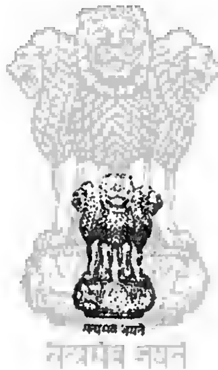
Report of the Committee on Trade Policies



Government of India

Ministry of Commerce

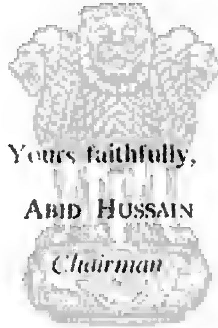
December 1984

31st December, 1984

Minister of Commerce,
Government of India,
New Delhi.

Sir,

We have great pleasure in submitting herewith the Report of the Committee on Trade Policies.



Yours faithfully,

ABID HUSSAIN
Chairman

P. K. KAUL — S. S. SIDHU

A. K. SENGUPTA — M. NARASIMHAM — C. RANGARAJAN

P. C. JAIN — S. V. S. RAGHAVAN

DEEPAK NAYYAR
Member Secretary

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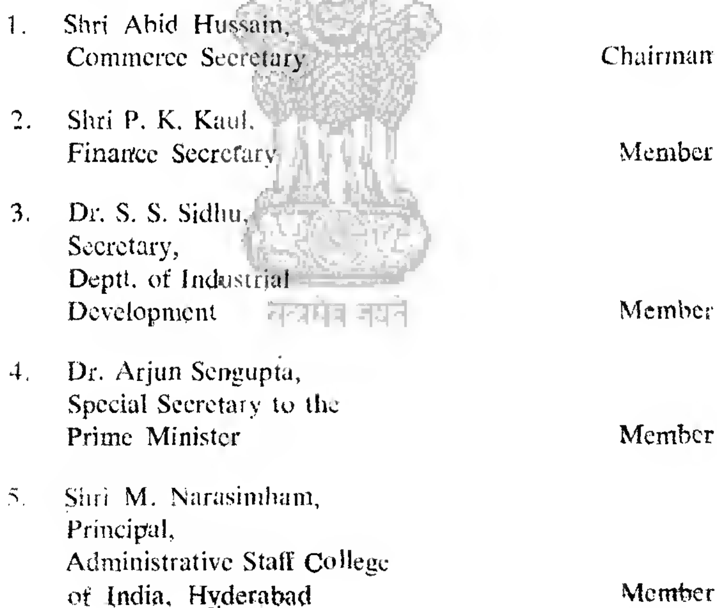
सत्यमेव जयते

PREFACE

1. The Government appointed a Committee on Trade Policies under my chairmanship. The terms of reference of the Committee were : (i) to review the present structure of export and import policies; (ii) to examine the effectiveness of export promotion measures in terms of their impact on actual export performance; (iii) to suggest rationalisation and improvements, wherever necessary, in export policies; and (iv) to suggest appropriate changes and rationalisation of import policies for the conservation of foreign exchange and the promotion of efficient import substitution. The Committee was given the freedom to consider any other aspect relating to these terms of reference. The Committee had the following members :



1.	Shri Abid Hussain, Commerce Secretary	Chairman
2.	Shri P. K. Kaul, Finance Secretary	Member
3.	Dr. S. S. Sidhu, Secretary, Deptt. of Industrial Development	Member
4.	Dr. Arjun Sengupta, Special Secretary to the Prime Minister	Member
5.	Shri M. Narasimham, Principal, Administrative Staff College of India, Hyderabad	Member

6.	Dr. C. Ranganjan, Deputy Governor, Reserve Bank of India	Member
7.	Shri P. C. Jain, Chief Controller of Imports and Exports	Member
8.	Shri S. V. S. Raghavan, Chairman, Minerals & Metals Trading Corporation of India	Member
9.	Dr. Deepak Nayyar, Economic Adviser, Ministry of Commerce	Member-Secretary

2. As a first step, the Committee circulated a questionnaire to Associations and Chambers of Trade, Commerce and Industry, Export Promotion Councils, other trade promotion organisations, academics, economists, industrialists, bankers and public sector undertakings. The questionnaire was also circulated to all the State Governments. The Committee visited Bombay, Calcutta, Madras, Ahmedabad, Bangalore, Hyderabad and Guwahati for discussions with representatives of trade and industry, State Governments, officers of the Central Government, industrialists, exporters and financial institutions. The Committee held discussions with eminent economists and journalists not only in these cities but also in Delhi.

3. The Report of the Committee is structured as follows. Chapter I outlines a macro-economic overview which is integral to the approach adopted by us. Chapter II examines export performance in retrospect and provides an analysis and diagnosis of the constraints on export performance. Chapter III attempts to focus attention on export promotion policies, suggesting changes, rationalisation and prescriptions based on a review of the present regime of policies; a vision about the strategy for the

future is implict in these recommendations. Chapter IV examines the structure and composition of imports, leading to a review of the present framework of import policies and to a blue-print for change, and suggests a phased transition from licensing to tariffs. Chapter V is addressed to the wider canvas of technology, import substitution and industrialisation with reference to the present stage of economic development. The objectives of bringing about an acceleration in the rate of export growth, the promotion of efficient import substitution, and the conservation of foreign exchange are kept in mind throughout this sequence of chapters. Chapter VI devotes attention to the institutional framework for foreign trade in general and exports in particular, to provide guidelines for institutional reforms. Chapter VII presents a skeleton summary of the highlights of some of the recommendations.

4. I would like to emphasise that the first six chapters are an integrated whole and, if read together, would convey the perceptions of the Committee. The conclusions and recommendations of the Committee are implicit in, and follow from, the analysis in these chapters. We are, of course, aware of several limitations in our presentation, which are attributable to the paucity of time.

5. In approaching our task we were convinced that three decades of planned economic development in India have yielded many valuable dividends. Yet, we were also conscious of the fact that India has reached a stage of industrialisation and economic development, where more of the same would not suffice. The time has come to think anew and afresh. This is as true in the sphere of foreign trade, where also it is time to herald a change. In this context, we would like to stress that trade policies should not be seen in isolation from economic policies, just as the foreign trade sector should not be seen in isolation from the national economy. This is, perhaps, our point of departure from the earlier perspectives. It is our considered view that export promotion and import substitution are neither mutually exclusive nor alternative strategies of development.

Once considerations of cost, efficiency and time are the basis of policy formulation, the same set of policies would be conducive for rational export promotion and efficient import substitution.

6. In an economy such as India, the route to a quantum jump in exports, which is now necessary to attain the objective of self-reliance, lies in growth-led exports. Therefore, production for export must constitute an integral part of domestic production. As this integration would take some time to materialise, in the interim, we are suggesting a regime on export promotion policies which would overcome the constraints on export performance. Import substitution is also an integral part of the quest for self-reliance, but it is time to make a transition from import substitution *per se* to efficient import substitution, which would form a part and parcel of our industrialisation strategy keeping in view the needs of the twenty-first century. Towards this objective, we have suggested a rationalisation in the regime of import policies.

7. Technology is central to the process of economic growth and continuous technological upgradation is a necessary condition for rapid and efficient industrialisation. Recognising its importance, we have suggested a change in the import policy for technology. We believe that there is clear nexus between trade policies, industrial policies and fiscal policies, so that the suggested re-formulation of trade formulation policies cannot bring about the desired results unless it is associated with the necessary change in other economic policies. Towards this end, we have made several suggestions. Needless to add, that a re-formulation of economic policies can only create an environment; the entrepreneurial spirit and the human factor provide the dynamo without which progress cannot be sustained. I am convinced that present situation in India provides both a challenge and an opportunity. A quantum jump in production and trade is now well within our grasp. It is time to approach this task with conviction and optimism.

8. This Report has many debts. I would like to thank those who read our questionnaire and responded to it; we distilled their responses to check some of our perceptions and project their concerns and suggestions in the report. We would also like to thank the economists and the academics, discussion with whom set us thinking; we learnt much from their insights. Industrialists, bankers and journalists were also generous with their time; they gave us a feel of the reality and the expectations. The State Governments provided the Committee with the facilities and the time for interaction. All the people mentioned here gave in the opportunity to test our ideas at an early stage.

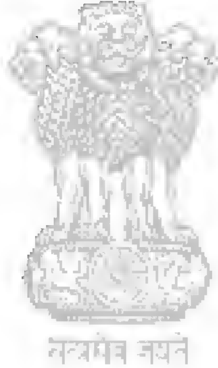
9. I am indebted to my colleagues in the Government of India and, particularly, in the Ministry of Commerce, who helped us unsparingly with ideas and comments. I am also thankful to the Administrative Staff College at Hyderabad for the hospitality provided to the Members of the Committee. The MMTC in New Delhi lent a helping hand by providing facilities to the Secretariat of the Committee. I am indebted to Sudhir Nath and P. P. Mitra who analysed the questionnaire responses, kept the notes, brought to our notice whatever seemed incomplete or obscure, and rendered invaluable assistance as the Secretariat of the Committee in many ways. Sumitra Chishti of the Indian Institute of Foreign Trade shared in this task and helped with the background papers as also with analysis of data.

My personal staff M. M. Lal and G. S Bisht, who most astutely managed my daily schedule, suffered the annoyance of many visitors who would have otherwise interfered with the work of the Committee. They annoyed others and made work possible. K. K. Popli, PA to Economic Adviser, painstakingly typed successive drafts of this Report until late hours in the night with an ever smiling face. There were many others who helped us, whom we have not named; I would also like to thank them.

10. As Chairman of the Committee, I would like to express my grateful appreciation for the help, co-operation and contributions from my colleagues who were Members of the

Committee and made this Report possible. For the writing, the perceptions and the analysis, the Report owes much to the competent and energetic Member-Secretary of the Committee. As Member-Secretary, Deepak Nayyar carried a great burden. His task was extremely complex and demanding, which he performed with extreme diligence and tact. He displayed immense capacity for hard work, quickness of grasp, and understanding of nuances, whether of large panorama or of minor detail. His superb quality of writing won him the unqualified admiration of all involved in the work of the Report.

If December had thirty six days, the Report would have been better.



ABID HUSSAIN
Chairman

31st December 1984
New Delhi.

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CHAPTER I

A MACRO-ECONOMIC OVERVIEW

1.1 In large continental countries such as India, the problems and prospects of the external sector are often considered in isolation from the rest of the economy. At the outset, the Committee would like to stress that foreign trade cannot and should not be separated from the national economy, just as trade policies cannot and should not be separated from economic policies. Such a macro-economic perspective is essential because developments in the foreign trade sector and developments in the economy as a whole are inter-dependent. Exports are a means of transforming domestic resources into foreign resources which are necessary to finance the process of development. Imports are essential to sustain desired levels of consumption, investment and production in the economy. At the same time, the level of both exports and imports depends on the performance of the economy. In India, the significance of foreign trade is qualitative rather than quantitative, and its role is akin to that of a bicycle chain which is needed to make the wheels go around and keep the economy on the move.

1.2 It has become necessary to review trade policies, at this juncture, in view of the recent developments which have curbed the availability of external resources to finance development. There is a substantial squeeze on foreign aid programmes and commercial borrowing in international capital markets is expensive. What is more, the terms at which external resources are available have become distinctly harder. In the short run, it might also be difficult to increase the surplus on account of invisibles and remittances. The option which remains is to manage the balance of trade, that is, stepping up exports or curbing imports, or ensuring that exports increase faster than imports. Obviously, it would not be desirable to manage the deficit in trade by curbing the growth in imports, as that would also curb investment and

output thereby leading to a sacrifice in terms of economic growth. Consequently, foreign exchange earnings derived from exports are essential for the process of economic growth insofar as they create the much-needed capacity to import. But that is not all If we have to keep the levels of external debt and the burden of debt servicing within manageable proportions, export earnings would have to become increasingly important as a means of financing the deficit in our balance of payments.

1.3 It is, therefore, extremely important to recognise the strategic role of exports at the present stage of economic development in India. In this context, it also becomes apparent that self-reliance is no longer an emotive objective; it has become an economic imperative insofar as the nation has to rely on its own resources for development. For this purpose, important as exports are, import substitution must also remain an integral part of the quest for self-reliance. It is widely recognised that import substitution is an entirely natural process in the course of economic growth and provides the other route to easing the structural constraint, which expanding imports are otherwise likely to place on growth. In the Indian situation, the logic of import substitution also follows from the vast and expanding size of the domestic market. There can be little doubt that it would be desirable to conserve scarce foreign exchange by increasing the domestic production of importables, wherever we have under-utilized capacities and wherever it is cheaper to do so in terms of domestic resources used. The past emphasis on import substitution *per se* should, however, be replaced by an emphasis on efficient import substitution, so that considerations relating to cost and efficiency are incorporated in the framework of policies.

1.4 It need hardly be stressed that in an economy such as India, where exports constitute 5-7 per cent of GNP, there is no possibility of export-led growth. Indeed, growth-led exports are the more likely scenario in India. Nevertheless, there are a few sectors in the economy where exports absorb an overwhelming or significant proportion of domestic production and it is possible for

exports to play a leading role in such cases. In other sectors of the economy, however, exports can perform the role of a catalyst by creating employment, developing skills and improving competitiveness. It is clear that production for exports should not be seen in isolation from production for the home market, for the simple reason that it is neither feasible nor desirable to have one set of prices or qualities for world markets and another set of prices and qualities for the domestic market. Export production must, therefore, constitute an integral part of production in the domestic economy because exports are the end of, rather than the beginning of, the typical market-expansion path for most firms in India. Of course, this does not mean that exports are a residual.

1.5 The integration of production for the export market and production for the home market is, of course, easier said than done, because structures of production, technologies-in-use and the level of quality-consciousness which have evolved over three decades cannot be transformed overnight. Therefore, the transition would have to be phased over time in a planned manner, but this should not be a long drawn out process for India cannot afford delay. We would have to be selective in our approach and identify a few leading sectors where we can experiment with such structural change and, in the process, promote the cause of exports. The choice of sectors, though difficult, would have to be made either on the basis of revealed comparative advantage where our goods are already competitive in the world market, or on the basis of a potential comparative advantage perceived by us.

1.6 In the perception of the Committee, export promotion and import substitution are neither mutually exclusive nor alternative strategies of development. They represent two sides of the same coin. There can be little doubt that trade policies should be formulated in such a manner that the policy-mix strikes a balance between export promotion on the one hand and import substitution on the other. The dictum is important whether

we consider the external sector or the national economy. Insofar as the balance of trade or balance of payments is concerned, a dollar of foreign exchange earned and a dollar of foreign exchange saved are equivalent. In terms of an appropriate strategy for industrialisation, striking this balance is the equivalent of 'walking on two legs'. In principle, therefore, export promotion and import substitution should receive equal attention. At the margin, however, there is a case for a preference in favour of the export sector, if only to compensate for the difficulties that have accumulated over the past. It should not be difficult to meet this objective once it is recognised that the foreign trade sector should not be seen in isolation from the national economy. The same set of policies should facilitate rational export promotion and support efficient import substitution. It need hardly be stressed that in an economy where resources are scarce, the domestic resource-costs of both export promotion and import substitution should constitute the basic litmus test for the formulation and evaluation of trade policies.

1.7 The framework of trade policies is an important determinant of the rate of export expansion and the pace of import substitution. There is, however, a clear nexus between trade policies, industrial policies and other economic policies in the monetary and fiscal sphere, which determines the nature and pace of industrialisation. It would be a mistake to suggest rationalisation and change in the realm of trade policies without contemplating concommitant change in industrial policies and other macro-economic policies. It might be instructive to illustrate the implications of this proposition. For example, we may wish to decrease the level of protection for an import-competing industry through an appropriate adjustment in trade policies with the object of bringing down costs and prices through increased competition from imports. If licensing capacity provisions of industrial policy do not permit domestic firms to realise the necessary economies of scale and if fiscal policies escalate the cost structure or erode profitability, the proposed adjustment in trade policies would serve little purpose in terms of attaining its objective.

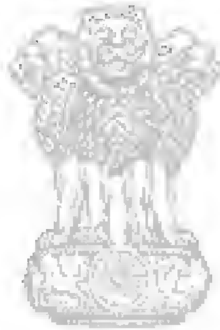
1.8 The combination of economic policies which has evolved over the past three decades has, *inter alia,* been determined by a multiplicity of objectives. The policy-mix, in turn, has significantly influenced the nature of industrialisation in India. There are two manifestations of the present system that provide cause for concern. First, a complex web of controls, incentives and disincentives on both foreign trade and domestic production has emerged over time. Second, it has created an environment which is not conducive to a competitive reduction in costs. The consequences are not far to seek. The former has meant complexity in administration, procedural delays and corruption; the latter has meant a combination of low-quality and high-prices in several sectors, which is embodied in the structure of costs and the level of efficiency. At this stage of our industrialisation, the Committee believes that it is imperative to re-formulate economic policies in such a manner that it would resolve these problems. In other words, it is necessary to change the nature and quality of State intervention in the economy. The policies pursued in the past served a valuable purpose and were appropriate at the time. The nature of State intervention in the economy, however, would need to change in response to the change in circumstances and with reference to the stage of development. In the perception of the Committee, a complete solution cannot be found in the realm of trade policies alone; rationalisation of other economic policies is also necessary. The object of this rationalisation should be to increase the degree of competition in the economy and provide an environment where manufacturers would not only be under pressure but would also have an incentive to bring about a reduction in costs.

1.9 It would be useful to illustrate the importance of the proposition that the nexus of economic policies should be considered as a whole rather than in parts. It is often argued that import liberalisation in respect of products and technology is a means of increasing competitiveness, efficiency and productivity not only in the export sector but also in the domestic economy as a whole. it is obviously not possible, *a priori,* to determine the optimum

degree of openness of the economy, or even outline the sectoral-mix and temporal-sequence of liberalisation. However, import liberalisation would be useful insofar as it would reduce monopoly profits, eliminate obsolete technologies and place an outside limit on import-competing activities where the domestic resource costs are too high. Thus, we might conceive of import liberalisation as a means to the end not only of export promotion but also of efficient import substitution. It goes without saying that such liberalisation would need to be selective on the basis of rational criteria. The Committee would like to emphasise that import liberalisation, by itself, is neither a necessary nor a sufficient condition for stimulating competition and efficiency in the domestic economy. It is only one instrument of policy which can provide competition from outside the economy. It would need to be used in conjunction with appropriate industrial and economic policies which increase competition within the economy, through a reduction in the degree of monopoly and a removel of barriers to entry by new firms.

