. Moreover, the present functions of the Export Credit and Guarantee Corporation should not be merged with the proposed EXIM Bank.

A Working Group comprising representatives of the Reserve Bank of India (Department of Banking Operations and Development and Exchange Control Department), Industrial Development Bank of India and Export Credit and Guarantee Corporation set up in terms of the guidelines approved by government, has been functioning, with the IDBI as the focal point, since mid 1975. It considers proposals for deferred payment exports and turnkey projects not covered under the powers delegated to authorised dealers, and all proposals relating to construction contracts abroad.

The Committee Recommends

- i. Even when the proposed EXIM Bank is set up, the Working Group may continue to coordinate activities of commercial banks, ECGC, RBI and EXIM Bank, since the RBI will continue to control the exchange control functions and the commercial banks the financing of export transactions.

- ii. A "One window" clearance of export proposals by an institution like the proposed EXIM Bank would very much benefit exporters and, therefore, steps should be taken to progressively evolve a mechanism under which export proposals are cleared by the EXIM Bank in conjunction with and on behalf of the concerned institutions.

The Committee notes that several problems have arisen in the administration of the Export Credit (Interest Subsidy) Scheme, 1968.

The Committee Recommends

- The Reserve Bank of India should take steps to simplify the procedures, including the audit requirements, for the payment of interest subsidy to banks.

Exchange Control Regulations Relating to Exports It has been brought to the notice of the Committee that owing to a rigid operation of the exchange control regulations relating to forward cover, failure to deliver foreign exchange on contracted dates entails a heavy burden on exporters, for the charges thus arising from an extension or cancellation of the contracts due to nonavailability of inputs, delays or non-availability of shipping, and delays or deficits in letter of credit. While the Committee appreciates the objective behind the existing exchange control regulations relating to forward contracts - to ensure that exporters do not maintain foreign currency positions for speculative purposes - it feels that the exporters seem to be experiencing genuine difficulties.

The Committee Recommends

- The Reserve Bank of India (Exchange Control Department) may examine the possibility of devising a suitable scheme for exporters on a selected basis to book forward contracts for lump sum amounts with discretion regarding currencies and timing of deliveries of foreign exchange under the contracts, with necessary safeguards and penalties for transgression.

While it welcomes the two new schemes recently introduced by the Export Credit and Guarantee Corporation - the Exchange Fluctuation Risk (Bid) Cover Scheme and Exchange Fluctuation (Contract) Cover Scheme.

The Committee Recommends

- Progressively, the extent of cover, presently between 2% and 35% may be increased and the rate of premium may be reduced from the present 40 paise per Rs. 100 per annum.

It has been represented to the Committee that the exporters with large volume of exports, and the Export Houses, were experiencing delays in getting the foreign exchange released for the purposes not covered by the Blanket Permits. Such delays were causing embarrassment to exporters, particularly when unforeseen expenses have to be incurred at a short notice.

The Committee Recommends

- The existing Blanket Permits may be issued on the basis of annual budgets submitted by the exporters.

Exporters with a large export turnover and manufacturer-exporters of sophisticated goods like machinery and engineering goods are presently allowed, on a case-to-case basis, to station representatives abroad or open offices for export promotion.

The Committee Recommends

- The establishment of overseas offices to provide consumer advice, after-sales service, and off-the-shelf delivery of engineering and non-traditional goods should also be encouraged to stimulate export growth.

The Committee notes that in a number of cases the reduction in invoice value is demanded, or quality claims preferred, by foreign buyers at the post-shipment stages, on the ground of inferior quality of goods supplied or late shipment.

The Committee Recommends

- The present system of pre-shipment inspection by the agencies of the Government of India should be reviewed as it has not been able to effectively settle the problem of complaints by overseas buyers about the inferior quality of goods being shipped. Perhaps, a time has come to formulate a new approach of which two important aspects may be self-inspection and the bank guarantee covering the prompt payment of claims with exemplary punishment in cases of default. For late shipments which may be due to delays in manufacture, as a result of shortage of essential inputs, the Committee believes that at least some of the constraints on the availability of inputs could be solved through constant monitoring at Government level with the assistance of the various Export Promotion Councils and Commodity Boards.

Claims by foreign buyers are made on account of non-fulfilment of contracts, sometimes arising from a sudden imposition of ban on shipment of a particular good.

The Committee Recommends

- i. Exporters may be allowed to meet their commitments made before the imposition of an embargo on exports.
- ii. Apart from avoiding claims in lieu of specific performance, such a concession will avoid damage to good will between exporters and importers. If necessary, outstanding contracts could be registered within brief specified period with an approved government body.

For reputable Indian foreign trade organisations, there are arising today opportunities for procuring supplies from one or more overseas countries for re-exporting directly to third countries, resulting in a valuable foreign exchange earning for India. For such opportunities, the trading and industrial organisations need encouragement and financial support from India.

At present, the financing of merchanting trade by the intermediaries in India is allowed on a case-to-case basis, provided certain conditions laid down by Reserve Bank of India (Exchange Control Department) are fulfilled.

Transaction is undertaken against firm contracts of sale entered into with either parties by the merchant and the payment terms agreed to with either party do not involve foreign exchange outlay from India except for the normal transit period.

Opening of letters of credit in favour of sellers is permitted only if either an advance remittance has been received in full from overseas buyer or a letter of credit for the full value has been opened by the latter in favour of the merchant in India, provided further that in the latter case, the drafts will be of even tenor.

Price contracted with buyer in the importing country will cover the purchase price payable for the goods to the non-resident seller and additional charges, if any, payable by the intermediary towards freight, insurance, etc. and leave a reasonable profit margin for the intermediary in foreign exchange.

The Committee believes that there is a good scope for increasing third country trade by intermediaries in India.

The Committee Recommends

The Reserve Bank of India may undertake a study which may look into the present procedures to ascertain whether they are in any way hampering the growth of merchanting trade.

It has been represented to the Committee that the amounts of commission to be paid to the overseas agents by Indian exporters, allowed at present by the Exchange Control Department, were not adequate in many cases.