1.10 It is necessary to situate trade policies not only in the wider national context but also in the wider international context. It is hardly possible to consider the external sector in India in isolation from the state of world economy. In recent years, the world has experienced its deepest economic crisis since the 1930s, which has manifested itself in a slump in the rates of growth, high levels of unemployment and an acceleration in the rates of inflation. The persistent stagflation and recession has led to a stagnation in international trade flows, which has been associated with increasing level of protectionism in the industrialised countries. The international monetary system has also come under severe strain where the unresolved debt crisis looms large as a problem. There have been signs of recovery in some industrialised countries, but these are few and far between and there is no evidence to suggest that the process of recovery is sustainable. What is more, its impact continues to elude the developing countries. At this juncture, therefore, it is imperative for India and the developing world to press for a roll-back of protectionism and for a

reform of the international monetary system. Nevertheless, it would seem that the environment for international trade may continue to be unfavourable for some time as a consequence of which market access would also continue to be difficult. This only means that, in the present situation, our export effort would have to be intensified much further. In view of the fact that our share in world trade is very small, what happens in India does not affect the world economy but what happens in the world economy does affect India.



CHAPTER II

EXPORT PERFORMANCE: ANALYSIS AND DIAGNOSIS

A. *Export Performance in Retrospect*

2.1 In sharp contrast with the complete stagnation in exports during the 1950s, India's export performance during the 1960s was decidedly better insofar as exports registered a growth of a little more than 4 per cent per annum in terms of both value and volume. Over these two decades, there was a phenomenal expansion in world trade, which meant that India's share in world exports declined steadily throughout from about 2 per cent in 1950 to 1.04 per cent in 1960 and 0.65 per cent in 1970. India's export performance during the 1970s was more impressive as compared with the earlier decades, and the average growth in exports attained a level of 6.3 per cent per annum in terms of volume and 15.9 per cent per annum in terms of value. Yet, India's share in world exports continued to decline and reached a low of 0.42 per cent in 1980. To some extent, this was attributable to the oil price hikes in 1973 and 1979, which led to a sharp increase in the value of international trade flows in crude oil and petroleum products. However, even if we consider world exports excluding trade in fuels, India's share dropped from 0.71 per cent in 1970 to 0.55 per cent in 1980.

2.2 It is difficult to interpret the trends in exports during the 1970s and thereafter for two reasons: first, there was a sharp acceleration in the rates of inflation and second, there was a world-wide move from a system of fixed exchange rates to a regime of floating exchange rates. Therefore, data on the value of exports in terms of current prices, at current exchange rates, are somewhat deceptive. To resolve this

problems, it is useful to consider the trends in exports not simply in terms of current rupee values but also in terms of the volume index and the foreign exchange value; in case of the latter, SDRs are possibly a better numeraire than US dollars. This evidence is presented in Tables 2, 5 and 7. An empirical assessment of India's export performance during the period from 1971-72 to 1983-84 reveals two discernible phases in terms of growth. Hence, it is useful to divide the span of twelve years into two sub-periods : 1971-72 to 1977-78 and 1977-78 to 1983-84. Such an analysis reveals that the compound rate of growth per annum in exports was 22.4 per cent in terms of current rupee values, 16.8 per cent in terms of SDR values and 7.8 per cent in terms of volume for the first sub-period, while it was 10.3 per cent, 9.0 per cent and 4.2 per cent* respectively for the second sub-period. For the entire period, 1971-72 to 1983-84, the corresponding growth rates were 16.2 per cent per annum, 12.8 per cent per annum and 6.3 per cent* per annum.

2.3 In retrospect, there can be little doubt that, as compared with the past, our export performance since the early 1970s has been both creditable and impressive. However, it has not been adequate either with reference to the growth in world trade or with respect to our needs. In the international context, the export performance of the Newly Industrialising Countries whether the small East Asian countries or the larger Latin American economies has been distinctly better. What is more, despite the higher rate of export growth, India's share in world exports has continued to decline. It is worth noting, however, that India managed to maintain and marginally recover her share in world exports during the early 1980s. If India had managed to maintain its 1970 share in world exports, her exports in 1983 would have been $ 11760 million, that is, 28 per cent more than

*The compound rates of growth in the volume of exports relate to the periods from 1977-78 to 1981-82 and from 1971-72 to 1981-82 respectively, as 1981-82 is the latest year for which index numbers on the quantum of exports are available.

they actually were. Of course, if India had managed to maintain her share in world exports at the 1960 level, her exports in 1983 would have been $ 18820 million, that is, a little more than double than they actually were. In the domestic context, the export performance has not been adequate insofar as the proportion of imports financed by exports declined sharply from 1.01 in 1976-77 to 0.53 in 1980-81, whereafter it recovered a little but nowhere near enough insofar as export earnings finance just about 60 per cent of the import bill at present; it is worth pointing out that exports are sufficient to finance most of our present non-oil imports.

B. *Exports, Domestic Production and the National Economy*

2.4 Over the past three decades, the share of exports in GNP has ranged from 4 to 7 per cent. This share was at a level of about 6 per cent in the mid-1950s, whereafter it declined to a level of a little more than 4 per cent until the early 1970s. There was a quantum jump in this share from 4.6 per cent in 1972-73 to 7.2 per cent in 1976-77. It declined somewhat thereafter and stabilised in the range of 6 per cent from the early 1980s. Given such orders of magnitude, which are hardly surprising in a continental economy such as India, the Committee believes that there is no possibility of export-led growth. Indeed, growth-led exports are the more likely scenario in India. It is also important to recognise that, in the ultimate analysis, the problem of Indian exports remains very much a problem of production and, in a macro-economic sense, it is unrealistic to expect that exports would grow significantly faster than real national income. Nevertheless, for the purpose of analysis and policy formulation, it would be useful to consider the export sector of the economy at a disaggregated level because the proportion of total output that is exported varies considerably across product groups.

2.5 An examination of the present export basket reveals that there are four categories of exports which can be identified on this basis. First, there are exports such as gems & jewellery,

marine products, iron ore, manganese ore, mica, cashew kernels, where the entire output or an overwhelming proportion of the output is exported, and exports such as garments, carpets and handicrafts where production for the export market is, for all practical purposes, separated from production for the home market (Category A). Second, there are exports such as jute manufactures, coir products, leather & leather manufactures, tea, coffee, tobacco, castor oil, pepper, cardamom, where a large proportion of the total output, anywhere in the range 20—60 per cent is exported (Category B). Third, there are exports such as textiles, machinery, transport equipment, metal and steel manufactures, chemicals & allied products, sugar and oilcakes, where a significant proportion of the total output was in the range of 10 per cent, is exported (Category C). Fourth, there is a residual category of exports, such as footwear, sports goods, processed foods, meat, rice or fruits & vegetables, where a marginal or very small proportion of the total output is exported (Category D).

2.6 The trend in the share of each of these categories in India's export earnings, excluding export of crude oil and petroleum products which emerged as significant in the early 1980s, is worth noting. Between 1972-73 and 1983-84, the share of category A rose from 22.1 per cent to 37.9 per cent largely because of the phenomenal growth in exports of gems & jewellery, whereas the share of category B fell from 37.6 per cent to 17.8 per cent. Over the same period, the share of category C decreased from 21.1 per cent to 19.8 per cent, while the share of category D increased from 19.2 per cent to 24.5 per cent. Therefore, it would appear that the relative importance of exports in category A has registered a very substantial increase, whereas the relative importance of exports in category B has registered a very substantial decrease; at the same time, the relative importance of category C in non-fuel exports has decreased somewhat, while the relative importance of category D has registered a discernible increase.

2.7 It is possible to derive some inferences in terms of both analysis and policy formulation, from the above classification of exports into four categories. First, in sectors where an overwhelming proportion of the output is exported or where production for exports is distinct from production for the home market, stepping up the rate of export growth would require a package of policies that stimulate production of such goods. Second, it would seem that in sectors where a large proportion of the output is exported, the pressure of domestic demand is probably an important factor which reduces the surpluses available for export, given the higher relative profitability of the domestic market; in such cases, the long-run solution might be to ensure that domestic production grows faster than domestic consumption, but in the medium-term or short-term it would be advisable to increase foreign exchange earnings per unit of exportable output by increasing the value-added before export. Third, in sectors where the proportion of output exported is significant but not large, the strategy should be to use foreign trade as a "vent for surplus", because in many of these sectors capacities are under-utilised for lack of domestic demand; in these sectors, it may also be possible to separate production for the export market from production for the home market, at least in the medium-term, through bonded production as in FTZs, 100% EOUs or the Advance Licensing System. Fourth, in sectors where a marginal or very small proportion of the total output is exported, policies should be so designed as to increase the relative profitability of exports, for in these sectors even a quantum jump in exports would not be at the expense of domestic consumption or the needs of the home market.

2.8 It needs to be said that no particular sanctity should be attached to the aforesaid categories which are derived from the proportion of output that is exported. There might be other, better, typologies; what is more, this one has its limitations. First, such a categorisation does not capture the significance of new items in the export basket which emerge in an unexpected manner. For example, two decades ago, who would have

thought that diamonds, granite, prawns, meat or even eggs would fetch us foreign exchange. The policy framework should be flexible enough to respond to the emergence of such dynamic exports. Second, it is not that different factors constrain export performance in each of the categories or that different policies are required for each of the categories. Many of the problems, hence the necessary correctives, are common and run across the export sector of the economy. The above classification of exports simply highlights the relationship between the export sector and domestic production, to suggest that the approach or emphasis in terms of policy should, *inter alia,* be a function of the proportion of output that is exported.

C. *Constraints on Export Performance*

2.9 In any country, export performance is largely determined by the foreign demand for its exports; the commercial policies abroad, including tariff and non-tariff barriers, which affect the trade in products exported by it; the domestic supply of exports, which in turn depends on the domestic production and consumption of exportables; and the domestic policies towards exportables which influence the relative profitability of exports. At a macro level, it is exceedingly difficult, if not impossible, to generalise about the relative importance of external and internal factors. External factors play a significant role in the export performance of some sectors, while domestic factors and policies are crucial in others.

2.10 The influence of external factors is important in exports such as tea, jute manufactures, spices, particularly pepper and cardamom, cashew kernels, marine products, iron ore, mica, leather & leather manufactures, where India has a significant share of world exports. Export performance in these sectors is naturally constrained by the pace of growth in world import demand, on which it is not possible for an exporting country to exercise any influence. The problem is accentuated where the world demand for these exports is inelastic and hence

growing slowly; in such cases, the minimum objective should be to maintain our market share, and wherever possible the strategy should be to increase our market share. This point needs to be stressed particularly because, over the past two decades, we have steadily lost our share of the world market in several traditional exports.

2.11 In principle, external factors should not constrain export performance where India is a small or marginal supplier of the particular product in the world market, which is the case for a large proportion of India's exports. Indeed, it is often argued that it should be possible to increase our share of world exports in such cases irrespective of the increase in world import demand for these products. However, it needs to be recognised that quantitative restrictions on international trade in certain products, for instance those embodied in the MFA apropos garments, limit the growth in our exports. But that is not all. The increasing incidence of protectionism in the industrialised countries in recent years, embodied in cascaded tariff structures and a range of unquantifiable non-tariff barriers, also places a limit on the growth of our manufactured exports, even where India is a marginal or small supplier in the world market for, in practice, such restrictions constrain exports from countries which are not established as suppliers or are new entrants in the world market. This problem is often compounded where international trade flows, which constitute transactions between countries, are intra-firm transactions, whether we consider transnational manufacturing firms or transnational trading firms. In many of these sectors, the export performance of individual countries is determined not so much by the competitiveness of their exports as by the sourcing decisions of transnational corporations.

2.12 In the aggregate, there can be little doubt that the factors which affect the supply and the competitiveness of Indian exports are, in a sense, the basic determinants of export performance. In the view of the Committee, the domestic factors which have

constrained India's export performance are the costs of production, the pressure of domestic demand, the supply constraints and the procedural bottlenecks, which, along with the non-price factors such as quality and the product profile, have adversely affected the competitiveness of our exports.

(a) *Cost of Production*

2.13 Like all prices, export prices are closely related to costs. It follows that India's competitiveness in the world market is influenced by the changes in the cost structure of its export industries. The main determinants of costs are : (i) the prices of inputs which derive from the structure of costs in the economy, (ii) productivity, which is, *inter alia*, a function of the technology-in-use, the scale-of-output, and the efficiency in management. India is often at a disadvantage *vis-a-vis* competing countries because its costs of production, hence export prices, are higher than in competing countries, not only because of the higher prices of importable and non-traded inputs, or because of time and cost over-runs implicit in managerial inefficiency, but also because of much lower levels of productivity, all of which constraints stem from the aforesaid problems. In many sectors, particularly in manufacturing activities, these problems which reduce the competiveness of our exports, have worsened over time. As the technology lags have increased, the productivity differentials have widened and the costs of inputs have continued to rise. It is necessary to point out that some factors influence competitiveness in general, while some others influence competitiveness in particular products. For instance, at a macro-level, the management of the economy implicit in the nexus of trade policies, industrial policies and fiscal policies constitutes a systematic factor which affects costs of production across-the-board, whereas, at a micro-level, the efficiency in management affects costs of production in particular firms or industries. Or, to cite another example, a general inflation in the economy, which is greater than that in competing countries, would raise costs in all industries, including export industries, and the competitiveness of all exports would

be affected adversely. On the other hand, increases in the prices of particular inputs or raw materials would affect the export competitiveness of some particular products alone.

(b) *Pressure of Domestic Demand*

2.14 In any economy, changes in the levels of domestic demand exercise an important influence on domestic prices and costs. In view of the fact that a large proportion of India's exports, whether consumer goods or intermediate goods, are exportables which enter into domestic consumption or use, the pressure of domestic demand affects both the surpluses available for export and the price competitiveness of exports. There are two basic factors underlying the pressure of domestic demand. First, the rapid growth in population leads to a rapid growth in domestic consumption. Second, the income elasticity of demand for most of our exports is quite high in the domestic market. What is more, the gigantic size of the home market means that even small increases in per capita consumption have serious repercussions on the surpluses available for export. The Committee is of the view that, in relation to production, the domestic absorption of exportables has tended to increase faster than domestic production in many sectors, and this has imposed a fundamental constraint on the possibilities of export expansion. Of course, such increases in domestic consumption and absorption are possible at given prices. An inflationary situation affects export performance adversely in two ways : (i) it improves the relative profitability of domestic sales as compared to exports, and thereby diverts exportable supplies to the home market; (ii) it raises the costs of inputs which inflates production costs in export industries.

(c) *Supply Constraints*

2.15 Apart from the cost of production and the pressure of domestic demand, supply constraints in export industries also influence the price competitiveness and the physical availability

of exports. Some of these factors operate in the economy as a whole, while some others are specific to particular export sectors. For example, export supplies are often restricted by the inadequate infrastructure, difficult production conditions or the non-availability of domestic materials and imported inputs at the right time. While some scarcities directly affect cost and competitiveness through higher input prices which are reflected in the costs of production, other bottlenecks simply constitute a physical constraint on the output available for exports. The Committee believes that such supply constraints are quite common in our economy.

(d) *Procedural Bottlenecks*

2.16 The system of economic administration in India is characterised by a complex web of controls, procedures and regulations which inevitably leads to delays that are, *inter alia*, attributable to the multiplicity not only of objectives but also of licensing authorities. The rigidity of the system leads to an escalation of costs and to a loss in time or efficiency that is difficult to measure. Exporting firms have to devote both time and resources to overcome these difficulties, as it is not a simple task to cut through red-tape. It is not surprising, therefore, that the procedural bottlenecks implicit in the system adversely affect production and the smooth flow of exports.

(e) *Non-price Factors*

2.17 It is widely recognised that the competitiveness of exports also depends, to a considerable extent, upon factors which are not reflected in prices. As a matter of fact, non-price factors such as quality, marketing efficiency, designing and packaging, or delivery dates, have an important bearing on India's actual and potential exports. This is particularly true for non-traditional exports of manufactures where the ability to compete in the world markets is *inter alia* a function of these non-price attributes of exports.

2.17.i. *Quality* : There are two aspects to this factor : first, the maintenance of quality control at any given point of time and, second, the improvement of quality over a period of time. Indian exports have been constrained on both counts. In several cases, exporting firms have not been able to maintain quality control and deliver the goods in keeping with the quality of the sample provided; by slipping up on the quality of goods actually delivered to meet the export contract, which stems from laxities in the production or the packaging process, many a firm has tarnished the country's reputation as a reliable exporter in world markets and hence harmed long-term export interests. Therefore, strict quality control is an essential pre-requisite of sustained export growth. It should, of course, be accompanied by a simultaneous attempt to continuously improve the quality of goods sold in the world market. The Committee believes that the lack of quality consciousness on the part of the producers in India constitutes an important problem which cannot be wished away. The solution lies not so much in policing or inspection as it does in self-discipline and consciousness about the importance of the quality factor among the exporters themselves.

2.17.ii. *Marketing* : In general, India has attempted to sell what it produces but has not attempted to produce what it can sell in world markets. In other words, there has not been a systematic effort to develop products and markets for exports. The development of brand names, the improvement in designing and packaging, the provision of an adequate after sales service, and the prompt fulfilment of export orders in accordance with promised delivery dates, are all essential elements in a successful export effort. It goes without saying that the development of products for export calls for investments in the form of domestic resources, while the development of markets for exports requires investments in terms of foriegn exchange resources. The returns on such investments cannot, by definition, accrue or materialise overnight. There are gestation lags which need to be recognised. However, unless there is a conscious effort to improve marketing efficiency, it may not be possible for India to realise its comparative

advantage in many sectors of exports, particularly in the sphere of manufactured goods.

2.18 The above analysis and diagnosis of constraints on India's export performance highlights the need for correctives, and constitutes the first step in the Committee's discussion on the export sector. The next chapter reviews the present regime of export promotion policies and sets out the Committee's recommendations for appropriate changes in export policies as also some prescriptions which follow from the diagnosis.

CHAPTER III

EXPORT PROMOTION : POLICY AND STRATEGY

A. *The Context*

3.1 At the present stage of economic development in India, it is essential to recognise the strategic role of exports. The Committee believes that, over the next decade, export earnings would have to finance a larger and larger proportion of imports, if we have to keep external borrowing and the burden of debt servicing within manageable proportions. We have a long way to go in attaining this objective insofar as our export earnings at present are not quite enough to finance even the non-oil imports. All the same, it is clear that a sustained growth, perhaps a quantum jump, in exports is the most important means to attain the objective of self-reliance which requires a nation to rely on its own resources to finance the process of development.

3.2 The discussion that follows attempts to focus on export promotion policies in terms of analysis and evaluation on the one hand and prescription on the other. In a wider context, it is important to stress that the export sector should not be separated from the national economy, just as export policies should not be separated from economic policies. Even though the proportion of exports in GNP is relatively small, the inter-dependence between export performance and export policies on the one hand and national economic performance and economic policies on the other, is significant. It is the considered view of the Committee that, in the long run, production for exports should not be seen in isolation from production for the home market, and export production should constitute an integral part of production in the domestic economy. In the ultimate analysis, therefore, what is good for exports should be good for domestic production and

vice-versa. However, the structures of production which have evolved over three decades cannot be transformed overnight and the transition would have to be phased over time. In the interim period, export promotion policies would continue to perform a crucial role.

B. *The Rationale*

3.3 It is possible to consider the rationale for export promotion in the Indian context at two levels. At a macro-economic level, it is important to recognise that the structure of tariffs and the import licensing system may discriminate against the export sector for two reasons. First, insofar as exporters have to pay higher than world prices for imported or domestically produced importable inputs, they are placed at a disadvantage *vis-a-vis* their competitors; in the extreme, such a tax on inputs without any compensation on the output would mean that the effective protection for export activities is negative. Second, given the structure of tariffs and the degree of compensation implicit in the whole range of export promotion policies, the effective exchange rate for import-competing production is likely to be significantly higher than the effective exchange rate for export production, which means that the relative profitability of producing exportables is lower than that of producing importables.

3.4 At a micro-economic level, the rationale for export promotion is also two-fold. First, insofar as the cost of traded and non-traded inputs for firms engaged in exports is higher than world prices, compensation in one form or another is necessary to place Indian firms at par with their competitors in world markets; such disadvantages are exogenous to any firm that ventures into exports. Second, there are disadvantages that are endogenous to the firms which are infants in export marketing and may be reluctant to undertake the initial investment necessary to open up new markets for exports; in the early stages it may be necessary to provide assistance to support such investment, which should also give rise to external economies that

might benefit the export trade of the country as a whole. Therefore, it would appear that, in the Indian context, export promotion policies need to perform two roles, that of providing compensation on the one hand and that of providing assistance to remove disincentives on the other. While the former would be necessary on a sustained basis to neutralise disadvantages so long as they are present, the latter would be necessary on a selective basis for a limited period of time.

3.5 The importance of exports and the logic of export promotion, at the present juncture, are clear enough. However, the Committee recognises that export promotion absorbs scarce domestic resources which have alternative uses. Although there is a perfectly plausible and justifiable case for the promotion of exports, it is important to assess the domestic resource costs of earning a dollar of foreign exchange through exports, just as it is important to assess the domestic resource costs of saving a dollar of foreign exchange through import substitution. In other words, export promotion should be based on rational economic evaluation. The Committee also recognises that it would be exceedingly difficult to evaluate in quantitative terms, the social costs and benefits of export promotion, *inter alia,* because it is difficult to measure not only the benefits but also the costs. For one thing, it is almost impossible to establish any quantitative relationship between export promotion policies and the growth in exports, since export performance is determined by a much wider range of internal and external factors. For another, it is not easy to estimate the costs of export promotion, which are incurred not only by the Government but also by the private sector. Nevertheless, it is possible to keep in mind the direct and indirect costs of export promotion that are incurred by the Government, and these may be a reasonable proxy for the domestic resource costs of export promotion.

3.6 The Committee believes that it is necessary to consider the structure, rationale and scope of the present regime of export promotion policies at a disaggregated level. For this purpose,

it is useful to distinguish between : (i) the duty drawback system; (ii) the market development assistance which is made up of the cash compensatory support and other forms of assistance for market development; (iii) fiscal concessions for exports; (iv) the import policy for exports; and (v) the Free Trade Zones and 100% Export-Oriented Units. The first two measures involve direct expenditure, from the budget, on export promotion, while the third measure involves some revenue foregone. The last two measures, on the other hand, do not involve the use of budgetary resources for export promotion, but simply provide the export sector of the economy with access to foreign exchange for the import of raw materials, manufactured intermediates and capital goods that are needed for export production. Apart from these measures, export promotion is also supported by a range of institutions which are considered separately in the last chapter of this report.

C. *Duty Drawback System*

3.7 The object of the duty drawback system is to reimburse exporters for tariffs paid on the imported raw materials and intermediates and central excise duties paid on domestically produced inputs which enter into export production. This is a world-wide practice and the rationale is straightforward. Customs duties and excise duties on inputs raise the cost of production in export industries and thereby affect the competitiveness of exports. Therefore, exporters need to be compensated for the escalation in their costs attributable to such customs and excise duties.

3.8 There are at present more than 450 items on which all-industry rates have been fixed by the Government. These rates are derived from estimates of the average quantity or value of materials used in the manufacture of exports, the average amount of duties paid on imported materials or excisable materials used in the manufacture of these good, and the average amount

of duties paid on the materials wasted in the manufacturing process, for each of these items. Such average-industry rates are fixed by the Drawback Directorate in the Ministry of Finance and the disbursements are made through various Customs Houses. There was a steady increase in the disbursements in the duty drawback system from Rs. 42 crores in 1973-74 to Rs. 204 crores in 1981-82, whereafter there has been a sharp decline in this sum which is probably attributable to the introduction of the Advance Licensing System that enables exporters to import inputs needed for export production on a duty-free basis.

3.9 It is the view of the Committee that duty drawback system as operated at present has the following problems. First, it has been mentioned by trade and industry that there are significant delays in the disbursement of drawbacks for which exporters are eligible. Second, the average-industry rates are based on conservative estimation and tend to be low, which means that customs or excise duties paid on inputs which enter into export production are not entirely reimbursed. Third, there is a range of exports for which average-industry rates have not been fixed, which means that exporters have to approach the Government for fixation of an average-industry or specific-brand rate, that is inevitably time-consuming. Fourth, even where the average-industry rates have been fixed, the exporter often finds that amount so determined is less than the duties actually paid; in these cases, the exporter can approach the Government for a specific-brand rate only if it is established that the average-industry rate reimburses less than three-fourths of the duties paid on imported or domestically produced inputs which enter into export production; the fixation of specific brand rates of drawback takes far too much time. Fifth, there is the problem of classification at the time of disbursement, because even though there are a large number of drawback rates there is a room for ambiguity in interpretation of the category to which a particular export belongs.

D. *Market Development Assistance*

3.10 An overwhelming proportion of the expenditure on Market Development Assistance is accounted for by the cash compensatory support regime. This is borne out by the data in Table 10 which show that 90—95 per cent of MDA expenditure was absorbed by CCS during the early 1980s. The remaining part of the MDA resources is used to provide assistance for interest on export credit and financial assistance for export promotion including grants-in-aid to approved organisations for export development. The following discussion, therefore, seeks to focus on CCS.

I. *Cash Compensatory Support*

3.11 Cash assistance for exports, which has subsequently been termed as cash compensatory support, was introduced in 1966. The stated objective was to enable exporters to meet competition in foreign markets, to develop marketing competence and to neutralise disadvantages inherent in the present stage of development of the economy. Over a period that spans almost two decades, there has been no substantive change in the rationale of this export promotion measure, although its scope and operation has evolved from experience over time. The Alexander Committee set out three basic principles underlying the CCS regime : (i) CCS should fully compensate for unrebated indirect taxes paid by exporters on inputs which enter into export production; (ii) CCS should neutralise disadvantages such as those implicit in freight rates which may be discriminatory or higher; (iii) CCS should provide assistance to finance the initial promotion costs in the case of new products and new markets. In the perception of this Committee, CCS is designed to perform two basic roles : first, it is a facility insofar as it seeks to compensate for unrebated indirect taxes which are not reimbursed through the duty drawback system, and second, it is an assistance insofar as it attempts to provide resources for product/market developments

3.12 The available evidence in CCS, during the past decade, is set out in Tables 11 to 13. An examination of the data leads to the following observations on the evolution of the CCS regime :

(a) The scope of the CCS has been steadily extended over the past ten years, inasmuch as the proportion of total exports eligible for CCS has risen from a level of about 20 per cent in the early 1970s to a little more than 40 per cent in the early 1980s.

(b) The share of different product groups in the total CCS disbursed has changed significantly over time, which is borne out by the data in Table 11. For instance, engineering goods and chemicals & allied products, which accounted for almost 90 per cent of the total CCS in 1974-75, received just 50 per cent of the total CCS in 1983-84. At the same time, processed foods, carpets, jute manufactures, marine products, leather & leather manufactures, handicrafts, textiles including handlooms and garments, which accounted for only 6.1 per cent of the total CCS in 1974-75, received as much as 46.4 per cent of the total CCS in 1983-84.

(c) The product-group composition of CCS has changed in keeping with the changing commodity composition of exports, but it remains concentrated largely in manufactured or processed goods. This stands to reason inasmuch as the incidence of unrebated indirect taxes is significant only in manufacturing activities, and resources for product or market development are essential in non-traditional or manufactured exports.

(d) The rates of CCS as a proportion of the FOB value of exports typically range from 5 per cent to 20

per cent. Table 12 shows that of the 417 items eligible for CCS at present, a little more than half receive CCS at a rate less than 10 per cent, about one-third receive CCS at rates in the range of 10—15 per cent, while the rest receive CCS at rates in the range 15—20 per cent.

(c) The actual average rates of CCS disbursed as a proportion of the FOB value of exports for each of the major commodity groups is also in the range 5—15 per cent, and these rates for each of the product groups eligible for CCS have remained relatively stable over the past decade, as brought out in Table 13.

3.13 The Committee made an attempt to assess the impact of CCS on actual export performance in retrospect. The simplest exercise was to compare the average annual rate of growth in CCS aided exports with that in exports not aided by CCS. It appears that between 1973-74 and 1983-84, the compound rate of growth in exports, in terms of current rupee values, was 14.5 per cent per annum for total exports, 21.0 per cent per annum for CCS aided exports and 11.7 per cent per annum for exports not aided by CCS. However, the Committee thinks that such figures across product groups and over time are deceptive and should not be used to derive any inferences. There are two reasons for caution in interpretation. First, such a comparison of growth rates leads to conclusions which depend very much on the choice of periods, for example, if we compare the annual growth in CCS aided exports with that in exports not aided by CCS, for each year over the preceding year, during the period from 1973-74 to 1983-84, no such unambiguous conclusion emerges. Second, a disaggregation between product groups which were eligible for CCS reveals no systematic relationship between CCS rates and export growth.

3.14 In the perception of this Committee, the above is hardly surprising. There is a basic methodological problem insofar as export performance is influenced by a wide range of external and internal factors, including CCS, and it is exceedingly difficult, if not impossible, to assess the impact of CCS alone. It is futile to search for a satistical causalty or to reason on a *post hoc ergo propter hoc* basis. A meaningful analysis would have to be disaggregated in terms of both products and time, and would have to examine the demand and supply factors which influence the export performance in specific sectors, to determine what the value of, or growth in, exports would have been in the absence of CCS. A precise answer to such an *ex hypothesi* question is well nigh impossible.

3.15 The Committee was informed that CCS rates are determined after considering the incidence of unrebated indirect taxes, the disadvantages implicit in higher freight rates and interest rates as compared with competitors, and the cost of product/market development. It is exceedingly difficult to quantify each of these components of CCS across the wide range of eligible products. A rough assessment of available evidence suggests that at least two-thirds, in some cases as much as three-fourths, of the CCS disbursed in recent years was simply a compensation for unrebated indirect taxes which are not refundable through the duty drawback system. This proportion is probably an under-estimate inasmuch as the evidence on the incidence of unrebated indirect taxes relates to inputs at the final stage of the manufacturing process whereas, in practice, the cascaded structure of taxation implies that there is an element of unrebated indirect taxes at earlier stages of the manufacturing process. What is more, the CCS disbursed is added to the taxable income of the exporter so that a significant proportion of it is returned to the Government in the form of tax revenue. On balance, therefore, it seems to the Committee that an overwhelming proportion of CCS is a compensation for unrebated indirect taxes, and it does not constitute an incentive. Such a conclusion has two implications.

First, CCS only ensures that taxes are not exported in the form of escalated costs, which is in keeping with the practice in most countries of the world. Second, in the absence of CCS, the competitiveness of Indian exports would be adversely affected, and it is plausible to suggest that without CCS our export performance would have been worse.

II. Other Forms of MDA

3.16 As stated earlier, the bulk of the resources provided for market development assistance in the budget are absorbed by CCS. About two-thirds of what remains is used to finance the assistance to commercial banks on export credit extended by them in the form of pre-shipment and post-shipment credit. Only a very tiny proportion is left over to provide financial assistance for export promotion, much of which goes in the form of grants-in-aid to organisations such as the Export Promotion Councils which are concerned with product and market development. These export promotion measures are considered in the last chapter which examines the institutional framework.

E. *Fiscal Concessions*

3.17 Special fiscal treatment granted to exports takes two forms. that which relates to the payment of indirect taxes, and that which relates to the payment of direct taxes. The first type of concession is incorporated in the duty drawback system and the regime of cash compensatory support which seeks to reimburse indirect taxes that are not refunded through the former. The second type of concession is incorporated in income-tax provisions where earnings from exports are either partially exempted from income-tax, or taxed at a lower rate. Such income-tax rebates have been provided to exporters in India in one form or another since the early 1960s. This device is administratively feasible because it only makes use of the existing income-tax system for implementation; while it does not involve an increase in Government expenditure, it does mean revenue foregone. In

fiscal terms, of course, revenue disbursed and revenue foregone are equivalent.

3.18 The present regime of fiscal concessions for exports is embodied in Section 80-HHC of the Income-Tax Act which provides that 1 per cent of the FOB value of exports and 5 per cent of the incremental export turnover as compared to the preceding year, is deductible from taxable income. The incentive implicit in this export promotion measure is very small indeed. Assuming that the average rate of income-tax paid by exporters is 50 per cent and that the average rate of growth in exports is 10 per cent per annum, these deductions in taxable income save the exporter less than one rupee in tax payable for every Rs. 100 of exports. What is more, where an exporting firm does not have a taxable profit, it derives no benefit from this fiscal concession.

F. *Import Policy for Registered Exporters*

3.19 In order to provide the export sector of the economy with access to importable inputs that enter into export production, at international prices, the import policy allows special import facilities for registered exporters. The system of import replenishment licences which are related to the FOB value of exports is, for the most part, a facility insofar as it enables exporters to import inputs where the domestic substitutes are not adequate in terms of price, quality or delivery dates; it is also an incentive insofar as there is a premium on those REP licences which are transferable. A REP licence makes it possible for exporters to obtain items that are either canalised or restricted in the import policy, subject to the limits and conditions specified. The replenishment rate and the range of items importable on a REP licence is, of course, related to the import content of export production.

3.20 In this context, it is worthnoting that approximately two-thirds of total exports are eligible for import replenishment

facilities. The total value of all such licences issued during 1983-84 was Rs. 2294.5 crores which constituted a little over one-third the FOB value of exports that are eligible for these facilities. The structure of the present import replenishment regime is based on two sets of distinctions : (i) import licences for export production are issued either *ex post* on the basis of the FOB value of exports where goods have been shipped, or *ex ante* in anticipation of exports subject to a stipulated export obligation; (ii) some of the import licences issued for export production are transferable, whereas the others are non-transferable. On this basis, it is possible to discern three categories of licences in the replenishment system. First, there are REP licences for registered exporters which are issued *ex post* where the licence as also the goods imported are freely transferable. Second, there are duty-free advance licences, imprest licences, and duty-free special imprest licences, which are issued *ex ante* and are non-transferable. Third, there are Additional licences issued *ex post* to Export Houses and Trading Houses where the licence is not transferable but the goods imported are transferable to Actual Users or to supporting manufacturers. Consider each category in turn.

3.21 In the first category, there is a long list of exports which are eligible for REP licences, but this is not exhaustive. For a limited range of products specified in Appendix 21, duty-free imports are possible on REP licences, but for most of the eligible exports, are specified in Appendix 17, duty is payable on REP imports. Apart from imports of inputs that are canalised or restricted, it is possible for manufacturer-exporters to obtain other items such as designs and drawings, catalogues, tools and even capital goods, within the value of the licence subject to certain conditions. In 1983-84, such REP licences accounted for 44.3 per cent of the total value of licences issued under the import replenishment regime.

3.22 The second category where import licences are issued in anticipation for export production, accounted for 48 per cent

of the total value of licences issued under the import replenishment regime during 1983-84. Of this, duty-free advance licences constituted 11 per cent, impress licences constituted 36.5 per cent, while special imprest licences constituted a mere 0.5 per cent. (i) For specified items set out in Appendix 19, duty-free advance licences are issued subject to a minimum value-added criterion either against a specific export order or against a bulk export production programme. (ii) Imprest licences are issued either against specific export orders to a regular exporter or against an export production programme; the export obligation is stipulated on the basis of the replenishment rate, and in cases where the export products are not eligible for the normal replenishment on the basis of a minimum value-added criterion. Duty is payable on all such imports except in the case of imprest licences for trade in gems & jewellery. (iii) For deemed exports, the necessary inputs can be imported through duty-free special imprest licences.