The Committee Recommends

- The rates of commission and the relevant procedures for payment thereof may be reviewed periodically in the light of the prevailing circumstances.

Market Intelligence It is necessary that Indian exporters are provided with the market intelligence on a regular basis to enable them to know the possibilities of the export of their products. Often exporters miss the opportunity of participating in global tenders because of late receipt of information. Sometimes, changes in policies and procedures in overseas countries do not reach them in time. No doubt, some information is available from the studies and surveys undertaken periodically by Export Promotion Councils, Trade Development Authority, Indian Institute of Foreign Trade and other organisations. However, the information is not available on a continuing basis from any source. In order to plan the exports of products, it is essential to get the latest market intelligence almost on-a continuing basis. Presently, the method of relying on commercial reports from the commercial representatives abroad has not proved adequate, and almost invariably there is a considerable time-lag in the dissemination of these reports. Moreover, the reports are not tailored to trade promotion purposes. Since all exporters cannot afford to establish offices abroad, there is urgent need for developing a centralised information system for collecting important commercial information throughout the world and disseminating the same among Indian exporters in time.

The Committee noted that the Task Force on Export Services constituted in June 1978, by the Government of India, Ministry of Commerce, had reviewed the framework of export intelligence service, market research and commercial presence abroad. The Committee agrees with their recommendations and feels that the institution of Indian Commercial Representatives in foreign countries should be strengthened and streamlined for the purpose. Further, the National Centre for Trade Information, the establishment of which has been under the consideration of the Government of India, may be set up as soon as feasible. Perhaps, the Trade Development Authority could be the focal point, in this regard.

Export Documentation An export transaction is quite different in its nature and far more complex in operation than a domestic sale. Attendant on it is a number of documents and procedural formalities, arising on account of international mercantile customs, trade conventions, standard rules governing commercial practices, as also the various controlling and regulatory requirements under different statutes, rules and regulations enforced by national governments. Moreover, the involvement of a number of authorities and intermediaries between the seller and the buyer, e.g. forwarding agents, freight brokers, carriers, underwriters, excise, customs and port authorities, banks, Reserve Bank of India (Exchange Control Department), etc., makes the export transaction quite complicated.

The problem is further aggravated by the fact that most of the existing procedural and documentary formalities prescribed by different authorities have been developed to suit their own individual requirements without much regard to the repercussions they might have on the total export activity. Rigorously practised over the years, these formalities seem to have become an end in themselves than the means to an end.

All this has been responsible for a maze of documents and related paperwork, overlapping in detail, and causing much delay and inconvenience in the movement of goods and also in the disbursement of incentives - especially to the small exporter. The situation is highly anomalous in the context of the growing requirements of our country. When the export effort of the country is being intensified, it is necessary that the documentation and procedural formalities related to export activity are also streamlined and simplified so that they do not constitute impediments to the growth of the country's export trade.

The Committee was informed that a set of standardised documents had been evolved under the forum of Indian Institute of Foreign Trade. The ten documents standardised are invoice, packing list, certificate of origin, bill of lading, shipping order, mate's receipt, shipping bill, port trust documents, marine insurance declaration form and marine insurance certificate.

The Committee Recommends

- i. The simplification and standardisation of documents should cover not only shipping documents but also documents that exporters are required to submit to banks, customs authorities, Reserve Bank of India (Exchange Control Department), etc.
- ii. A Working Group may be constituted to examine the desirability of adoption of the set of documents as finalised by the IIFT, to standardize documentation practices of commercial banks, and to review the customs documentation.
- iii. The recommendation of the Task Force that the National Centre for Trade Information, which has been under the consideration of the Government of India, may be accepted and the Centre set up soon.

iv. MARITIME INFRASTRUCTURE

While working out the strategies for increasing the exports of India, which will also lead to increased imports, the question that looms indeed large is the infrastructure required to handle such exports and imports. If at the present exports and imports level of Rs. 6000 crores in each direction we often find congestion at ports, it can be well imagined the problems that would arise if the present quantities are doubled or trebled. This Committee has infact estimated a 2.6 times rise at constant prices in exports in the next decade; and if the pressure of oil imports continue we may have to treble our imports.

Characteristics of Trade There are three important features of trade today which need to be considered.

- With rising fuel costs, the buyer wants his cargo to be delivered to him at the lowest cost, which are far as dry bulk cargo is concerned implies its

- movement in the right type of vessels to ensure economies of scale; and

- loading and unloading by the quickest possible means, so that a vessel has to wait for the last amount of time. This implies mechanical loading and unloading.

Quick turn-round of vessels to ensure their better capacity utilization.

For manufactured goods, the new pattern of trade, as it is developing in the world, requires collection of cargo from its point of production and its delivery as far as possible to a point nearest to its use, at the lowest cost, without any loss in transit, while maintaining its original quality. In other words, increasing use of inter-modal form of transport, now becoming increasingly popular in the developed world.

India is not ready yet to meet these new challenges posed by the advancing transport methods; there is also a tardiness in adopting the new technology for cargo handling. Any yet what is our choice?

Some Handicaps The basic shortcomings in meeting the new requirements are many.

First, our ports are not deep enough to take the large vessels, and they lack mechanical handling facilities for handling containerised, unitized and bulk cargo.

Second, to introduce inter-modal transport:

Our roads and bridges are not adequate to take ISO containers of the 20"x8¹/₂'x8¹/₂' size, nor are our railways ready to handle these containers.

There are no arrangements for collection of these containers at various centres in India, from where these can be collected and distributed. There are no Inland Container Stations.

No port in India has adequate capacity, infrastructure or equipment to handle traffic of the size envisaged. The only container port built is at Haldia, but it is not properly connected by road or rail for movement of containers from Calcutta and the hinterland. Besides, Haldia port has a number of inadequacies that need correction.

Third, the capacity of a port is determined by the type of ships it can handle and the rate at which the cargo can be discharged and finally moved from the port. All ports in India need to be developed and modernized, with modern cargo handling equipment, modern sheds for handling and storage of cargo, and for its quick removal from the port.

Fourth, in view of the increased fuel costs, our ports should be modernised to handle larger ships to ensure economies of scale. This is particularly important for the export and import of bulk cargo.

Fifth, proper transport facilities for quick removal of import cargo need to be developed. For example, Kandla was developed as a bulk cargo-handling port, but the railways do not provide adequate wagons to remove the imports because it does not suit them since it is one-way traffic with very little traffic moving into Kandla.

Port Constraints Our ports suffer from many more constraints, other than their outdated techniques.

Port rules and regulations for removal of cargo are antiquated and discourage importer from removing his goods expeditiously; infact they encourage him to use the port sheds for warehousing.

Inadequate warehousing and stacking facilities.

Inadequate surface transportation facilities in and around the port area.

Total Port Capacity Concept In working out the total cargo which India can handle, to take into account the arithmetical total of the aggregate capacity of the ports does not solve the problem because the importer wants his goods at the port nearest to him, as does the exporter, and it is of no interest to them to use a port further away where there is idle capacity. This irrational movement of cargo as an example, the large amount of cargo that moves through Bombay when it could easily go through the Gujarat ports takes place because the banking, customs and other facilities in Bombay are much better.

Customs Procedures Customs procedures are sometimes regarded a hindrance in many ways to developing exports. For instance, there is no provision for the movement of containers from port to the factory and from the factory to the ship. When moved in containers, the goods are still required to be checked at various stages, thus defeating the very purpose of containerisation. The entire customs procedures need changing to ensure much quicker disposal of cargo.

Type of Ships The present tonnage of India, 6.7 million GRT, and the plans to increase it to 10 million GRT by the end of the 1980's, for which both public and private ship-owners are moving to acquire the right type of ships to meet the type of trade, should learn from our past experience and not develop imbalances in the type of ships we acquire. This is important as Indian shipowners have to survive in intense international competition in the absence of a legislation requiring even a part import or export of cargo to move in Indian ships. To acquire the right type of ships, to meet future trade requirements, is therefore important.

Promotional Services If our shipping lines are required to provide services on routes where adequate cargo is not available, they must also be provided suitable incentives as are other exporters.

The Committee Recommends

- Our infrastructure facilities need urgently to be improved and strengthened to meet the requirements of the growing new types of trade and its handling, taking into account the new technology that is emerging for transportation of cargo at sea. It will require large investments by port trusts to introduce structural and organisational, and also the many corresponding changes, to ensure that Indian merchant marine keeps pace with international trade needs, both qualitatively and quantitatively. For instance
 - Our ports will need to be modernised in all aspects - sheds, equipment, administration and, most importantly, productivity.
 - We must provide facilities for inter-modal form of transport.
 - We should improve container handling facilities both at ports and in the interior.
 - Customs and ports procedures and regulations should be updated to fit in a more practical manner with today's cargo handling requirements.

Appendix 3

TEA

Tea, from its preeminent position in the world markets once, when in fact it was virtually on its own, has been losing ground through increasing competition from new entrants like Kenya, Malawi, Tanzania and, lately China. India's competitiveness has been strained by the lower African costs, while China's pricing policy would be related to whatever share it seeks of world trade. India's share in world tea market has declined from about 31% in 1970 to about 28% in 1979. India's tea exports compared to other leading countries for 1970 and 1979 are given in the table below.

Table A.30

Tea Exported ('000 tonnes)

Country	1970	1979	Growth rate % p.a.
India	200	200	Nil
Sri Lanka	208	187	(-) 1.0
Indonesia	37	54	4.3
Kenya	36	94	11.3
Malawi	18	31	4.9
Argentina	19	29	4.8
China	41	107	11.2
Others	92	129	3.8
Total	551	702	0.9

Indian tea industry avers that it suffers from several handicaps,

Poor infrastructure facilities like containerisation, palletisation, shipping opportunities and ports problems.

Impact of higher cost of production compared with African countries and China, and in particular the long inland freight leads, which in Kenya and Sri Lanka do not exist.

High imposts of excise duty, state and central levies, and high taxation. Tea is regarded an industry by Central Government and agriculture by some State Governments, and together their taxes add up to well over 70% in some states. This limits the industry's capacity for adequate ploughback into new growth and modernisation.

Packaging and product R & D, which is at present split more or less independently between the north and the south, and is in any case inadequately financed.

If we add to these problems the growing domestic demand, the total picture of India's share of international tea trade is one of a leadership being steadily eroded. It is a task that government and industry have to examine jointly and one which the Tandon Committee Report on Tea industry (1978) has already analysed at length about which we are glad to note government is now taking action.

The following main issues on tea should be considered price structure and its competitiveness.

The comparative benefits of foreign exchange earnings from tea against the internal tax revenue it produces.

Examine the comparative tea price structure of India and Kenya, our most important and growing competitor, to see.

What is Indian Tea Industry's competitive strength abroad; and

Its capacity to generate the required surpluses for replanting and new growth.

The industry avers that policy of export incentives, based upon the logic of compensating the Indian exporter for these elements of cost that make him internationally uncompetitive, should also be applied to tea, to neutralise those elements in tea export price structure that may be making Indian tea uncompetitive abroad. The industry argues that as an important, traditional export earner,

it is the only industry that is not compensated for a number of levies, like excise duty, nor given any export incentives; added to which its competitiveness is sometimes impaired by the sudden and retrospective imposition of an export duty.

We should like to emphasise some aspects of tea industry to promote its exports.

As still the world leader, tea's annual research spend at about Rs. 2 crores on a Rs. 800 crores turnover is woefully inadequate, especially as it is spread over two research centres, in the north and the south, both working more or less independently and therefore duplicating its effort, at least in part.

As a result, although our agronomic research has made considerable headway, we still provide little international leadership. Moreover in product research and formulation, we have played virtually no role - instant tea, tea bags, tea drinks have all been developed abroad by the consuming countries. Infact tea chemistry is a subject that our research has barely touched.