3.23 In the third category, Export Houses and Trading Houses are eligible for Additional licences as a proportion of the FOB value of their exports from the SSI sector and as a proportion of the net foreign exchange earnings in exports from the non-SSI sector. Apart from items in the automatic permissible category, it is possible to import items on OGL and even capital goods, against these licences, subject to certain limits. In 1983-84, such Additional licences accounted for 7.7 per cent of the total value of licences issued under the import replenishment system.

G. *FTZs and 100 Per Cent EOUs*

3.24 There are at present two FTZs at Kandla and Santa Cruz, the performance of which has shown a distinct improvement in recent years. Consequently, the Government has decided to establish four more FTZs. The rationale of such FTZs is to provide duty-free access to imports of raw materials, intermediate goods, capital goods and technology on OGL, without any licensing restrictions which are implicit in the

provisions of MRTP and FERA. The units in FTZs are also provided with a tax holiday for a period of five years. Taken together, these facilities are meant to create an environment where the firm is at complete par with other competitors in the world market. In practice, however, expectations have not been fully realised. For one thing, these FTZs have found it difficult to sell their entire output in the international market. For another, the type of environment that was conceived was not entirely created.

3.25 The Committee would, therefore, make the following suggestions. (i) In view of the fact that it has not been possible to protect the entrepreneurs in FTZs from the plethora of procedures and the multiplicity of authorities, it is essential to create a fully empowered statutory authority for controlling all matters relating to all FTZs which would, in effect, provide a one-window clearance, without reference to concurrence from other departments. (ii) The choice of industries to be located in the FTZs should be a matter for careful consideration, because these zones should constitute a window to the world for the acquisition of sophisticated technologies which are not readily available in the domestc tariff area, and also serve as a means to the end of imparting higher skills and expertise to our workers and managers. (iii) The desire to sell a part of the production from these FTZs in the domestic market not only constitutes a soft option but also conflicts with the *raison d'etre* of FTZs. It need hardly be emphasised that the objective of FTZs should be to earn foreign exchange through exports. The Committee believes that the present concession which enables units in FTZs to sell 25 per cent of their output in the domestic market against valid import licences should be continued inasmuch as it is conducive to efficient import substitution.

3.26 The scheme of 100 per cent Export-Oriented Units was introduced in 1981 to provide duty-free access to imports of raw materials, intermediate goods, capital goods and technology on OGL. These units have also been exempted from

normal licensing provisions in the domestic tariff area and restrictions implicit in MRTP and FERA. Their production is bonded for export and the units can be established anywhere in the country. As their rationale is very similar to that of FTZs, there is justification in the claim that they should also be provided with a tax holiday for five years. While it is too early to judge the performance of 100 per cent EOUs, the suggestions made in para 3.25, in respect of FTZs, should *ipso facto* be applicable to these units. In fact, it would be appropriate that the authority envisaged for FTZs also has the powers to formulate policies and take operational decisions in the case of 100 per cent EOUs.

H. *Changes, Rationalisation and Prescriptions*

3.27 In the preceding chapter, the Committee analysed the constraints on India's export performance. The highlights of this diagnosis were that the competitiveness of India's exports is constrained largely by domestic factors which manifest themselves in the costs of production, the pressure of domestic demand, and non-price factors, as also of course the relative profitability of exports. In general, the costs of production in India's export industry are higher than in competing countries because : (i) the cost of inputs, whether imported or domestically produced, is higher, and (ii) the productivity which is a function of the technology-in-use and the scale of production is lower. The pressure of domestic demand improves the relative profitability of sales in the domestic market as compared to exports and reduces the surpluses available for export. Non-price factors such as quality or marketing efficiency, which in turn is a composite of several attributes, tend to reduce the ability of Indian exports to compete in world markets.

3.28 It would seem that the present regime of export promotion policies, which has been considered at some length in this chapter, seeks to resolve only some, by no means all, of the problems which constrain export performance. The import policy

for export production, combined with the duty drawback system, attempts to provide exporting firms in the domestic tariff area with importable inputs at world prices. At the same time, the FTZs and the 100% EOUs attempt to provide exporting firms in bonded zones with an access to inputs and capital goods at world prices. The CCS regime, on the other hand, is designed to reduce the costs of domestically produced inputs used in the export sector through a reimbursement of unrebated indirect taxes. It is not certain that these export promotion measures entirely fulfil their objectives. The resources provided for product/market development in order to combat the non-price factors which might worsen the competitiveness of exports are very limited, whether we consider CCS or other forms of MDA. Similarly, the attempt to improve the relative profitability of exports through the fiscal concession implicit in Section 80-HHC constitutes a very small incentive.

3.29 From the above, it is possible to draw three inferences. First, the present regime of export promotion policies is mostly a compensation for disadvantages faced by the exporter on account of domestic economic policies, and the element of incentive, if any, is very small indeed. Second, the compensation is perhaps not entirely adequate, whether we consider the CCS, the duty drawback system or the import facilities for export production. Third, even if these measures were perfect in their operation, there is a wide range of factors that constrain export performance which are left untouched by the regime of export promotion policies. An examination and review of the present set of export promotion measures, in juxtaposition with the diagnosis of constraints on export performance, leads the Committee to suggest the following changes.

3.30 First, the duty drawback system should be rationalised in such a manner that it provides an expeditious and complete reimbursement of taxes paid on inputs that enter into export production. For this purpose, the delays in the disbursement of drawbacks for which exports are eligible should be

eliminated through a simplified payment scheme; the average-industry-rates should not be fixed in a conservative manner but should attempt to give the benefit of doubt to exporters; the request for specific-brand-rates should be considered wherever the exporter claims that the existing drawback is not sufficient to compensate for the duties actually paid; the rates of drawback, whether average or specific, should be fixed within a stipulated period and wherever that is not possible, a minimum drawback should in any case be provided on an interim basis, the multiplicity of drawback rates should be reduced in such a manner so as to avoid problems of classification that arise at the time of reimbursement. It is worth noting that the Economic Administration Reforms Commission has also emphasised the above points.

3.31 Second, the regime of cash compensatory support must be maintained in its present form as a facility, so that the export sector is not at a disadvantage in world markets on account of either unrebated indirect taxes or the cascaded structure of taxation. The CCS regime would have to continue so long as these disadvantages are implicit in the structure of domestic fiscal levies. The present practice of including CCS as a part of taxable income is not logical inasmuch as it implies taxing the compensation for unrebated indirect taxes. The Committee would, therefore, urge the Government to consider exempting CCS from income tax. The rates of CCS should be rationalised to reduce their multiplicity as far as possible on the basis of evidence available about the incidence of unrebated indirect taxes which enter into the cycle of manufacturing for export. The existing system of announcing the rates for a period of three years should continue. In the view of the Committee, the remaining part of the CCS, which is supposed to provide assistance for product or market development, should be used in a selective manner, so that the resources available for export promotion are deployed in a cost-effective manner. Such assistance should be provided to sectors where we have a potential comparative advantage and should be reduced over time as

infant export industries grow up and become competitive in world markets; the resources so released can then be used for product and market development in other emerging infant export sectors.

3.32 Third, the present import replenishment system for export production should be re-formulated along the lines of the advance licensing system for the category of manufacturer-exporters, so that the exporter is provided with complete access to imported inputs at world prices in anticipation of production for exports; such import facilities should be duty-free and subject to the actual-user condition. It should then be possible to eliminate licensing under the import replenishment regime for manufacturer-exporters who opt for the new system through the introduction of a pass book for each exporter, which specifies the export product, the maximum import content of export production and the range of inputs importable for that product; all such imports would be entered into the pass book, as also subsequent exports, and a periodical monitoring would ensure that the export obligation is met. In effect, this would mean a permanent replenishment licence for established manufacturer-exporters (say those who have been regular exporters for three years or more) which would provide duty-free access to imported inputs in anticipation of exports. Of course, this would mean that the duty drawback system would then reimburse only central excise duties paid by exporters on domestic inputs that enter into export production. The present import replenishment system would continue for merchant-exporters, export houses, and trading houses, as also for manufacturer-exporters who are not eligible for or who do not opt for this new system.

3.33 The aforesaid changes and rationalisation in the present regime of export promotion would ensure that the export sector is provided access to imported inputs at world prices, and that domestically produced inputs which enter into export production are available at prices which compensate for the incidence of unrebated indirect taxes. At the same time, the selective

assistance for export promotion, which is incorporated in the CCS regime, would provide the domestic resources that are needed for product and market development by infant export industries. Nevertheless, the earlier diagnosis suggests that a number of factors which act as a constraint on export performance would remain operative inasmuch as the re-formulated export promotion policies are not addressed to those problems. In order to alleviate such constraints, or at least reduce their incidence, the Committee would make the following recommendations.

3.34 The importance of the exchange rate for the relative profitability of exports need hardly be stressed. Insofar as the exchange rate determines the rupee return per unit of foreign exchange earned from exports, it is an important factor that influences the competitiveness of our exports in world markets. In this context, the real effective exchange rate is more relevant than the nominal exchange rate. In the view of the Committee, the real effective exchange rate of the rupee should not be allowed to appreciate and should be maintained at a level considered appropriate for ensuring the competitiveness of exports.

3.35 Given an exchange rate, the Committee believes that fiscal concessions are an important means of improving the relative profitability of exports. This would be particularly relevant in sectors where the proportion of total output exported is significant but not large, or in sectors where a marginal or very small proportion of the total output is exported. The Committee would, therefore, suggest that the Government may consider exempting 50 per cent of the profits from exports from income tax. While it may be difficult to assess the actual profits derived from exports in any firm, a simple rule to follow would be to use the ratio of exports to total sales as a basis for estimating the share of profits from exports in total profits.

3.36 In the perception of the Committee, apart from the higher costs of inputs, the competitiveness of Indian exports

is also adversely affected by the lower levels of productivity, as compared with competing countries, which is, *inter alia,* a consequence of the scale of production and the technology in use. In order to reduce the impact of such constraints, it is suggested that export production, in appropriate cases, should be exempted from capacity licensing provisions implicit in industrial policy and restrictions on imports of capital goods or technology in import policy. The Committee recognises that this may not be possible across-the-board and would need to be done on a selective basis. [The Kapur Committee on Exports of Engineering Goods has made a selection of 'thrust industries' where it would be advisable to move in this direction. It is the view of this Committee that similar exercises in selectivity should be undertaken for other export sectors]. What is more, in cases where a firm is willing to accept an obligation that it would export 60—70 per cent of its total output, it should be provided with importable inputs, at world prices, as also with access to capital goods and technology, without the restrictions that may be applicable to others.

3.37 The development of markets for exports often calls for investments in the form of foreign exchange resources, whether on warehousing, after-sales service, advertising, brand-name development or access to established market channels. Towards this objective, it has been suggested to the Committee that there should be an exchange entitlement scheme for exporters, EESE, which would enable them to use a certain fraction of their foreign exchange earnings for the purpose of market development. The Committee would commend this suggestion to the Government for closer examination as an alternative to the present system. In the interim, the procedural impediments in the present Blanket Permit Scheme should be removed.

3.38 The difficulties which arise from the pressure of domestic demand on the one hand and from the quality factor on the other, also constitute important constraints on export performance.

Apart from measures to improve the relative profitability of exports, there are no simple solutions to these problems insofar as their manifestations are economy-wide and cannot be addressed in a piece-meal manner. Nevertheless, these constraints need to be recognised as also resolved.

3.39 In sectors where the pressure of domestic demand squeezes the available exportable surplus, the long-term solution is to increase the domestic production at a rate which is higher than the increase in domestic consumption. In the interim, there are two possible solutions. First, there should be a conscious attempt to increase foreign exchange earnings per unit of output by increasing value-added before export. Second, minimum volumes should be set aside for exports even in lean years, as stop-go policies are not in the long-term export interest; of course, insofar as wage goods or necessities are concerned, the interests of the domestic consumer would have to be kept in mind.

3.40 Apropos the quality factor, it is self-evident that the realisation of the need, as also the necessary correctives, must stem from the manufacturers themselves. In the ultimate analysis, the level of quality consciousness and the degree of quality control would improve through competition which would increase efficiency and productivity over time. In addition, the Committee would like to suggest certain mechanisms which are set out in the last chapter on the institutional framework, to facilitate the attainment of this objective.

3.41 The changes, rationalisation and prescriptions outlined above, it is hoped, would resolve some of the major problems that constrain India's export performance. The Committee believes that a re-formulation of policies along these lines is a necessary condition for stepping up the rate of export growth, but it is not a sufficient condition. Export promotion policies can only provide an environment that is conducive to exports. At a micro-level, in an economy such as India, it is for firms, which have grown accustomed to a sheltered domestic market, low levels

of quality consciousness and high profits at home, over the past three decades, to venture into export markets that are fiercely competitive. In other words, a framework of policy can be so designed as to take a horse to the water but it cannot make it drink. It is, therefore, imperative that those who are in the export business should show greater initiative, dynamism and aggressive salesmanship to enter into, and establish themselves in the world market. On the path to sustained export growth there can be no substitute for the entrepreneurial spirit embodied in the human factor.

CHAPTER IV

IMPORTS AND IMPORT POLICY

A. *Structure of Imports*

4.1 In order to suggest appropriate changes in, and rationalisation of, import policies for the conservation of foreign exchange and the promotion of efficient import substitution, as a first step, it is necessary to examine the structure of imports. It need hardly be stressed that trade policies in India have always sought to provide for imports which are essential to support levels of consumption, investment and production (including production for exports). At the same time, the need for economising on the use of scarce foreign exchange has also been recognised. The evolution of import policy in India over the past three decades has, *inter alia,* been determined by these basic considerations.

4.2 The Committee believes that, to a considerable extent, the room for manoeuvre in terms of import policy is influenced by the composition of imports. At the beginning of the 1980s, for example, essential consumer goods constituted about 10 per cent of total imports, capital goods including components and spares constituted another 15 per cent, raw materials and manufactured intermediates accounted for about 35 per cent, while fuels made up 40 per cent of the import bill. This structure of imports emerges clearly from the data presented in Table 15 which is based on the Standard International Trade Classification categories, as also from the data from Table 14 which presents the same information, making a distinction between capital goods (complete machinery and equipment, components and spares), consumer goods (food, edible oils and essential finished goods), crude oil and petroleum products, and raw materials and

intermediate goods (crude materials, fertilisers, chemicals, paper, precious stones, iron & steel, and non-ferrous metals). The share of crude oil and petroleum products in total imports witnessed a dramatic increase after the early 1970s, but the composition of non-fuel imports has not registered any significant change over the past decade, although the share of consumer goods has been influenced by the variations in the imports of food and edible oils.

4.3 In the view of the Committee, it is also useful to make a distinction between bulk imports such as foodgrains, vegetable oils, fertilisers, crude oil and petroleum products, iron & steel, non-ferrous metals, newsprint, and cement on the one hand, and the remaining imports on the other. Table 16 which outlines the trends in the imports of the specified bulk items over the past decade reveals that their share ranged from one-half to two-third of total imports. The provisional figures for 1983-84 suggest that, at present, this proportion is a little over 50 per cent. There are two characteristics of such bulk imports which are worth noting. First, in a fundamental sense, these are essential imports which are necessary to support levels of consumption and production in the economy. Second, all these specified bulk imports are in general canalised, so that the decision about the volume and value of imports is made by the Government.

4.4 The possibilities of conserving scarce foreign exchange should, therefore, be explored in this context, which would require a careful scrutiny of this import basket to determine whether foreign exchange expenditure can be trimmed without squeezing essential consumption or starving the production process of necessary inputs. In other words, the assumption of inflexibility in the basket of bulk imports, which derives from an import pessimism, needs to be re-examined. On this basis, it might be possible to save on foreign exchange through a systematic and careful planning of such canalised imports. Needless to add that it should also be possible to curb the growth in imports

insofar as excessive imports are a corollary of insufficient domestic production, by stepping up the domestic production of these importables or by encouraging the use of substitutes in consumption. The need for, and the possibilities of, such import substitution is discussed later in the report.

B. *Canalisation of Imports*

4.5 The Government has entered into foreign trade transactions through the medium of State trading organisations for more than two decades. Such participation has always been far more important in imports than in exports, whether we consider absolute values or relative proportions. Beginning in the early 1970s, there has been a steady increase in the incidence of canalisation which has, over the past decade, become an integral part of import policy. So much so that, during the period from mid-1970s to the early 1980s, canalised imports constituted as much as three-fifths to two-thirds of the total imports. There has, since then, been a slight decline in the share of canalised imports but this is probably attributable to the slow-down in imports of crude oil and petroleum products rather than to de-canalisation on a significant scale.

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4.6 The Committee discussed the rationale of, and the need for, canalisation of imports. It was felt that the basic principles underlying the policy of canalisation in selected items, as enunciated by the Alexander Committee, were sound and should continue to guide our policy on this subject. The Committee noted with concern the dissatisfaction, expressed by trade and industry, about canalisation with respect to availability, delivery schedules and prices, which has tended to escalate costs and compound inventory management problems. While the Committee recognises these difficulties, in its view such problems arise on account of the choice of items sought to be canalised, the agencies chosen for the task, or just poor implementation.

4.7 The Committee would suggest the following guidelines for a systematic review and rationalisation of canalisation policies apropos imports :

4.7.a. *The Rationale.*—The Committee believes that canalisation of imports should constitute the exception rather than the rule, the objectives of which should be to : (i) obtain better terms of trade, through bulk purchases, than would otherwise have been possible, (ii) realise economies of scale in trade operations, and (iii) plan for the volume of imports to manage the supply of essential inputs and commodities.

4.7.b. *Choice of Items.*—The Committee is of the view that canalisation of imports should be selective and based on the following criteria : (i) items where the size of imports exceeds a certain minimum threshold in terms of absolute value; (ii) items which are either homogeneous or standardized; (iii) items which are subject to administered prices; and (iv) items which are strategic or sensitive in nature. While the first three criteria are based on economic considerations, the last is based on non-economic factors. In terms of the economic criteria, it is clear that where the size of imports is small or where there are variations in terms of differentiation and specification, the item should not as a rule be canalised.