The story of jute is repeating itself in tea; but we hope not with the same consequences.

We should therefore consider an apex autonomous research body, independently funded, under the aegis of Tea Board, and associating itself with CSIR, tea industry and its two R & D centres at Tocklai (North) and Cinchona (South).

Tea research should be extended from agronomic and product to market and consumer research, combined with economics, statistics and a data bank for the industry.

A package of long-term measures of new plantations, replanting, replacement planting, adoption of scientific methods to improve the quality of tea, etc. would be necessary to realise production and export targets. There is also scope to introduce tea cultivation in the non-traditional areas in the Easter region - Manipur, Mizoram, Meghalaya, Arunachal Pradesh, Nagaland and Sikkim. Modernisation of tea factories and installation of adequate processing capacity would also be required to be undertaken on a much larger scale.

Development of value-added teas - instant tea, package tea, flavoured tea etc. - will substantially increase the unit value of our tea exports. Value-added export require specialised warehousing facilities which will have to be provided at favourable rates. Concessional freight and supply of inputs at reasonable prices would increase the competitive strength of our tea abroad. An additional investment of about Rs. 380 crores is estimated to realise the above production targets.

The suggested tea research apex body will prepare long-term and short-term overall plans for agricultural; manufacturing; and products, consumer and economic research to help regain India's position in world trade.

An economic study, conducted by the Tea Committee through the National Council of Applied Economic Research, made the following forecast for the next decade.

Table A.31

Implications for Domestic Consumption when
India's Share in World Exports is Frozen
at 1980 level - 1980-1990

Year	Planned production	World exports	Indian exports frozen at 28.1% of 3	Amount retained for internal consumption (2-4)	Rate of increase of in- ternal consump- tion
1	mkg 2	mkg 3	mkg 4	mkg 5	% 6
1980	604.6)	859.5	241.6	363.0	-
1981	627.0) Average	884.4	248.5	378.5	4.3
1982	650.2) growth rate	910.0	255.7	394.5	4.2
1983	675.3) 3.7%	936.4	263.1	412.2	4.5
1984	699.2)	963.6	270.8	428.4	3.9
1985	725.6)	991.5	278.6	447.0	4.3
1986	754.4)	1,020.3	286.7	467.7	4.6
1987	785.8) Average	1,049.9	295.0	490.8	4.9
1988	820.0) growth rate	1,080.3	303.6	516.4	5.2
1989	857.4) 4.5%	1,111.7	312.4	545.0	5.5
1990	898.6)	1,143.9	321.4	577.2	5.9

On the basis of a unit value realisation of Rs. 17 per kg. in 1979-80, Tea Board estimates export earnings of Rs. 625 crores in 1989-90, with the present global inflation, the price realisation should be much more.

Based on these production, consumption and export figures, the following magnitude of continuing and additional financial requirements emerged for 1980-85.

Table A.32

Continuing and Additional Financial Requirements
for the Tea Industry over the period, 1980-1985

Year	Planned production mkg	Increase in production over previous year mkg	Investment in extension & replanting at trend rates*	Extension	Additional investment to achieve a higher rate of production increase				Addition cost @ 5% per annum	Total additional investment
					Replanting	Modernisation of existing plants	New plant & machinery	Total		
1	2	3	Rs. crores	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	9	10	11
1980	604.6	21.5	13.2	6.0	-	5.0	15.1		26.1	39.1
1981	627.0	22.4	13.9	6.0	-	5.0	15.7	5%	28.0	41.9
1982	650.2	23.2	14.5	6.0	-	5.0	16.2	10%	29.9	44.2
1983	675.3	25.1	15.2	6.0	-	5.0	17.6	15%	32.9	48.1
1984	701.2	23.9	15.8	6.0	9.2	5.0	16.7	20%	44.3	60.1
1985	725.6	26.4	16.5	6.0	9.2	5.0	18.5	25%	48.4	64.9

* 5% escalation in cost per annum is included.

The average annual financial requirements for the period 1980-1985 will be Rs. 50 crores. If the proposed programme for development is continued after 1985 the average annual financial requirement for the subsequent 5 years will rise to over Rs. 77 crores. These requirements will have to be met from three sources.

- Industry's internal resources.
- Financial institutions.
- Government assistance, including assistance from the Tea Board.

The Tea Committee made a number of recommendations in this regard, of which we underscore the following.

- To meet the growing future financial needs of the tea industry, we should like to suggest to government an examination of two alternatives. First, the Tea Board may extend its existing financial activities, and make use of its considerable expertise of tea industry in the field of providing long term finance. Alternatively, for the financial expertise required and the large order of finance and the number of disbursements in the future, there may be an advantage in forming a new Tea Finance Body, comprising Tea Board, financial institutions and the tea industry, under the administrative control of the ministry dealing with the commodity. In consultation they will develop a total Tea plan on a long-medium-short term basis, looking ahead to 2000, 1990 and 1985, together with an Annual Plan, a kind of National Tea 'Budget'. The plan would show the industry's production, demand, at home and abroad, new planting and replanting programmes, manufacturing requirements, research activities and marketing at home and abroad. All these needs would be translated into the financial resources required; how they are going to be raised; terms of loans and their servicing, taking into account the industry's capacity to generate internal funds.

Our Committee could infact take this suggestion further.

The Committee Recommends

- A Plantation Board or Corporation may be formed to foster, coordinate, plan and prepare projects, and prioritise the plantation crops' interests of research and development, both agro-economic, processing, packaging and marketing at home and abroad; identifying new areas and their allocation, planting, implanting,

and replanting; production and exports of tea, coffee, cardamom, species, rubber, cashew, cocoa, etc. The large added financing, which, in total over the next decade, would amount to over Rs. 1,000 crores, would draw for equity upon the Centre, States and the industries concerned, for grants needs of expansion and replanting upon the financial institutions like Agriculture Refinance and Development Corporation (ARDC) and National Bank for Rural Development (NABARD), while the working capital needs would continue to be met by the commercial banks. There may be parallel boards and corporations in the States, as at present.

To provide incentives for exports of higher unit realisation, the cash subsidies should be revised upward.

To encourage quality export of bulk tea, export rebate of excise duty on an ad valorem basis, should be given.

Appendix 4

TOURISM

Tourism is a multi-faceted industry that is today the fastest growing in the world, despite the current world trade recession. India is well placed in obtaining a higher share of the international tourist trade, and therefore ought to look forward to a more rapid growth than in the last two decades.

The table below shows progress of world tourism and India's share.

Tourists	World Total	India*	World Total	India*	World Total	India*
Number (million)	169	0.28	270	0.76	462	3.50
Spend (million \$)	18,000	51.00	75,000	480.00	244,000	4,797.00

*Expenditure of current prices.

The following data shows in detail the progress of tourism in India during the last decade.

Table A.33

Progress of Tourism

Year	Tourist arrivals	Percentage change
1969	244,724	29.60
1970	280,821	14.80
1971	300,995	7.20
1972	342,950	13.90
1973	409,895	19.50
1974	423,161	3.20
1975	465,275	10.00
1976	533,951	14.80
1977	640,422	19.20
1978	747,995	16.80
1979	764,781	2.20

Source: Department of Tourism, Government of India, New Delhi.

In the first 6 months (January-June) 1980, tourist arrival at 365,000 was higher by about 5.5% over the same period in 1979 at 346,000.

Seemingly rapid though our growth has been, and the pioneering work done and the achievements that the public and private tourism agencies have to their credit, we ought to do better.

The statement below shows tourist arrivals in some other Asian countries and India during the last 5 years.

Year	Bangladesh		Nepal		Pakistan		Sri Lanka		India	
	Tour-ist	% Change	Tour-ist	% Change	Tour-ist	% Change	Tour-ist	% Change	Tour-ist	% Change
1975	63,907	-	92,439	-	172,029	-	103,205	-	465,275	10.0
1976	37,389	(-41.5	105,108	13.7	199,333	15.9	123,115	19.3	533,951	14.8
1977	45,385	21.4	129,328	23.0	220,448	10.6	153,665	24.8	640,422	19.9
1978	49,616	9.3	156,233	20.8	291,461	32.2	192,992	25.6	747,995	16.8
1979	57,182	15.2	162,276	3.9	318,568	9.3	250,164	29.6	764,781	2.2

Source: Pacific Area Travel Association.

Despite India's unique place in tourism, offering a living past and present in an immense variety, we have made only a limited use of our tourism potential. India lags behind even countries like Hong Kong, which has nothing more to show than a sense of 'concrete' enterprise, and many other countries with far less than we have to offer. For instance, where Sri Lanka registered a 29.6% increase in 1979*, the ASEAN countries 15%, we had a rate of rise of 12.5% between 1969 and 1978, declining to 2.2% in 1979, a decline that continues through 1980. And how profitable tourism can be is illustrated by the Reserve Bank of India estimate that the 12.5% rise in numbers brought in a 34% annual rise in foreign exchange receipts.

Owing to the rapid growth of the system of paid leisure and a welfare society, tourism in the developed world, producing 80% of world tourism, accounted for 5% of world trade between 1962 and 1972, rising to 5.5% in the last 5 years. Added to this is the new class in the NICs which has the means and curiosity to travel abroad. Europe is reaching near-saturation and, with the growing custom of two holidays in the year, and extended week-ends in between, attention is naturally turning to the 'orient', on which India ought to have a large claim. The Third World share of world tourism at 16.5% has been placed at 25% in the year 2000 by the "Group of 77". The tourist industry expects it to reach this target by 1990,

*Ceylon's tourism arrival has risen by 35% in March 1980 compared to the previous year.

because it feels secure that the new "protectionism" will not easily affect tourism; and besides a fortnight's holiday in many countries in South East Asia is cheaper than it is in Europe.

Hotel and travel agents have sought from the Ministry of Tourism certain incentives, which they feel would give a fillip to tourism to achieve the following targets.

Year	Exports Rs. Crores	Tourism earnings Rs. Crores	Tourist Number	Tourism % Exports
1969	1,413	31.80	185,000 (Approximate)	2.30
1977-78	5,414	530.36	667,000	9.80
1979-80	6,000 (Estimated)	719.64	766,000	12.00
1989-90	37,203 (Projected)	3,833.00	3,500,000	10.22

Data given by leading Hotel and Travel Agents, including Indian Tourism Development Corporation.

Projections of Tourists and Earnings from Tourism

Past trends(1969-79) = 12.1% Industry's Estimate=15.0%

	1985	1990	1985	1990
Tourists(mn)	1.52	2.69	1.80	3.50
Expenditure (Rs. crores)	1130	2 946	1,318	3,838

A growth rate of 8% per annum is assumed in the per capita expenditure.

A growth rate in tourists arrivals of 12.1% was high in the past partly because of a low base. On the other hand it can be argued that investments in tourism have also been low in the past. Therefore the target of 15% may be considered feasible provided we make heavy investments into tourism promotion and infrastructure facilities, and divert tourism from other parts of Asia into India.

Below are some issues represented by tourist industry to government and our Committee.

Investment Allowance In earlier years the development rebate of 25% was made available to approved hotels but when investment allowance replaced the development rebate hotels were not made eligible for it. It was extended to all industries except those which are engaged in the manufacture of specific low priority items such as cigarettes, cosmetic and alcoholic beverages.

Inclusion in the Ninth Schedule to the Income Tax
Under the Ninth Schedule to the Income Tax Act domestic companies become entitled to (i) tax free dividends, (ii) exemption from Wealth Tax in respect of equity shares, (iii) initial depreciation of 2% on buildings and plant and machinery as well. The hotel companies at present are eligible for depreciation on buildings only and are not eligible for (i) and (ii).