4.7.c. *Choice of Agencies.*—It is recommended that agencies for canalised imports should be selected on the basis of two criteria : (i) A manufacturing firm should not be the agency for importing the item it produces. (ii) There should not be multiplicity of canalising agencies; in other words, it would not be advisable to adopt the principle of nominating a separate canalising agency for each item. There are two reasons underlying the latter criterion. First, it takes both time and resources to develop infrastructure and expertise for operating in world markets and, wherever possible, canalising agencies should benefit from economies of scale which stem from operations across a range of items. Second, this method would enable agencies

responsible for a large value of canalised imports to develop into trading houses with a potential for export promotion.

4.7.d. *Implementation.*—Insofar as difficulties have arisen from poor implementation of canalisation policies, the Committee would recommend the following changes in the method of operations : (i) canalising agencies should be able to plan their purchases in advance, so as to link them with production cycles in producer countries, and be given the freedom to decide on the time of the purchase so as to enable them to obtain better terms of trade; (ii) the planned volume of imports should not be announced in public, as it only tends to push up world prices in items where India is a large or significant buyer; (iii) the service charges levied by canalising agencies should be monitored and fixed at reasonable levels by an independent authority; and (iv) wherever possible and appropriate, there should be more competition for canalising agencies. With reference to this last criteria, it should be ensured that the objective of increasing competition does not lead to a multiplicity of canalising agencies. It is worth noting that in several cases, canalising agencies do at present compete with imports through REP licences; in such cases, equal tariffs for all importers would stimulate competition further.

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4.7.e. The Committee recommends that the existing position on canalisation of imports should be reviewed in accordance with the aforesaid criteria and guidelines and, wherever necessary, the import of items may be decanalised.

C. *Structure of Import Policy*

4.8 To begin with, it needs to be recognised that the import policy which is announced every year influences a relatively small proportion of the total imports. A little more than half of the total foreign exchange expenditure is attributable to canalised imports which are determined by Government decisions. There

is also a significant element in the import bill which is constituted by aid-financed imports. Such imports, almost as a rule, are tied to source or to end-use or both, which means that these imports are *de facto* out of the regulatory control of the import policy. During the early 1980s, gross aid utilised, which may be taken as an approximation for the value of aid-financed imports, was about 15 per cent of total imports. Therefore, it would seem that, in effect, import policy as discussed in the following paragraphs covers only one-third of the country's imports.

4.9 The Committee decided that in order to review the structure of import policy, it would be appropriate to make two distinctions. First, it is necessary to distinguish between alternative means of regulating imports, that is, tariffs and quotas; within the latter, it would also be useful to keep in mind the varying degrees of restriction implicit in the different categories of the import licensing system. Second, it is necessary to distinguish between the import of capital goods, the import of intermediate goods and the import of consumer goods. The following discussion considers both these issues in turn.

D. *Tariff versus Quotas*

4.10 The issue of the choice between tariffs and quotas, as alternative instruments of trade policy, was debated at some length. The Committee believes that, in the ultimate analysis, tariffs should replace quotas over time. In principle, this would be a step in the right direction for a number of reasons. First, as the number of import transactions has increased over the years, import licensing has become more complex to administer in a prompt manner. Second, it may be easier for importers to assess the costs and the availability in the case of tariffs as compared to quotas. Third, fiscal controls may be preferable to physical controls in administrative terms, as they would reduce the incidence of delays and misuse. Fourth, in accordance with the

object of de-escalating protection over time, a reduction in tariffs rather than quotas would be more transparent and easier to comprehend on the part of import-competing firms.

4.11 The Committee recognises that the process of transition would have to be gradual as tariffs and quotas are not perfect substitutes for one another. In many cases, the tariff equivalent of quotas, for example in the case of capital goods, may be so high that it would further escalate the domestic costs of production without any change in the degree of protection; in such cases, it may be preferable to retain the import licensing system. Bearing in mind this general principle, the Committee has suggested some areas where it would be advisable to move from licensing to tariffs. Wherever licences are substituted by tariffs, it needs to be accepted that tariffs are an instrument of trade policy and not a means of raising revenue. In a situation where domestic resource mobilisation is exceedingly difficult, there is a distinct possibility that the revenue raising objective may retain importance and precedence. Hence, the Committee recognises that the proposed change in the role of tariffs would have revenue implications that would determine the pace of the transition from physical to fiscal controls in trade. During the period of transition, the structure of tariffs and the import licensing policies would have to be harmonised with each other, which is not the case at present. Beginnings are always difficult. Yet, the Committee believes that if there is to be a transition from quotas to tariffs, it is imperative to evolve a mechanism supported by a group of experts who would formulate the guidelines and the methodology for the rationalisation of the tariff structure and the harmonisation of import licensing with tariffs; this would enable the Ministry of Finance to restructure the tariff rates. It goes without saying that a close inter-departmental co-ordination between the Ministries of Commerce, Industry and Finance is a pre-requisite for the proposed change to be introduced. The Committee hopes that this interim institutional mechanism would ultimately evolve into a suitable permanent arrangement.

E. *Import Policy for Capital Goods*

4.12 The present regime for the import of capital goods provides for three categories. First, where there is no domestic production, the specified capital goods can be imported under OGL. Second, where there is domestic production and imports are an exception rather than the rule, the specified capital goods are placed on a restricted list which constitutes a near-ban. Third, where capital goods are not specified in either of the two aforesaid categories, imports are subject to a licensing procedure; applications for such imports are examined on merits by the Capital Goods Committees and an import licence is issued where the concerned technical authority gives clearance from the 'indigenous angle' and where the concerned sponsoring authority certifies 'essentiality'. The clearance from the technical authority is based on a physical concept of indigenous availability insofar as it implies that there is no domestic production of the capital goods or that the domestic manufacturer cannot supply it in reasonable time.

4.13 In the perception of the Committee, the import policy for capital goods has wide ranging implications not only in terms of trade policies but also in terms of technology policy and industrialisation strategy. On the one hand, it is important to recognise the validity of the infant industry argument for protection insofar as an indigenous capital goods sector is an essential part of any sustained industrialisation. On the other hand, it is also important to recognise that access to capital goods available in the world market is necessary for modernisation and technological upgradation in the industrial sector. Clearly, an appropriate policy should attempt to strike a balance between these objectives, but that is easier said than done.

4.14 The Committee reviewed the evolution and the present structure of the import policy for capital goods. In its view, the stress on import substitution over the past three decades has created a wide ranging and fairly sophisticated base in the

capital goods sector. Yet, the lack of exposure to international competition has led to high costs and inadequate qualities in several cases. In this context, the Committee felt that the liberalisation in the import policy for capital goods since the late 1970s was a step in the right direction. Nevertheless, the Committee believes that there is considerable scope for rationalising the import policy for capital goods by : (i) co-ordinating the import licensing system with the structure of tariffs, and (ii) making changes which would ensure that domestic production of capital goods becomes competitive over time without neglecting the infant industry argument for protection. After careful consideration of all the issues, the Committee would suggest the following changes in the import policy for capital goods.

4.15 There should be a rationalisation of the tariff structure in the case of capital goods which are on OGL. Insofar as there is no domestic production of such capital goods, tariffs are not needed as a means of protection or an instrument of trade policy. Such tariffs only serve the purpose of raising revenue. Imports of such capital goods should, in general, be subject to low tariffs, as their availability at close to world prices would further the objective of modernisation at low cost, technological upgradation and efficient import substitution. High tariffs may, however, be used wherever necessary depending on end-use; in other words, in sectors where the Government decides to discourage the domestic production of the final good.

4.16 The range of capital goods in the present restricted list, which implies a near-ban, would account for a substantial proportion of the domestic production in the capital goods sector. The need to strike a balance between protection on the one hand and competition or access on the other is perhaps the most relevant in this category. Where the domestic production of such capital goods has been in existence for a long time, say a decade or more, it would be advisable to de-escalate the level of protection in a planned manner so that domestic producers

of capital goods are exposed to competition and also have an adequate opportunity in terms of time to reduce their costs of production. For this purpose, the Committee would suggest that the import licensing for this category should be relaxed, by redefining the concept of indigenous availability in *economic* rather than in *physical* terms. In other words, where the domestic price of a capital good exceeds the landed price of its imported equivalent inclusive of duty, by more than a specified proportion, the imports should be licensed. In general, the tariff rate and the preference implicit in the specified proportion, taken together, should not provide a nominal protection greater than 100 per cent. Therefore, protection would be provided through a combination of import duties and licensing, and protection can be de-escalated over time by reducing the tariff rates or by reducing the specified proportion. It would, of course, be necessary to ensure that it is the level of effective protection that is de-escalated over time rather than just nominal protection, because if the nominal protection for intermediate goods that go into the production of these capital goods is high, or is raised at the same time, the effective protection on the production of capital goods might be lowered too sharply and might even become negative; in such cases, the aforesaid ceiling of 100 per cent, in terms of nominal protection for the capital goods, should be suitably adjusted.

4.17 The import licensing procedure for the residual category of capital goods should be continued with some changes and rationalisation. In other words, wherever necessary, some of these goods may be placed on OGL, subject to the appropriate tariffs. However, in cases where : (i) domestic production constitutes a relatively small proportion of domestic demand, (ii) domestic production is in an infant stage, or (iii) domestic production is contemplated on the basis of perceived comparative advantage, imports of capital goods should remain subject to the licensing procedure. Given that capital goods are importable by Actual Users alone, this policy would ensure that there is no escalation in the domestic cost of

production on account of import duties, which would have to be high if the tariff is to provide protection equivalent to the quota. The Committee believes that the difference between the domestic price and th duty-inclusive price of the imported equivalent should constitute one of the criteria in the import licensing procedure so that the concept of indigenous availability is not only physical but also economic.

4.18 For the sectors which are selected for rapid modernisation, and for lowering of investment costs, the required capital goods should be identified and placed on OGL with a zero or negligible tariff.

F. *Import Policy for Intermediate Goods*

4.19 The present structure of import policy for intermediate goods is as follows. Imports of raw materials, components, spares and consumables are classified into four categories in the import licensing system: restricted, limited permissible, automatice permissible and OGL. The degree of restriction implicit in these categories is, *inter alia*, a function of the proportion of estimated domestic demand that can be met through domestic production. Where domestic production is adequate, the specified intermediates are placed in the restricted category and imports are the exception rather than the rule. Where domestic production is significant but available quantities and delivery schedules are not adequate, the specified intermediates are placed in the limited permissible category and import licences are issued on merits. Where domestic production is marginal in relation to domestic demand, specified intermediates are placed in the category of automatic permissible. Those intermediate goods which are not specified in either of the aforesaid three categories are placed on OGL. Therefore, in the case of intermediate goods, OGL is, in essence a residual category, although a range of intermediate goods is also specified as OGL for Actual Users, or OGL for Actual Users and Export Houses/ Trading Houses, or OGL for stock and sale.

4.20 The Committee reviewed the rationale and the structure of import policy for intermediate goods. It appears that the policy-mix is determined by a multiplicity of objectives. For one thing, it makes a distinction between imports for export production and imports for domestic production. For another, it attempts to strike a balance between access to importable inputs at world prices and the need for providing adequate protection to import-competing industries. In the pursuit of these objectives, the refinements introduced into the import policy from time to time have made it more complex and, consequently, the procedures have also become more cumbersome. The distinction between the automatic permissible and the limited permissible categories cannot be said to be scientific or precise. There is a clear trade-off between fine tuning of imports on the one hand and complexity of procedures on the other. A resolution of one problem tends to exacerbate the other. But that is not all. There are two other discernible problems. First, the import policy for intermediate goods, and the degree of restriction implicit therein, is not a function of the domestic prices of importable inputs. Second, the tariff structure and the import licensing system often run at cross purposes. Given the characteristics of the intermediate goods sector in the manufacturing process, where the output of one industry constitutes the input for another, this has meant that the objective of efficient import substitution has eluded us. The prices of domestically produced importable inputs have remained higher than corresponding world prices because domestic resource-costs have not been an important criteria in the formulation of import policy, as a result of which infant industries have not become competitive over a period of time. The prices of imported inputs have also tended to remain higher than corresponding world prices on account of the structure of tariffs.

4.21 The Committee recognised that intermediate goods are somewhat different from capital goods in terms of their implications for import policy. First, unlike capital goods, intermediate goods are far more substitutable in alternative uses.

Second, imports of intermediate goods are a recurring phenomenon unlike imports of capital goods, which take place once in-a-while or once-and-for-all. Nevertheless, the Committee believes that there is scope for rationalisation and simplification in the import policy for intermediate goods. It would make the following suggestions for this purpose :

4.21.i. The raw materials, components, spares and consumables in the present restricted category should be moved to the specified OGL list for Actual-Users, in the first instance with a high tariff which provides a protection from imports equivalent to the erstwhile licensing system. This high tariff should be de-escalated over a period of five or more years in accordance with a pre-announced schedule. Of course, it is the level of effective protection that should be de-escalated over time. Such an approach would ensure that domestic producers of these intermediate goods have an adequate opportunity to reduce their costs over time.

4.21.ii. The automatic permissible category should be merged with the category of OGL on one side and the category of limited permissible on the other. For this purpose, the present automatic permissible list should be reviewed. In cases where the interests of domestic production are not significant, the items should be moved to the specified list in OGL for Actual-Users or for Actual-Users and Export Houses/Trading Houses; and the necessary protection should be provided through tariffs. In cases where the interests of the domestic production are significant and where there is a valid infant industry argument, the items should be moved to the limited permissible category, and protection should be provided through the import licensing system.

4.21.iii. In the limited permissible category, where the import licensing system should be retained, the domestic resource costs of imports competing production should be kept in mind, but it should also be ensured that the costs of imported inputs to domestic industry are not escalated by the tariff structure.

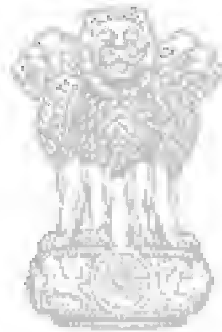
4.21.iv. It is imperative that the structure of tariffs and the import lecensing system are harmonised with each other. The mix of the two policies would become counter-productive if the former is perceived an instrument of fiscal policy while the latter is perceived an instrument of trade policy. Insofar as both tariffs and quotas regulate imports, they must operate in tandem rather than independently of each other.

G. *Import Policy for Consumer Goods*

4.22 Except for a few essential commodities such as food-grains and edible oils, the present import policy does not permit the import of consumer goods. It is, however, worth noting that some imports of consumer goods are permissible for Indians returning from abroad, subject to the limits and conditions specified in the baggage rules or the transfer of residence rules. In considering the import policy for consumer goods, it is necessary to distinguish between essential consumer goods, which are required to meet basic human needs on the one hand, and non-essential consumer goods, including luxury goods, on the other. As a rule, the present import policy does not permit the import of consumer goods, except for a limited range of essential commodities such as foodgrains, edible oils, medicines, books, and specified fabrics. This is nothing new. It has been so for the past three decades. The Committee believes that, in a situation, where foreign exchange resources are scarce, the present policy which bans the import of non-essential consumer goods should be continued.

4.23 In this context, the Committee also considered the widespread incidence of smuggling in consumer goods such as textiles, watches, consumer electronics, durable luxury goods and gold. It is exceedingly difficult, if not impossible, to estimate the extent of smuggling but, irrespective of the magnitude, smuggling is obviously financed out of foreign exchange which would otherwise be available to the economy. The principal sources for the financing of smuggling are the remittances sent

through illicit channels, exports of silver or other banned goods, under-invoicing of exports and over-invoicing of imports. There are no simple or straightforward solutions to this problem; nevertheless, insofar as it has economic origins and represents illegal transactions in foreign trade, the problem should be explicitly recognised and subjected to careful examination by a group of experts.



CHAPTER V

TECHNOLOGY, IMPORT SUBSTITUTION AND INDUSTRIALISATION

A. *Import Policy for Technology*

5.1 It is widely accepted that technology is central to the process of economic growth and industrialisation. While the pace of industrialisation in India has been impressive over the past three decades, in our view, there are a number of sectors where the level of technological development in the economy at the present juncture can and should be raised. Where it is inadequate, the underlying factors are manifold and complex. The end result is more easily discernible. The continuous technological upgradation, which is a necessary condition for rapid and efficient industrialisation, has not taken place either through imports of technology or through indigenous technological development. Many examples come to mind where technologies have been imported for particular sectors at a point in time and absorption of such technologies has been followed by fossilisation rather than innovation. It would be reasonable to ask why. While we cannot provide a definitive answer, in our judgment the possible reasons are as follows.

5.2 Imports of technology as a means for technological upgradation may have been constrained by a number of factors. First, it is possible that the present set of policies which regulate imports of technology, such as the emphasis on lump sum payments, the limit on equity participation by foreign firms or the licensing procedure for capital goods, limit the breadth and depth of technology imports. Second, it is possible that the present regime for imports of technology is liberal and

permissible enough at a macro-level, but the available access has not been used on account of attitudes at the micro-level and the limited technological capacity of the importing firms. Third, restrictive policies pursued by the sellers of technology in the world market also limit continuous technological upgradation since the world market for technology is dominated by transnational firms who are not always willing to share their R & D or their product/process innovations with buyers of technology in developing countries.

5.3 Indigenous technological development as a means for continuous technological upgradation may have been constrained by a different set of factors. First, it is possible that competition among domestic firms has not been sufficient to provide an inducement for technological improvement and change. Second, it is also possible that the levels of investment in R & D have not been enough to make for innovations and technical progress. Clearly, the two factors are inter-linked.

5.4 An economy should be able to move from importation to absorption and adaptation of technology through to the stage of innovation, at least in some sectors, on the path to sustained industrialisation. It should, therefore, be recognised that imports of technology and indigenous technological development are not mutually exclusive. An unlimited and continuous access to imports of technology would mean that tomorrow never comes for the indigenous development of technology. On the other hand, a reliance on indigenous technological development alone would add to both time-lags and resource costs, which we cannot afford. Hence, the two need to be combined in a judicious mix.