Loans from Public Financial Institutions Until 1977 there was a special allocation from the Hotel Development Loan Fund to the IFCI for giving loans to approved hotel projects at a subsidised rate of interest. This Loan Fund was then abolished and hotels are no longer entitled to loans on a concessional rate. The hotels should be included in the list of industries which are eligible for subsidized rates of interest and the same should be done for Travel Agencies in respect of purchase of motor vehicles for the use of tourist.

Cash Subsidies as given to Export Industries Substantial cash subsidies have been given to many export industries but no such subsidies are available to the hotel and restaurant industry. It is worth mentioning that the U.K. Government gave subsidies in 1969 to bring about expansion of hotel accommodation, with the result that some 2,500 hotel projects comprising 80,000 rooms sprang up in a short time.

Reduction in Customs and Excise Duties Imports duties as well as customs and excise duties payable by export and other industries are much lower than those payable by the hotel and restaurant industry in respect of many items.

Electricity and Water Rates The State Governments charge concessional rates for power and water consumption from various industries. The rates being charged for hotels and restaurants are for commercial enterprises and as such are 3 to 6 times higher.

Hotel Sites Hotels cannot be built anywhere, they have to be centrally located. Such locations are exorbitantly expensive. Hence sites on centrally located Government-owned land should be allocated in sufficient numbers and at a reasonably low rent on long lease by State Governments and Union Territory Administrations. They should also permit conversion of residential plots to hotel sites as is being done in most other countries.

Section 104 of the Income Tax Act, 1961 provides for additional taxation on undistributed profits. This clause makes it essential to distribute a statutory percentage of profits as a dividend which in turn limits the company's capacity to plough back the profit. The provision of this Section should apply to enterprises engaged in tourism.

Travel Agencies should be specifically incorporated under Section 35B of the Income Tax whereby expenditure on promotion and marketing abroad including the maintenance of overseas sales offices and advertising are eligible for weighted deduction for the purpose of income tax. This concession was available to the Travel Agencies but subsequently withdrawn. It should be fully restored.

The Committee feels that in looking ahead, we should consider the following issues:

In case a target of 3.5 million tourist is arrived at, to cope with this volume of tourist, the investment required for augmenting various tourism facilities is estimated at Rs. 7,500 crores at 1978-79 prices whose breakup is as follows:

	Rs. Crores
Development Programme	145
Hotel accommodation & interest subsidy	992
Coaches, cars, etc.	65
Marketing Strategy	15
Civil Aviation Sector	6,282
	<hr/>
	7,499
	<hr/>

Source: Department of Tourism.

The investment of Rs. 6,282 crores on civil aviation - Air India, Indian Airlines and the International Airports Authority - amounting to about 84% of the total investment, will also have the benefit of serving the domestic travel needs. The remaining investment of Rs. 1,218 crores in 10 years or Rs. 122 crores per annum, is about the same as Rs. 113 crores spent during the Fifth Plan (1974-1979). It hopes to achieve fivefold increase in traffic.

To make full use in attracting tourists of our comparative advantage of cheaper costs, by offering attractive lower rates. A policy of 'what-the-traffic-can-bear', combined with a poor infrastructure, can offset even the unique advantages that India can offer. It is, we understand, possible to have cheaper package deals for many countries in South East Asia than in India.

To examine whether we tend to place before the tourists the stereo types of developed countries, but expensively packaged instead of imaginatively packed and at lower costs, especially if with that imagination went a simplicity and newness of Indian flavour at Indian prices.

India has taken very little advantage of attracting her neighbours in South East Asia, especially the Buddhists and Muslims to both of whom we have a past of history and emotion to offer.

The Committee Recommends

- The Tourist Industry, public and private, may be asked to prepare a 10-year plan for 1980-1990, showing the costs and earnings, in rupees and foreign exchange; and if the tourist industry can make the substantial contribution it feels it can, it should be given such assistance and incentives as would help achieve the targets.
- Tourism has an obvious commercial viability but Government may, through the Ministry of Tourism, examine the benefits of foreign exchange earnings together with the domestic cost-benefit.
- Tourism should be given the status of Industry to enable it to qualify for such benefits, fiscal and others, as are granted from time to time to domestic and exporting industries.

Appendix 5

EXPORT POLICY RESOLUTION 1970

In the 1960s, pressure of large foodgrains imports, the slack pace of exports, and therefore the continuing adverse balance of trade made import substitution and need for exports critical issues. A feature of the importance we then attached to exports was Parliament's Export Policy Resolution 1970, that was adopted to focus national attention upon the subject. Some of its notable features deserve recapitulating, and we have underscored a few passages, whose basic relevance may well be reiterated today.

To achieve national self-reliance and to reduce dependance on external assistance export earnings need to be expanded at a high rate.

A steady increase in export earnings is dependant on the continuous development and expansion of export oriented production.

In each of the broad lines of production such as agriculture, horticulture, sericulture, forestry, fisheries, minerals, textiles, chemical and engineering industries, electronics, etc., the products having long term export potential will be identified with greater precision and special measures and programmes will be undertaken to secure their development and improvement.

In horticulture, production of fruits, vegetables, and flowers, both in natural and processed forms, will be developed scientifically and on a commercial scale.

There is urgent need for scientific exploitation of the potential in its sphere.

The export potential of our forest produce will be exploited more fully.

The diversification of industrial production and the improvement of its economic efficiency have been assigned an important role in the Fourth Plan.

- Our industrial policy will consequently be guided not only by internal requirements but also by the rising demand for our industrial products in overseas markets. Recent changes in industrial licensing policy provide facilities for fostering the creation of new export capacity. In implementing it, the aim will be to generate expanding surpluses of industrial products.

There is a steady increase in the demand, especially in industrial countries, for labour intensive products.