5.5 The Committee believes that, at the present stage of our development, it is necessary to provide a more liberal access to imports of technology in most sectors of the economy; however, in a few sectors where resources have been provided for R & D expenditure in significant amounts and the develop-

ment of indigenous technology is about to come-of-age, it might be advisable to exercise caution in the matter of imports. In this context, it is important to distinguish between technology embodied in capital goods and disembodied technology in the form of know-how. It is the view of this Committee that the former should be governed by the import policy regime for capital goods which has been outlined in the preceding chapter. The Committee would like to make the following recommendations apropos the latter.

(i) In cases where it is possible to buy foreign technology, *without* foreign equity constituting a part of the package, such imports should be placed on OGL subject to appropriate ceilings on lump sum payments and royalties for a specified maximum period.

(ii) In cases where it is not possible to import technology without foreign equity participation, or where the ceilings mentioned above are exceeded, such imports should be selective and would need to be regulated by the FIB. In the perception of the Committee, these imports of technology should be permissible when there is a guaranteed access to the continuous technological upgradation in the parent firm, provided that the terms of the technology transfer are competitive and reasonable.

5.6 Apropos an import policy for technology, there are other two questions that arise. First, how many firms should be permitted to import the same technology at a point of time. Second, how often should technology imports be permitted in a particular sector? *Inter alia,* the answer to the former would depend on the size of the domestic market, while the answer to the latter would depend on the rate of technological obsolescence. We believe that the multiplicity and periodicity of technology imports should not be over-regulated insofar as it limits

competition between firms in the economy. While imports of technology by a large number of firms at a point of time, or the same number of firms more frequently over a period of time, would imply some duplication and a possible waste of resources, the profitability of such imports from the viewpoint of the firm which, in turn, would depend on the size of the domestic market, should place a natural limit on such imports.

5.7 The Committee recognises that a liberal access to imports of technology might be necessary in some sectors of the economy, but it is by no means sufficient to ensure continuous technological upgradation. Towards that objective, it needs to be combined with appropriate policies that would ensure an obsorption of this technology and create conditions which would be conducive to innovation. In principle, the present framework of fiscal and trade policies is designed to promote R & D, insofar as R & D expenditure is tax deductible and imports for use in R&D are on OGL. Yet, the pace of indigenous technological development is not adequate. There is obviously some truth in the proverb that necessity is the mother of invention. In other words, domestic firms would move from the stage of importation through absorption to innovation, if and only if they are induced by an expectation of higher profits, a fear of competition or a threat to survival in the market. For this purpose, it would be necessary to increase the competition among domestic firms which, in turn, would require that industrial policies or import policies do not constitute a barrier to entry by new firms in the sector concerned. It would also be necessary to ensure that sub-optimal scales of production and limits on growth in the size of the firm, both of which may stem from capacity licensing provisions, do not reduce the incentive for investment in the form of R & D expenditure.

5.8 The removal of barriers to entry by new firms and the relaxation of capacity licensing provisions might constitute a step in the right direction, but may not suffice unless a liberal

access to imports of technology is somehow combined with a commitment to further technological development through R&D. The Committee recognises the dilemma that continuous free access to imports of technology, on a repetitive or recurring basis for a firm, may constrain the prospects of absorption and development of technology through R & D at home. A possible resolution of this problem-may, perhaps, lie in linking access to technology imports *inter alia* with the growth in sales/size of the firm, its R & D effort or its export performance. The Committee would like to stress that these are not definitive solutions to the problem and that, under no circumstances, should this lapse into a reliance on administrative or bureaucratic scrutiny.

B. *Import Substitution*

5.9 Over the past three decades, import substitution has constituted an integral part, if not the key-stone, of industrialisation strategy in India. The rationale was set out with clarity in the Mahalanobis model. In retrospect, there can be little doubt that the strategy was not only a source of industrial growth but also enabled India to develop a wide ranging and sophisticated industrial sector. In the mid-1980, however, India's industrialisation has reached a stage of development where the process of import substitution is nearly complete in certain sectors, but where it is not, an evaluation and rationalisation has now become necessary.

5.10 In principle, it should be recognised that import substitution is not only a correct strategy but also inevitable in a continental economy such as India. Nevertheless, the Committee believes that it cannot and should not be pursued regardless of considerations relating to cost, efficiency and time. In other words, the emphasis of policy should move from import substitution *per se* to efficient import substitution. Therefore, an assessment of the domestic resource costs of import substitution is absolutely essential. In this context, it is obviously important to recognise the infant industry argument for

protection. However, this argument is valid provided the infant grows up over time and compensates society for the costs incurred in the learning period. Consequently, we must ensure that infant industries do not remain infants in perpetuity or make a transition from a first childhood to a second childhood, without going through a period of adolescence and adulthood.

5.11 The Committee would like to stress that a high level of protection for import-competing industries cannot be justified for an unlimited period of time, as it leads either to high costs or to monopoly profits or to both, which are not in the interest of the economy in general and the consumers in particular. After three decades, it is now time to take stock and think about our strategy of industrialisation. There can be little doubt that in the early stages it was both essential and desirable to foster import substitution through import policies which protected domestic producers from external competition. The rationale went beyond the infant industry argument as the policy-mix sought to protect an infant manufacturing sector. Such an approach was necessary at the time and served a valuable purpose. Indeed, in some sectors, import-competing production was over time transformed into export production that became competitive in world markets. In other sectors, however, the combination of low-quality and high-prices, which has been inflicted upon buyers, has become more and more apparent with the passage of time. At the present stage of industrialisation, it has become necessary to make a careful assessment of the social costs and the social benefits in these sectors. The distribution of benefits, arising from import substitution, between the producers or sellers on the one hand and the consumers or buyers on the other is also not an unimportant issue.

5.12 In order to attain the objective of efficient import substitution, it is essential to de-escalate the level of protection and ensure that infant industries grow up over time and become competitive. We recognise that such structural adjustment, which is an integral part of industrialisation, cannot be a painless

process. Therefore, it would be advisable to specify a time horizon over which protection would be gradually reduced. The reduction in the incidence of protection would need to be phased, so as to ease the process of transition because it would be difficult for domestic firms accustomed to a level of protection to make structural adjustments overnight. Clearly, the period over which protection is de-escalated would vary across sectors as it would be a function of : (i) the age of the industry, depending on whether it is an infant, an adolescent or an adult in terms of time, and (ii) the perceived lags in the learning process which may be specific to particular industries. The programme for the de-escalation of protection over time should, of course, provide for adequate/effective safeguards through which it would be possible to check either a sudden surge of imports on account of dumping or any other situation that seeks to threaten the domestic industry with serious injury or market disruption.

5.13 There are two other aspects of the transition to efficient import substitution which need to be stressed. First, the de-escalation of protection over time, whether through a reduction in tariffs or through a relaxation in licensing, should be formulated in terms of effective protection rather than nominal protection. For instance, a reduction in the nominal protection for a particular good might lead to a sharp decrease in effective protection if it is associated with no change in the nominal protection for its inputs, and it might lead to an increase in effective protection if the nominal protection on inputs is reduced in larger proportion. Second, import substitution should not be evaluated for a particular sector in isolation without reference to the presence or absence of backward linkages. There is often a tendency to focus on import substitution at the last stage of the manufacturing process which is deceptive, as it conceals the costs in terms of foreign exchange expenditure. For instance, a high degree of restriction on the import of a final good, which is associated with a liberal access to imported inputs that go into its production, yields a very high degree of effective protection on the final good

and creates the possibility of negative value-added at world prices; assembly operations based on CKD or SKD imports, established in the guise of manufacturing for import substitution, are a consequence of this limited view that significantly reduces the prospects of efficient import substitution. This proposition leads to two inferences : (i) In cases where assembly operations are associated with negative value-added at world prices, it would be preferable to import the final good or do without it altogether. (ii) In cases where assembly operations are associated with a positive value-added at world prices but very high degrees of effective protection, the logic of the phased manufacturing programme should not simply be to reduce the import content of domestic production over a specified period; it should also reduce the effective protection at the final stage of the manufacturing process over time and ensure that there are backward linkages in this process of import substitution.

5.14 The Committee thinks that it is important to be selective in import substitution just as in export promotion. The selection of sectors where we should emphasise import substitution in the next decade or so should, of course, be based on rational criteria. The share of imports for a particular sector in total imports and the share of imports in the total consumption for a particular sector, as also the changes in these proportions over time, are perhaps the most relevant considerations. On this basis, import substitution in bulk items such as crude oil and petroleum products where we have achieved a reasonable measure of success, and manufactured intermediates such as fertilizers, steel, cement and newsprint or consumer goods such as edible oils where we have not succeeded, should receive high priority. In many of these items, such as edible oils, cement, newsprint iron & steel, imports have risen from very low or moderate levels in the mid-1970s to rather high levels in the early 1980s. Consequently, the share of these imports in total imports, as also the share of imports in domestic consumption for each of these sectors, has registered a significant increase. These facts are a cause for concern, particularly in edible oils where we were net exporters during the

1950s, and in cement where India had a comparative advantage, that should be realised in the form of export.

5.15 Apropos new thrusts in import substitution it is useful to distinguish betwen the manufacturing sector on the one hand and the agricultural sector on the other. The focus of strategy so far has largely been on the former; it is now time to redress the balance. The Committee would suggest that in the manufacturing sector emphasis should now be placed on import substitution in some of the manufactured intermediates which have been specified above, because the rapid growth in imports is a corollary of the insufficient domestic production of these importables. As for the agricultural sector, where we have achieved a reasonable measure of success in foodgrains, oilseeds are the most obvious sector for a major push in terms of import substitution, but there are others. It need hardly be stressed that the domestic resource costs of import substitution must be kept in mind even for the selected sectors.

5.16 The approach to import substitution outlined in the above paragraphs has been kept in view by the Committee in formulating its suggestions and recommendations apropos import policy in the preceding chapter.

C. *Trade, Industrialisation and the Economy*

5.17 At the beginning of this report, it was stressed that a macro-economic perspective is essential because developments in the foreign trade sector and developments in the economy as a whole are inter-dependent. Therefore, trade policies should not be seen in isolation from economic policies, just as the external sector should not be seen in isolation from the national economy. The Committee recognises that the framework of trade policies is an important determinant of the rate of export expansion and the pace of import substitution. At the same time, however, it is important to recognise that the prospects of export promotion

and import substitution are significantly influenced by economic performance in other spheres.

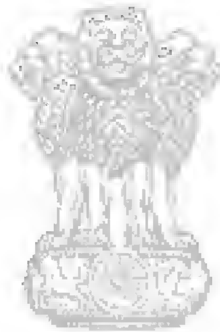
5.18 There is a clear nexus between trade policies, industrial policies and fiscal policies which, taken together, determine the relative profitability of production whether for import substitution or for exports. The re-formulation of trade policies suggested in the preceding pages cannot bring about the desired results unless it is associated with the necessary change in other economic policies. It would be useful to illustrate this proposition with an example. Consider a good where tariffs are reduced or import licensing is relaxed to de-escalate protection in a phased manner. It cannot be sufficient to induce competition and hence reduce costs unless the degree of restrictions on the domestic production of such goods is also relaxed at the same time. In other words, the barriers to entry by new firms implicit in the provisions of industrial licensing policies would need to be removed. But that is not all. The coordination of trade policies and industrial policies alone would not suffice. If the structure of taxation implicit in fiscal policies escalates the costs or erodes the profitability of domestic production, the objective would not be attainable. The moral of the story, if one emerges, is that a coordination of trade policies, industrial policies and fiscal policies is essential, so that they run in tandem and reinforce each other rather than work at cross-purposes. It is the view of the Committee that the policy-mix which would be necessary to bring out an acceleration in export growth, would also lead to efficient import substitution.

5.19 A macro-economic perspective also suggests that the performance of the foreign trade sector is very much a function of the performance of the economy as a whole, whether it is growth in the agricultural sector and the industrial sector, on the one hand, or an alleviation of infrastructural bottlenecks and a better management of the economy in both the public sector and the private sector, on the other. After all, in the ultimate analysis, sustained export growth depends on the increased pro-

duction of importables both of which, in turn, depend upon the nature and pace of economic growth. The stress on such a macro-economic view might, at one level, appear trivial, but it deserves to be made explicit simply because the determinants of the production or the prices of tradable goods must be located in the national economy rather than the external sector alone. For this reason, the Committee has emphasised two propositions : first, that export production must constitute an integral part of production in the domestic economy and second, that efficient import substitution must be based on efficient industrialisation. The Committee also recognises that the integration of production for the export market and production for the home market, as also the transition to efficient import substitution is easier said than done. This is because the level of quality-consciousness, the technologies-in-use and the consequent structures of production which have evolved over three decades cannot be transformed in an instant. The transition would have to be phased over time in a planned manner. Until the long-term correctives improve the growth performance and the level of efficiency in the economy, in the interim, we would have to be selective in our approach and experiment with structural change in a few identified sectors to attain the objectives of acceleration in export growth and a move to efficient import substitution.

5.20 Almost four decades have passed since India attained independence. Over this period, the economy has acquired a fairly sophisticated and highly diversified industrial base, a substantial capital goods sector, a skilled labour force, and a reservoir of highly trained manpower in the form of scientists, engineers, managers and entrepreneurs. The pace, the range and the depth of industrialisation has, on the whole, been impressive, particularly as compared with the colonial past. It needs to be recognised, however, that Indian industrialisation has been characterised by successes as well as failures, by sunlight and by shadows. At this stage of our industrialisation, therefore, it is essential to take stock and evaluate. After all, policy formulation is an iterative process of 'learning by doing', and not

simply of 'doing by thinking'. In learning from experience, a recognition of past mistakes is as important as an emphasis on past achievements. It is now time to think. It is also now time to experiment. It would always be possible to improve the situation by tinkering with the policy-mix at the margin; and although more of the same may be better, it may not be enough. The Committee believes that this juncture is the appropriate time to explore new avenues and chart new directions in co-ordinating and evolving a policy-mix for the next stage of our industrialisation, towards which some ideas have been developed in this report.



CHAPTER VI

THE INSTITUTIONAL FRAMEWORK

6.1 It is widely recognised that the framework of institutional support performs a crucial role not only in promoting exports but also in facilitating foreign trade. Beginning in the late 1950s and the early 1960s, several institutions, as also organisations, were established in India for this purpose. In retrospect, there can be little doubt that the institutional framework so created served a valuable purpose and made a significant contribution to the foreign trade sector. More than two decades have passed since then. The Committee believes that it is now time to evaluate the performance of these institutions, to assess the adequacy of the existing arrangements, to examine the relevance of these institutions at the present juncture and, wherever necessary, to re-define the role of such supporting institutions in response to the change in circumstances. After all, no institutional framework is so perfect that it is appropriate or adequate in perpetuity. The utility as also the strength of institutions stems from their ability to adapt, to evolve and to change. It goes without saying that, in the process, established institutions may need to be restructured, old institutions which have outlived their utility may need to be dispensed with, while new institutions may need to be created.

6.2 The discussion in this chapter is structured as follows. The first part considers the institutions that have been established for the specific purpose of export promotion; the second part attempts to focus on the institutional infrastructure which provide facilities for the export sector; the third part outlines some new directions and prescriptions. At the outset, the Committee would like to point out that a complete evaluation of the entire regime of institutional support would require systematic studies

which were not possible within the time available. Therefore, the recommendations of the Committee are in the nature of guidelines and the consequent operational steps should be worked out by the Ministry of Commerce.

A. *The Institutions*

(a) *Export Promotion Councils*

6.3 The EPCs were established not only to act as a bridge between the exporting community and the Government but also to provide the nexus of services needed to support the export sector. It appears that these organisations have tended to emphasise the former at the expense of the latter. There is a feeling that all exporters do not derive the same benefit from them. The EPCs have been far more concerned with appeals to the Government apropos incentives or procedures, and this role is akin to that of associations of trade and industry. The Committee believes that the EPCs must be reoriented to perform their role of a catalyst in terms of product and market development. In other words, they must provide their members with assistance on trade information, product adaptation, quality control and market development. To attain the desired objectives, the Committee would make the following recommendations. (i) A technical cell, manned by experts, should be established in each EPC to provide advice to members on production and marketing; the quality of this service would be ensured only if these were rendered for a fee, which covers a part of the expenses, because members would not pay something for nothing. (ii) Each EPC should have a permanent cell to cater to the interests of exporters from the small scale sector. (iii) The Ministry of Commerce, through the Joint Secretary concerned, should provide more guidance and coordination than is the case at present, with the object of developing the promotional role of EPCs. (iv) In matters relating to study teams, market surveys and sales promotion, the EPCs must be given much more autonomy. (v) The role of the Chief Executive in every EPC is

crucial and, in order to impart a new sense of purpose and direction to the Councils, it would be desirable that the Chief Executive is appointed by the Government. The EPCs should not be allowed to languish or to wither away to the point of irrelevance.

(b) *IIFT and TDA*

6.4 The Committee would suggest that the Ministry of Commerce should appoint a group to review the performance and role of these two institutions. The report of this group should evaluate the performance of IIFT and TDA since their inception with reference to the original objectives that were stipulated and, if necessary, re-define their role in view of the changed circumstances with an eye to the future. In carrying out this review, the Ministry of Commerce may take the following observations into account.

6.4.i. The IIFT should continue its current focus on training but it should strive to widen the scope and improve the quality of its diploma course through faculty development and appropriate specialisation. There should also be an attempt to project new perspectives on trade and development through sponsored studies and research projects, funded partially by the clients. which would ensure that the work is relevant for its users. The development of consultancy services in the Institute would help in this process. Interaction with academic institutions or centres of excellence in research might also be a means to this end. Insofar as the desired change is constrained by levels of competence, the option of the golden handshake should not be ruled out.