- The skills of India's artisans and craftsmen have made a significant contribution to India's foreign exchange earnings through the export of handicrafts.
- The main responsibility for the task of further improving their (Indian industries) competitive ability naturally rests with production units. Government will, however, provide the necessary assistance to build up efficient production.
- Exportable surpluses do not always arise automatically. Some times when there is a shortfall in production of indigenous production on an adequate scale is yet to be developed, there tends to be a temporary conflict between domestic consumption and exports. Since exports markets once lost can hardly be regained, a part of the production must always be made available to earn needed foreign exchange through, if necessary, temporary restrictions on home consumption.
- The projections of the expansion of international trade over the seventies will be studied so that new investment efforts in the country is directed to areas where we have natural factor endowment advantages and the overseas markets have growing needs for our products.
- In order to encourage export orientation of production, the investor must have the assurance that export policies shall be reasonably stable and that production for exports would be advantageous to the producer. To this end, export policies should enjoy a degree of stability at least over the period of the Fourth Plan.

- Among the inadequacies of the existing infrastructure for exports, that of shipping facilities needs to be emphasised
- The export of services and development of tourism provide means for a substantial expansion in our foreign income.
- The Central Government is committed to pursuing vigorously appropriate policies to this end. A similar commitment is necessary from State Governments, local bodies and all the sectors of the economy and the sections of society vitally concerned with the export effort.
- In placing this statement on export policy before Parliament, Government of India trusts that the export effort will be viewed as one of the highest national commitments and that the people will extend to it their whole-hearted support and accord due recognition to those engaged in it.

Appendix A

QUESTIONNAIRE

A. For Economists, Trade Organisations, Large Exporters

General

1. What are, in your opinion, the principal factors affecting the rate of growth of world trade and particularly the trade among the developing countries?
2. In particular, how do you visualise the impact of escalating oil prices on international financial flows and merchandise trade movement?
3. Having regard to the future growth prospects, which are the major markets that India should treat as priority markets?
4. If the markets identified at 3 above are at present not receiving adequate attention, state the areas of inadequacy. What are the steps that can be taken to remove these inadequacies?
5. What are the products/product groups that in your opinion can provide additionally to export earnings on a subsidised basis?
6. For each of the product groups listed in the annexure indicate the factor(s) listed below that constrained the growth of exports in the past five years.
 - (a) Inadequate domestic supply leading to administrative restrictions on exports.
 - (b) High cost of domestic input.
 - (c) Domestic market being more profitable than exports.
 - (d) High cost of imported inputs.
 - (e) Inadequate supplies of imported inputs.

- (f) Insufficient export credit facilities.
 - (g) Inadequate transport facilities.
 - (h) Restrictions imposed by importing countries.
 - (i) Competition from other countries.
 - (j) Slow growth of international demand.
7. Will it be desirable to think in terms of a core export sector which will provide the backbone of India's export sectors? If so, what should be the criteria of selectivity? Which products in your opinion should constitute the core export sector?
 8. Generation of exportable surpluses on a sustained basis ultimately depends on the amount of new investment that is undertaken in the economy. Please give your suggestions as to how the investment climate can be made more attractive to potential investors.
 9. How would you like to fashion the import policy regarding technological, in order to achieve continuous technological up-dating in export production?
 10. The involvement of the State Governments in the national export-promotion efforts is crucial, for the agro-based items, as well as other exports. Please give your broad suggestions on this point, alongwith specific recommendations on the working of State Export Corporations.
 11. Do you have any suggestions for encouraging specially the products of the small scale and cottage industries.
 12. The public sector occupies a vital position in the Indian economy. Please evaluate the role of public sector trading corporations in terms of:
 - (a) new market development.
 - (b) new product development.
 - (c) support to the small scale sector.

13. Manufacturing units in the public sector have recently made significant contribution to national export efforts. But keeping their vast manufacturing base and marketing capability in view there is evidently scope for further export expansion. Please identify the units which provide particularly large scope for achieving additional exports in the coming years. Please specify the policy measures, if any, required in this behalf.
14. What in your opinion had been the beneficial or adverse effects of the canalisation policy in regard to export items? Please analyse the export items separately.
15. What suggestions would you make with a view to improving India's bargaining power in the world trade and her terms of trade?

Export Assistance System and Exchange Rate

16. Indian exports, by and large have been enjoying cash compensatory support for quite some time. Do you think this subject is still necessary? If so, what should be the criteria for granting such assistance?
17. To what extent the system for fixation and revision viz., enhancement/reduction in cash assistance or duty drawback, is satisfactory? Please give your suggestions to make the system more effective.
18. Are there any procedural delays in realising the various assistance given? If so, please identify the specific points on which delays occur. What are your suggestions to overcome these delays?
19. Would you suggest replenishment of the existing cash compensatory support and drawback system by a different system of assistance?
20. Availability and cost of credit are two important determinants of success for the export business of turnkey jobs and other high valued items. Please give your comments and suggestions for improvement of present system on the basis of past experience.
21. The volume of export credit, which will be required if India can increase the success rate in the field of large international tenders, will be very high.

Such demands for export credits as well as demands from the other sectors will have to be met expeditiously. If you are of the opinion that the present system of export credit administration will not be able to meet this challenge, please give detailed suggestions regarding improvements in the present system and/or setting up of a new institution to cater to this requirement.

22. Services and support from the financial institutions, including the Reserve Bank of India, Industrial Development Bank of India and Export Credit Guarantee Corporation are crucial for export operations. If you have any specific comment on either improvements on services currently being provided or introduction of new facilities, please give the details.
23. What is your assessment of India's experience since the introduction of the floating exchange rate system in terms of
 - (a) difficulties in contract negotiations.
 - (b) loss in rupee realisations.
 - (c) inadequate institutional facilities.

In view of the current international exchange rate structure, what are your suggestions regarding the mechanism to maintain relative stability in the external value of the rupee?

International Marketing and Promotional System

24. Do you think from your experience that India's commercial offices abroad are to be strengthened to cater to the increasing needs of the export sector? Please indicate the countries in terms of priority, where the commercial wing needs strengthening.
25. Many government trading and service institutions like Export Promotion Councils, Trade Development Authority etc. have foreign offices. But most of these offices are presently located in the developed countries. Keeping in view the market prospects of various dynamic export items, please suggest the markets in the developing countries where offices need to be set up. Please give the supporting data in the form of India's exports and total imports of various products in the market where the offices are to be opened.