6.4. ii The TDA should focus its attention on the small scale sector for which it was created. There is a feeling that there is need for improvement in this regard. It would be advisable for the TDA to identify clusters of firms within selected industries and provide them with technical assistance from the pre-production phase to the post-marketing phase. This would be

possible if the TDA can evolve itself into an institutional entrepreneur, which is both dynamic and innovative enough to transform the export potential of the small scale sector into a concrete reality. The Committee is of the view that the TDA should evolve quantifiable criteria in respect of its entrepreneurial role, so that its performance would get progressively sharpened through internal and external evaluation.

(c) *TFAI*

6.5 The TFAI has come to acquire considerable expertise and experience in the organisation of international fairs and exhibitions to project the image of Indian capabilities in the world market. It should continue as the primary institution for building the export image of the country. However, in recent years, there has been some conflict of interest with specialised agencies who wish to organise specialised fairs. Product specialisation and the art of its projection in international fairs or exhibitions, including specialised commodity fairs, are different disciplines. The Committee feels that the TFAI should now evolve as a mother institution which nurtures the development of other organisations such as EPCs or Commodity Boards in the matter of fairs and exhibitions, and, in the process, also earns sizeable fees by marketing its expertise. It would also be advisable to review the performance of the TFAI with reference to its stipulated objectives and, wherever necessary, re-define its role in response to changing conditions.

B. *The Institutional Infrastructure*

(a) *Export Credit*

6.6 Long-term credit on sales of capital goods and short-term or medium-term credit on sales of other manufactured goods is a world-wide practice. The institutional mechanism for the provision of export credit in India is constituted by the

EXIM Bank which provides credit for deferred receipts on export sales, ECGC which provides the exporters with insurance facilities to eliminate the risks, the commercial banks which extend pre-shipment credit and post-shipment credit to the export sector. There is a review mechanism in the form of a Standing Committee on Export Finance in the Reserve Bank of India. The Committee believes that the activities of the EXIM Bank and the ECGC should be harmonised so as to work in tandem and not to cross-purposes thereby assuring the maximum possible push and cover for exports. At the same time, it would be desirable to develop the EXIM Bank as the apex institution in the sphere of export credit. The RBI Standing Committee on Export Finance should review the problems that arise in an expeditious manner so that they are resolved without delay. Apropos pre-shipment credit and post-shipment credit that is extended by commercial banks, the Committee was informed that there are no constraints on the volume of, and access to, export credit. However, representatives of trade and industry suggested that the export credit should be provided at lower interest rates, so that it is at par with the interest rates prevalent in other competing countries. In the view of this Committee, the argument for lower interest rates is not convincing for the simple reason that export credit implies, in effect, an export of capital which must be subject to some parameters because capital is scarce in our economy and these resources have alternative uses. Yet, the Committee recognises that the terms on which export credit is made available does influence the competitiveness of Indian exports. Therefore, this problem deserves further examination.

(b) *Export Inspection and Quality Control*

6.7 The Committee examined the importance of the quality factor and the role of export inspection in the sphere of export promotion. As stressed earlier, it is the considered view of the Committee that the solution to the problem lies not so much in policing or inspection as it does in self-discipline and consciousness about quality among the exporters themselves. The

present system of export inspection, however, dose not ineulcate the culture of quality-conseiousness. It is imperative to devise an institutional mechanism which would ensure the quality-conscious exporter who conforms to the buyer's specification is not harassed by the system while, at the same time, an exporter who defaults on quality is deterred by sanctions that can be invoked in an effective manner. The Committee feels that it is now time to move from a system of compulsory inspection to a system of self-certification and voluntary quality control or pre-shipment inspection. It is also desirable that exporters should be able to choose their inspection agency. For this purpose, it would be advisable to eneourage the development of firms or professional associations which specialise in pre-shipment quality inspection; over time, their certification and their standards would get established in the international market.

(c) *Complaints and Trade Disputes*

6.8 The Committee noted that, at present, there is no satisfactory mechanism available for the redressal of complaints or the settlement of disputes in trade transaetions. As a matter of fact, there is no cohesive system for the reverse flow of information about complaints regarding quality or specifieations, the non-acceptance of consignments, breach of conditions on guarantees or after-sales service, and the failure to realise the receipts from an export transaction. Such information about complaints, depending on their nature, is received by a wide range of institutions such as the RBI, the ECGC, the EXIM Bank, the CCI&E, the DGCI&S or even our Missions abroad. In the view of the Committee, there is a clear need for a nodal ageney which receives all the information about such complaints; the Office of the CCI&E, perhaps, is the appropriate nodal point for this purpose. It need hardly be stressed that a legal framework would have to be created to provide a prompt dispute settlement mechanism and ensure an effective redressal of complaints. It would help if the incorporation of arbitration clauses

into contraets for trade transaetions becomes the common praetiee or is even made compulsory.

(d) *Packaging*

6.9 The importance of paekaging as an integral part of export production is being slowly reeognised by firms in India. In the long run, the eost of good and attractive packaging is often more than neutralised by the savings in transit-damages as well as by a better priee realisation. In this context, the importanee of containerisation cannot be over-emphasised. The Indian Institute of Paekaging was established to develop an awareness about the importanee of packaging and to assist the export seetor in adopting modern techniques of packaging. While the Institute has done valuable work in this area, a majority of small and medium-size units in India still do not know about its expertise and the requisite facilites. It is suggested that the Indian Institute of Packaging should provide its facilities in important eentres for exports.

(e) *Infrastructure*

6.10 Infrastructural bottlenecks constitute a dominant constraint on produetion whether it is for the home market or for the export market. Some infrastruetural constraints sueh as power, transport and eommunieations adversely affeet production in the economy as a whole. Other infrastruetural constraints sueh as ports, shipping faeilites, eustoms procedures and cumbersome doeumentation needs are specifie to the foreign trade seetor. The Committee was informed of diffieulties faeed by the export seetor on aeeount of poor telephone/telex facilities, uneertainty and steep freight charges in air or rail transport, long waits and high charges at ports, and frustrating delays in customs procedures. It is obviously important to alleviate these bottlenecks from the point of produetion to the point of export or the point of import to the point of use. For this purpose, Inland Container Depots, Inland Cargo Complexes, which provide clearance faeilities close to the point of production. should be

developed as quickly as possible. The Committee recognises that the problems which arise from infrastructural constraints are extremely complex and not amenable to simple solutions. It would, therefore, recommend that the Government should commission groups of experts to conduct an indepth study of infrastructural constraints on export performance and suggest feasible solutions.

(f) *Overseas Institutional Support*

6.11 A sustained effort at market development requires not only overseas offices for exporting firms or organisations, but also warehousing facilities and adequate after-sales service. In view of the fact that foreign exchange resources are scarce, there should not be a proliferation of overseas offices. Yet, there should be sufficient flexibility to ensure that resources are provided for overseas offices in important markets. In this context, it would be advisable to explore the possibilities of realising economies of scale in such a manner that firms, organisations and Export Promotion Councils can share the costs of an overseas office. There is also a merit in the suggestion that resources should be set apart for developing warehousing facilities as also a network for after-sales service in overseas markets, both of which constitute an integral part of any successful export promotion effort. Even here, the principle of cost sharing to realise economies of scale would be desirable.

(g) *Role of Indian Missions*

6.12 The Committee discussed the role of our Embassies as a means of promoting our commercial interests with special reference to exports. This subject has been examined at some length by a number of committees such as the Pillai Committee, the Trivedi Committee, the Alexander Committee, the Sen Committee, as also the Economic Administration Reforms Commission; as such, it is not necessary to reiterate or re-formulate

their recommendations. It is high time that the Government takes a final view on the matter.

C. *New Directions*

(a) *Coordination of Policies*

6.13 The Committee has highlighted the nexus between trade policies, industrial policies and fiscal policies in a macro-economic context. It has also stressed the importance of coordinating these policies not only in terms of formulation but also in terms of administration. The Committee believes that the Ministry of Commerce should peform a crucial role in this process of cohesion through a continuous interaction with representatives of trade and industry on the one hand and with concerned departments of the Government on the other. While analogies drawn out of an altogether different environment are not always appropriate, the eminent example of the Ministry of International Trade and Industry in Japan does provide a few pointers. The major lesson to emerge from the MITI experience is the importance of a continuous inter-face with trade and industry as also a close interaction with other departments in Government, which has facilitiated the formulation and evolution of policies in response to the changes in the domestic economic situation and the world trade situation. It is suggested that, at the present stage of our industrialisation and development, it would be desirable for the Ministry of Commerce to progressively develop such a role of synthesis and co-ordination.

(b) *Simplification of Procedures*

6.14 The functional implementation of trade policies inevitably enters into the realm of procedures. For want of time, it has not been possible for this Committee to devote specific attention to this matter. What is more, there is a separate committee under the chairmanship of the Commerce Secretary which is examining the office and the organisation of the Chief

Controller of Imports & Exports in depth, *inter alia*, to suggest a rationalisation of procedures. It is, however, worth noting that the recommendations apropos changes in trade policies outlined in this report would, in themselves, lead to a considerable reduction in regulations as also to a simplification of procedures. It is recognised that the complexity of procedures arises largely from the multiplicity of objectives which are sought to be attained through the Import-Export Policy, and this multiplicity cannot be eliminated altogether. Nevertheless, this Committee is convinced that a thorough and detailed examination of the existing procedures should definitely result in making them much simpler than they are at present. In this connection, the importance of stability in policies need hardly be stressed. Towards this end, it would be advisable to announce the Import-Export Policy for a period of three years rather than every year. The mechanism of the Permanent Review Committee could provide the medium for the necessary changes during the tenure of the policy.

(c) *Role of State Governments*

6.15 The Committee recognises that the role of State Governments in the national export effort is very important not only in the agricultural sector but also in the industrial sector insofar as small and medium scale firms are concerned. The development of agricultural exports, the provision of infrastructural facilities for export production, and the identification of new exportable products based on local endowments is, in the ultimate analysis, something that is done at the State level At its meetings with State Governments, as also with representatives of trade and industry, the Committee was informed about the problems of, and need for, effective co-ordination between the export promotion effort of the Government of India on the one hand and the role of the State Government on the other. To facilitate this co-ordination, it is suggested that there should be a continuous dialogue between the Ministry of Commerce and State Governments, as also between the EPCs or the Commodity Boards and the Export Corporations which have been established

in many States. For this purpose, it would also be advisable to create nodal points for such co-ordination which may be established at the level of the concerned Joint Secretary in the Ministry of Commerce and at the level of an Export Commissioner in each State. In the long run, an institutional mechanism in the form of a standing committee in each State capital would also be worth contemplating.

(d) *Trade Information System*

6.16 The Committee was informed that the Ministry of Commerce has decided to establish a National Centre for Trade Information which would constitute the nodal point for the collection, storage, analysis, and dissemination of trade information. The Committee strongly endorses this decision not only because market intelligence and trade information are a *sine qua non* in the development of markets for exports but also because, at the present stage of our development, it would enable us to create a nexus between production at home and marketing abroad. As with JETRO in Japan and KOTRA in the Republic of Korea, the focus of the proposed National Centre for Trade Information should be commercial, and it should assist the development of products and markets for exports, through a systematic collection of market intelligence and a qualitative analysis of trade information. It is clear to the Committee that the establishment of overseas offices, however few and selective to start with, is an absolutely necessary condition if our National Centre for Trade Information is to be a successful organisation in the mantle of JETRO or KOTRA. A trade information system without offices abroad would be like a body without limbs. It is suggested that this organisation should be an autonomous body manned by a carefully selected professional cadre.

(e) *Commodity Boards*

6.17 At present, exports from the agricultural sector and the plantation sector account for about one-fourth of our total export

earnings, of which a little less than one-third constitute traditional exports such as tea, coffee, tobacco and cardamom where a substantial proportion of the total output is exported. These sectors have their own Commodity Boards which are entrusted with a wide spectrum of responsibilities ranging from production to export marketing. No such institutional arrangement is at present available for the other commodities, except MPEDA for marine products; some of them have EPCs while others are left with mere trade associations. Once production or exports cross a certain threshold, such arrangements are not adequate. The Committee is of the view that in sectors where a large proportion of output is exported, or where there is a possibility of increasing value-added before export, or where the processing and product adaptation is meant primarily for export, it would be desirable to establish Commodity Boards. These boards would be autonomous bodies created by statute and endowed with the necessary authority to take an overall view in terms of planning, production and marketing, with a long-term perspective, to stabilise the volume and value of exports.

CHAPTER VII

SUMMARY AND RECOMMENDATIONS

It is difficult to summarise the wide range of issues that have been discussed in the preceding chapters. This chapter does not, therefore, constitute a summary of the report. It does not even constitute a complete summary of all the recommendations. It is important to stress that the recommendations follow from the analysis developed in the report which places trade policies in the wider economic context and perceives these changes as a pre-requisite for the quantum jumps to be achieved. These measures constitute a package which does not lend itself to selective or partial implementation; the elements are inter-dependent. The following paragraphs simply seek to highlight some of the important conclusions and recommendations of the Committee, which should be read in the context of the analysis and the diagnosis developed in the report.

Chapter I

1. In India, the significance of foreign trade is qualitative rather than quantitative, and its role is akin to that of a bicycle chain which is needed to make the wheels go around and keep the economy on the move.

2. In an economy such as India, where exports constitute 5—7 per cent of GNP, there is no possibility of export-led growth. Indeed, growth-led exports are the more likely scenario in India.

3. Foreign exchange earnings derived from exports are essential for the process of economic growth as they create the much-needed capacity to import. Important as exports are, import

substitution must also remain an integral part of the quest for self-reliance.

4. Export promotion and import substitution are neither mutually exclusive nor alternative strategies of development. They represent two sides of the same coin. The policy-mix should strike a balance between export promotion on the one hand and import substitution on the other. At the margin, however, there is a case for a preference in favour of the export sector.

5. Export production must constitute an integral part of production in the domestic economy. To begin with, we would have to identify a few leading sectors where we can experiment with structural change and, in the process, promote the cause of exports.

6. There is a clear nexus between trade policies, industrial policies and other economic policies. A complete solution cannot be found in the realm of trade policies alone; rationalisation of other economic policies is also necessary. The object of this rationalisation should be to increase the degree of competition in the economy and provide an environment where manufacturers would not only be under pressure but would also have an incentive to bring about a reduction in costs.

7. Import liberalisation, by itself, is neither a necessary nor a sufficient condition for stimulating competition and efficiency in the domestic economy. It would need to be used in conjunction with appropriate industrial and economic policies which increase competition within the economy, through a reduction in the degree of monopoly and a removal of barriers to entry by new firms.

8. It is necessary to situate trade policies not only in the wider national context but also in the wider international context. What happens in India does not affect the world economy

but what happens in the world economy does affect India.

Chapter II

9. Our export performance since the early 1970s has been both creditable and impressive. However, it has not been adequate either with reference to the growth in world trade or with respect to our needs.

10. In the ultimate analysis, the problem of Indian exports remains very much a problem of production and, in a macro-economic sense, it is unrealistic to expect that exports would grow significantly faster than real national income.

11. The relationship between the export sector and domestic production is important. Hence, the approach or emphasis in terms of policy should, *inter alia*, be a function of the proportion of output that is exported.

12. External factors play a significant role in the export performance of some sectors, while domestic factors and policies are crucial in others. It needs to be recognised that restrictions on international trade in certain products limit the growth in our exports. The domestic factors that have constrained India's export performance are the costs of production, the pressure of domestic demand, the supply constraints and the procedural bottlenecks, which, along with the non-price factors such as quality and the product profile, have adversely affected the competitiveness of our exports.

Chapter III

13. A quantum jump in exports is the most important means to attain the objective of self-reliance which requires a nation to rely on its own resources to finance the process of development. What is good for exports should be good for domestic production and *vice-versa*.

14. The relative profitability of producing exportables is lower than that of producing importables. In the Indian context, export promotion policies need to perform two roles, that of providing compensation on the one hand and that of providing assistance to remove disincentives on the other.

15. The present regime of export promotion policies is mostly a compensation for disadvantages faced by the exporter on account of domestic economic policies, and the element of incentive, if any, is very small indeed. The compensation is perhaps not entirely adequate, whether we consider the CCS, the duty drawback system or the import facilities for export production.

16. The duty drawback system should be rationalised in such a manner that it provides an expeditious and complete reimbursement of taxes paid on inputs that enter into export production. For this purpose, the delays in the disbursement should be eliminated through a simplified payment scheme; the average-industry-rates should give the benefit of doubt to exporters; the request for specific-brand-rates should be considered wherever the exporter claims that the existing drawback is not sufficient; the rates of drawback, whether average or specific, should be fixed within a stipulated period; the multiplicity of drawback rates should be reduced.

17. The regime of cash compensatory support must be maintained so that the export sector is not at a disadvantage on account of either unrebated indirect taxes or the cascaded structure of taxation. The present practice of including CCS as part of taxable income is not logical. The Committee would urge the Government to consider exempting CCS from income tax. The rates of CCS should be rationalised to reduce their multiplicity. The system of announcing the rates for a period of three years should continue. Assistance for product or market development should be used in a selective manner.

18. The present import replenishment system for export production should be re-formulated along the lines of the advance licensing system for the category of manufacturer-exporters. Such import facilities should be duty-free and subject to the actual-user condition. It should then be possible to eliminate licensing through the introduction of a pass book for each exporter. In effect, this would mean a permanent replenishment licence for established manufacturer-exporters. The present import replenishment system would continue for merchant-exporters, export houses, trading houses and manufacturer-exporters who are not eligible for or who do not opt for this new system.

19. The real effective exchange rate of the rupee should not be allowed to appreciate and should be maintained at a level considered appropriate for ensuring the competitiveness of exports.

20. Fiscal concessions are an important means of improving the relative profitability of exports. The Government may consider exempting 50 per cent of the profits from exports from income tax.

21. It is suggested that export production, in appropriate cases, should be exempted from capacity licensing provisions implicit in industrial policy and restrictions on imports of capital goods or technology in import policy.

22. It has been suggested that there should be an exchange entitlement scheme for exporters, EESE, which would enable them to use a certain fraction of their foreign exchange earnings for the purpose of market development. The Committee would commend this suggestion to the Government for closer examination.