26. Trade fairs and exhibitions play an important role in export promotion. Do you think that the present system regarding participation, viz., timely availability of detailed information of various fairs, financial support system for participation, is satisfactory. If no, please give your suggestions.
27. Please identify the commercial intelligence which is necessary for planning export operations. Is all such information available from the service institutions like Export Promotion Councils, Commodity Boards, Indian Institute of Foreign Trade, Trade Development Authority, etc.? If no, please indicate the type of information which is presently not available.
28. What are the services which should be rendered by the Export Promotion Councils/Commodity Boards? If these are not being adequately rendered now, please indicate the precise improvement called for.
29. Please indicate the routes on which shipping/air services are inadequate. Please give the supporting data.
30. If you have come across instances of discriminatory freight, being charged, please give the details.
31. What are your suggestions for removing or lessening traffic congestion in the major Indian ports?
32. What are the products which, in your opinion, need warehousing facilities abroad? If any, institutional support is required in this regard, please give your suggestions.

B. For Export Promotion Councils and other Concerned with Specific Product Groups

1. Are there technological deficiencies in the production system of the export products with which you are concerned? Please indicate the reasons for the technological obsolescence for each identified product group.
2. Do you think that the present technology import policy needs any modifications? Please indicate the areas which are to be reviewed.

3. Does the present import policy ensure the easy and timely availability of critical imported inputs for export production? Please indicate in precise terms the improvements required.
4. What is your experience relating to the availability of imported inputs from the canalised agencies. If the experience is not satisfactory, what are the changes you will recommend?
5. There are bound to be situations where some critical inputs (i.e. steel) may be in short supply in the domestic market. What will be your suggestions as to the mechanism of ensuring supplies for export production under such circumstances?
6. Please suggest measures necessary for adopting domestic production to the demand and the conditions in the export market and for improving the unit value realisation for exports.
7. Please indicate the present level of domestic and export demand and domestic supply and its expected rate of growth for the items of your interest.
8. What in your opinion are the sectors in which the existing capacity is being largely utilised and fresh capacity needs to be built up to an adequate extent for meeting both the domestic and the export demand? Please indicate the shortfall anticipated, and give your suggestions as to the extent of additional capacity needed and the measures to be adopted for promoting the building up of such additional capacity.
9. Are there any other product groups in which you visualise a shortfall in the production? Please indicate the magnitude and the remedial measures suggested.
10. There may be certain industrial sectors where substantial excess capacity exists, the problem being not just cyclical but a real imbalance between demand and supply. Please identify such sectors and give your suggestions as to the such excess capacity can be utilised by entering foreign markets.

11. The Task Force on Agricultural Exports has identified several items in the Agricultural Sector with dynamic export potential. These are meat and meat products, fish and fish products, cereals and fruits and vegetables. Please give your suggestions as to the marketing strategy to be followed to realise the export potential.
12. What is the share of the small scale and cottage sectors in the production and export of the product groups with which you are concerned? What suggestions would you make for specially encouraging exports of small scale and cottage industry production.
13. Is your product group reserved for development exclusively in the small scale sector? If not, do you consider it desirable to reserve it? If it is already reserved, do you consider it necessary to provide for exemptions from the reservation, or to take special measures for increasing the production of the small sector, in the interest of export promotion?
14. Long term agreements with major manufactures overseas are effective instruments of entry in foreign markets, especially for the component sector. Have you exporters registered with you concluded any such deal, and if so, please give details regarding the item and the foreign principal.
15. If you had faced any difficulty while negotiating such deals, please indicate the points on which problems arose and how can such problems be overcome.

Please indicate the items which in your opinion are suitable for such long-term agreements.

C. Engineering Export Promotion Council
and Project & Equipment Corporation

Joint Ventures

1. Is export of capital desirable at the present stage of national development and the situation in domestic capital market? Do you think at any time export of capital had adversely affected the domestic investment front?
2. What has been the past performance of India's joint ventures abroad in terms of capital repatriation? Please give the name of the joint venture firms, its capital base the capital repatriated under different needs in the last three years.

3. Is the present system relating to joint ventures approval satisfactory? If no, please indicate the elements that cause problems and delays and indicate the modifications that are required to remove the bottlenecks.
4. Do you consider that marketing joint ventures should be permitted?

D. For Development Commissioner Small Scale Industries, Federation of Associations of Small Industries of India and Small Scale Consortia

Small Scale Sectors

1. Indicate the product/product categories, where the small scale sector account for a substantive proportion of total exports.
2. Taking into account the recently introduced changes in the industrial licensing policy, what are the additional product groups where the small scale sector can play an important role from the standpoint of exports?
3. Identify the problems that the small scale sector is faced with in terms of
 - (a) availability of raw materials for export production.
 - (b) availability of export credit.
 - (c) export marketing information.
 - (d) export assistance.
 - (e) procedural system.
 - (f) institutional system, viz., the support from the Government trading organisations like State Trading Corporation and Export Houses.
4. Indicate the possible solutions to the identified problems.

E. For Bankers

1. In your opinion what should be broad pattern of growth in the field export credit facilities provided by the Banks.
2. Do you have any perspective plan to develop export credit operation?

3. How and to what extent your branch overseas provide information that enables the Headquarters to provide advisory services to your clients?
4. How many new export clients you have added during the last five years.
5. How many of the new clients added are covered by the whole turnover guarantees of ECGC?
6. Have you made a study on export potentiality of a product for your clients to tap a market.
7. Please give, total applications on export finance received per year in the last five years, the number of rejected applications and broad reasons assigned to those.
8. Any tentative commitments made to the big clients for long term exports credit facilities.

Annexure: Group of Commodities

1. Food and live animals.
2. Beverages and tobacco.
3. Crude material, inedible except fuel.
4. Mineral fuels, lubricants and related materials.
5. Animal and vegetable oils and fats
6. Chemicals.
7. Manufactured goods.
8. Machinery and transport equipments.