23. Export promotion policies can only provide an environment that is conducive to exports. On the path to sustained

export growth there can be no substitute for entrepreneurial embodied in the human factor.

Chapter IV

24. Trade policies in India have always sought to provide for imports which are essential to support levels of consumption, investment and production, economising on the use of scarce foreign exchange.

25. About two-thirds of the total foreign exchange expenditure on imports is determined by Government decisions. Therefore, in effect, import policy covers only one-third of the country's imports.

26. The assumption of inflexibility in the basket of bulk imports, which derives from an import pessimism, needs to be re-examined. It might be possible to save on foreign exchange through a systematic and careful planning of such bulk imports. It should also be possible to curb the growth in these imports by stepping up the domestic production of these importables or by encouraging the use of substitutes in consumption.

27. Canalisation of imports should constitute the exception rather than the rule. In terms of the economic criteria, it is clear that where the size of imports is small or where there are variations in terms of differentiation and specification, the item should not as a rule be canalised. A manufacturing firm should not be the agency for importing the item it produces. The existing position on canalisation of imports should be reviewed in accordance with the suggested criteria and guidelines.

28. In the ultimate analysis, tariffs should replace the quotas over time. The process of transition would have to be gradual as tariffs and quotas are not perfect substitutes for one another. Wherever licences are substituted by tariffs, it needs to be accepted that tariffs are an instrument of trade policy and not

a means of raising revenue. During the period of transition, the structure of tariffs and the import licensing policies would have to be harmonised with each other, which is not the case at present. It is imperative to evolve a mechanism supported by a group of experts who would formulate the guidelines and the methodology for the rationalisation of the tariff structure and the harmonisation of import licensing with tariffs, this would enable the Ministry of Finance to restructure the tariff rates. It goes without saying that a close inter-departmental co-ordination between the Ministries of Commerce, Industry and Finance is a pre-requisite for the proposed change to be introduced. The Committee hopes that this interim institutional mechanism would ultimately evolve into a suitable permanent arrangement.

29. There should be a rationalisation of the tariff structure in the case of capital goods which are on OGL. Insofar as there is no domestic production of such capital goods, tariffs are not needed as means of protection or an instrument of trade policy. Imports of such capital goods should, in general, be subject to low tariffs.

30. For the range of capital goods in the present restricted list, where the domestic production of such capital goods has been in existence for a long time, say a decade or more, it would be advisable to de-escalate the level of protection in a planned manner. It would be necessary to ensure that it is the level of effective protection that is de-escalated over time. Import licensing for this category should be relaxed by redefining the concept of indigenous availability in economic rather than in physical terms. Protection would be provided through a combination of import duties and licensing.

31. The import licensing procedure for the residual category of capital goods should be continued with some changes and rationalisation. In other words, wherever necessary, some of these goods may be placed on OGL subject to the appropriate

tariffs. However, in cases where (i) domestic production constitutes a relatively small proportion of domestic demand, (ii) domestic production is in an infant stage,or (iii) domestic production is contemplated on the basis of perceived comparative advantage, imports of capital goods should remain subject to the licensing procedure.

32. For the sectors which are selected for rapid modernisation, and for lowering of investment costs, the required capital goods should be identified and placed on OGL with a zero or negligible tariff.

33. The raw materials, components, spares and consumables in the present restricted category should be moved to the specified OGL list for actual-users, in the first instance with a high tariff which provides a protection from imports equivalent to the erstwhile licensing system. This high tariff should be de-escalated over a period of five or more years in accordance with pre-announced schedule. It is the level of effective protection that should be de-escalated over time.

34. The automatic permissible category for raw materials, components, spares and consumables, should be merged with the category of OGL on one side and the category of limited permissible on the other.

35. In the limited permissible category for raw materials, components, spares and consumables, where the import licensing system should be retained, the domestic resource costs of imports competing production should be kept in mind, but it should also be ensured that the costs of imported inputs to domestic industry are not escalated by the tariff structure.

36. The Committee believes that, in a situation, where foreign exchange resources are scarce, the present policy which bans the import of non-essential consumer goods should be continued.

Chapter V

37. The continuous technological upgradation, which is a necessary condition for rapid and efficient industrialisation, has not taken place either through imports of technology or through indigenous technological development.

38. An economy should be able to move from importation to absorption and adaptation of technology through to the stage of innovation, at least in some sectors, on the path to sustained industrialisation. It should, therefore, be recognised that imports of technology and indigenous technological development are not mutually exclusive. The two need to be combined in a judicious mix.

39. At the present stage of our development, it is necessary to provide a more liberal access to imports of technology in most sectors of the economy. In this context, it is important to distinguish between technology embodied in capital goods and disembodied technology in the form of know-how. The former should be governed by the import policy regime for capital goods. The Committee would like to make the following recommendations apropos the latter :

(i) In cases where it is possible to buy foreign technology, *without* foreign equity constituting a part of the package, such imports should be placed on OGL subject to appropriate ceilings on lumpsum payments and royalties for a specified maximum period.

(ii) In cases where it is not possible to import technology without foreign equity participation, or where the ceilings mentioned above are exceeded, such imports should be selective and would need to be regulated by the FIB. These imports of technology should be permissible when there is a guaranteed access to the continuous technological upgradation in the parent firm, provided that

the terms of the technology transfer are competitive and reasonable.

40. The multiplicity and periodicity of technology imports should not be over-regulated insofar as it limits competition between firms in the economy. The profitability of such imports from the viewpoint of the firm which. in turn, would depend on the size of the domestic market, should place a natural limit on such imports.

41. A liberal access to imports of technology might be necessary in some sectors of the economy, but it is by no means sufficient to ensure continuous technological upgradation. It needs to be combined with appropriate policies that would ensure an absorption of this technology and create conditions which would be conducive to innovation. Domestic firms would move from the stage of importation through absorption to innovation, if and only if they are induced by an expectation of higher profits, a fear of competition or a threat to survival in the market.

42. The removal of barriers to entry by new firms and the relaxation of capacity licensing provisions might constitute a step in the right direction, but may not suffice unless a liberal access to imports to technology is somehow combined with a commitment to further technological development through R & D. The Committee recognises the dilemma that continuous free access to imports of technology, on a repetitive or recurring basis for a firm, may constrain the prospects of absorption and development of technology through R & D at home. There are no definitive solutions to the problem but, under no circumstances, should the solution lapse into a reliance on administrative or bureaucratic scrutiny.

43. Import substitution has constituted an integral part, if not the key-stone, of industrialisation strategy. India's industrialisation has reached a stage of development where the pro-

cess of import substitution is nearly complete in certain sectors, but where it is not, an evaluation and rationalisation has now become necessary. The emphasis of policy should move from import substitution *per se* to efficient import substitution.

44. A high level of protection for import-competing industries cannot be justified for an unlimited period of time, as it leads either to high costs or to monopoly profits or to both, which are not in the interest of the economy in general and the consumers in particular.

45. In order to attain the objective of efficient import substitution, it is essential to de-escalate the level of protection and ensure that infant industries grow up over time and become competitive. We recognise that such structural adjustment, which is an integral part of industrialisation, cannot be a painless process. The de-escalation of protection should, of course, provide for adequate/effective safeguards through which it would be possible to check either a sudden surge of imports on account of dumping or any other situation that seeks to threaten the domestic industry with serious injury or market disruption.

46. The de-escalation of protection over time, whether through a reduction in tariffs or through a relaxation in licensing, should be formulated in terms of effective protection rather than nominal protection. Import substitution should not be evaluated for a particular sector in isolation without reference to the presence or absence of backward linkages.

47. It is important to be selective in import substitution just as in export promotion. Import substitution in bulk items should receive high priority. It need hardly be stressed that the domestic resource costs of import substitution must be kept in mind even for the selected sectors.

48. Trade policies, industrial policies and fiscal policies should run in tandem and reinforce each other rather than work at

cross-purposes. The policy-mix which would be necessary to bring out an acceleration in export growth, would also lead to efficient import substitution.

49. The performance of the foreign trade sector is very much a function of the performance of the economy as a whole, whether it is growth in the agricultural sector and the industrial sector, on the one hand, or an alleviation of infrastructural bottlenecks and a better management of the economy in both the public sector and the private sector, on the other.

Chapter VI

50. A complete evaluation of the entire regime of institutional support would require systematic studies which were not possible within the time available. Therefore, the recommendations of the Committee are in the nature of guidelines and the consequent operational steps should be worked out by the Ministry of Commerce.

51. *Export Promotion Councils*:—EPCs must be re-oriented to perform their role of a catalyst in terms of product and market development. A technical cell, manned by experts, should be established in each EPC to provide advice to members on production and marketing. Each EPC should have a permanent cell to cater to the interests of exporters from the small-scale sector. The Ministry of Commerce should provide more guidance and co-ordination than is the case at present. In matters relating to study teams, market surveys and sales promotion, the EPCs must be given much more autonomy. It would be desirable that the Chief Executive is appointed by the Government.

52. *IIFT and TDA* :—The Ministry of Commerce should appoint a group to review the performance and role of these two institutions, taking into account the observations of the Committee.

53. *TFAI*:— It should continue as the primary institution for building the export image of the country. The TFAI should now evolve as a mother institution which nurtures the development of other organisations such as EPCs or Commodity Boards in the matter of fairs and exhibitions and, in the process, also earn sizeable fees by marketing its expertise.

54. *Export Credit*:— The activities of the EXIM Bank and the ECGC should be harmonised thereby assuring the maximum possible push and cover for exports. It would be desirable to develop the EXIM Bank as the apex institution in the sphere of export credit. The terms on which export credit is made available deserves further examination.

55. *Export Inspection and Quality Control*:— The solution to the problem lies not so much in policing or inspection as it does in self-discipline. It is now time to move from a system of compulsory inspection to a system of self-certification and voluntary quality control or pre-shipment inspection. It is also desirable that exporters should be able to choose their inspection agency. It would be advisable to encourage the development of firms or professional associations which specialise in pre-shipment quality inspection.

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56. *Complaints and Trade Disputes*:—There is a clear need for a nodal agency which receives all the information about such complaints; the Office of the CCI&E, perhaps, is the appropriate nodal point for this purpose. A legal framework would have to be created to provide a prompt dispute settlement mechanism.

57. *Infrastructure*:—The Government should commission groups of experts to conduct an indepth study of infrastructural constraints on export performance and suggest feasible solutions.

58. *Coordination of Policies*:—The Committee has highlighted the nexus between trade policies, industrial policies and fiscal

policies in a macro-economic context. It has stressed the importance of co-ordinating these policies, not only in terms of formulation but also in terms of administration. The Ministry of Commerce should perform a crucial role in this process of cohesion. The major lesson to emerge from the MITI experience is the importance of a continuous inter-face with trade and industry as also a close interaction with other departments in Government. It is suggested that, at the present stage of our industrialisation and development, it would be desirable for the Ministry of Commerce to progressively develop such a role of synthesis and co-ordination.

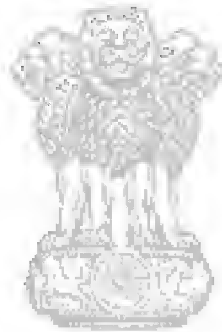
59. *Simplification of Procedures:*—A thorough and detailed examination of the existing procedures should definitely result in making them much simpler than they are at present. In this connection, the importance of stability in policies need hardly be stressed. Towards this end, it would be advisable to announce the Import-Export Policy for a period of three years rather than every year.

60. *Role of State Governments:*—The Committee recognises that the role of State Governments in the national export effort is very important not only in the agricultural sector but also in the industrial sector insofar as small and medium scale firms are concerned. There should be a continuous dialogue between the Ministry of Commerce and State Governments. It would also be advisable to create nodal points for such co-ordination. In the long run, an institutional mechanism in the form of a Standing Committee in each State capital would also be worth contemplating.

61. *Trade Information System:*—The Committee was informed that the Ministry of Commerce has decided to establish a National Centre for Trade Information. The Committee strongly endorses this decision. The establishment of overseas offices, however few and selective to start with, is an absolutely necessary condition if our National Centre for Trade Information is to

be a successful organisation in the mantle of JETRO or KOTRA.

62. *Commodity Boards:*—In sectors where a large proportion of output is exported, or where there is a possibility of increasing value-added before export, or where the processing and product adaptation is meant primarily for export, it would be desirable to establish Commiodity Boards.



TABLE

SELECTED ECONOMIC

	1975-76	1976-77	1977-78
1. Gross National Products at Current prices (Rs. crores) .	66115	71231	80433
2. Gross National Products at 1970-71 prices (Rs. crores) .	42571	42902	46679
3. Index Nos. of Agricultural production all commodities (Triennium ending 1969-70 = 100)	125.0	116.2	132.8
4. Foodgrains production (Million tonnes)	121.0	111.2	126.4
5. General Index (crude) of Industrial production (Base 1970 = 100)	123.4	135.2	139.6
6. Electricity generated** (Million KWH)	79231	88333	91369
7. Index Nos. of Wholesale prices all commodities (on point to point basis) (Base 1970 = 100)	162.6	182.1	182.7
8. Imports (at current prices (Rs. crores)	5264.8	5073.8	6020.2
9. Exports (at current prices) (Rs. crores)	4036.3	5142.7	5407.9
10. Balance of Trade (Rs. crores) .	-1228.5	+68.9	-612.4
11. Foreign exchange reserves (excluding gold & SDRs)—End of period (Rs. crores) . . .	1491.7	2863.0	4499.8

Source : Economic Survey, Ministry of Finance and Directorate

@Provisional.

*Quick Estimates.

**Refers to utilities only.

N.A. Not available.

1

INDICATORS

1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
86890@	95131@	113882@	131740@	145141*	N.A.
49403	46896	50603	53227	54187	N.A.
137.9	116.9	135.2	142.7	137.1	165.8
131.9	109.7	129.6	133.3	129.5	151.5
150.2	148.1	154.0	167.3	173.8	183.4
102523	104627	110844	122010	130141	139896
191.1	232.0	270.7	277.1	294.2	315.7
6810.6	9142.6	12549.2	13607.6	14355.8	15347.3
5726.1	6418.4	6710.7	7805.9	8834.2	9396.2
—1084.6	—2724.2	—5838.5	—5801.7	—5525.8	—5897.7@
5219.9	5163.7	4822.1	3354.5	4265.3	5497.9

General of Commercial Intelligence and Statistics, Calcutta (DGCI&S).

TABLE 2

TRENDS IN INDIA'S FOREIGN TRADE

Year	Exports		Imports		Balance of trade (Rs. crores)
	Rs. crores	Percentage change over the previous year	Rs. crores	Percentage change over the previous year	
1972-73	1970.83	+22.5	1867.44	+2.4	+103.39
1973-74	2523.40	+28.0	2955.37	+58.3	—431.97
1974-75	3328.83	+31.9	4518.78	+52.9	—1189.95
1975-76	4026.26	+21.3	5264.78	+16.5	—1228.52
1976-77	5142.71	+27.4	5073.79	—3.6	+68.92
1977-78	5407.87	+5.2	6020.23	+18.7	—612.36
1978-79	5726.07	+5.9	6810.64	+13.1	—1084.57
1979-80	6418.43	+12.1	9142.58	+34.2	—2724.15
1980-81	6710.70	+4.6	12549.15	+37.3	—5838.45
1981-82	7805.90	+16.3	13607.56	+8.4	—5801.66
1982-83	8834.21	+13.2	14359.99	+5.5	—5525.78
1983-84 (Provisional)	9865.30	+11.7	15762.92	+9.8	—5897.65

Source : DGCI&S, Calcutta.

TABLE 3

PERCENTAGE SHARE OF INDIA'S EXPORTS, IMPORTS AND BALANCE OF TRADE IN INDIA'S GROSS NATIONAL PRODUCT

(at factor cost) at current prices

Year	Percentage share of GNP		
	Exports	Imports	Balance of Trade
1972-73	4.6	4.3	0.2
1973-74	4.7	5.5	0.8
1974-75	5.3	7.2	1.9
1975-76	6.1	8.0	1.9
1976-77	7.2	7.1	0.1
1977-78	6.7	7.5	0.8
1978-79	6.6	7.8	1.2
1979-80	6.7	9.6	2.9
1980-81	5.9	11.0	5.1
1981-82	5.9	10.3	4.4
1982-83	6.1	9.9	3.8

Source : For Data on Exports and Imports : DGCI&S, Calcutta.
For Data on GNP : Economic Survey, Ministry of Finance.

NOTE : Percentage share of exports, imports and balance of trade in GNP for the years 1977-78 to 1982-83 have been arrived at on the basis of provisional data/quick estimates of GNP.

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Table 4

INDIA'S SHARE IN WORLD EXPORTS

YEAR	WORLD EXPORTS	INDIA'S EXPORTS	PERCENTAGE SHARE IN WORLD EXPORTS
	In US $ Million at current exchange rates and at current prices		
1960	128250	1331	1.04
1965	186945	1686	0.90
1970	314111	2026	0.65
1972	413863	2401	0.58
1973	575741	2935	0.51
1974	838730	3926	0.47
1975	874359	4355	0.50
1976	992295	5548	0.56
1977	1126967	6355	0.56
1978	1303066	6650	0.51
1979	1645869	7850	0.48
1980	2001551	8378	0.42
1981	1975217	8379	0.42
1982	1850876	9316	0.50
1983	1809426	9181	0.51

Source : United Nations Statistical Year Book, 1981 and Monthly Bulletin of Statistics Oct. 1984.

Note : For India's exports in calendar years 1981, 1982 and 1983 the DGCI&S's figures work out to Rs. 7,285.66 crores, Rs. 8,847.34 crores and Rs. 9,311.04 crores respectively.

These figures have been converted into US $ at the current exchange rates using the conversion factors Rs. 8.6933 in 1981, Rs 9.4925 in 1982 and Rs. 10.1380 in 1983 per US dollar

TABLE 5

TRENDS IN INDIA'S FOREIGN TRADE IN US DOLLARS & SDRs

(at current prices and at current exchange rates)

	EXPORTS		IMPORTS	
	US $ MILLION	SDRs MILLION	US $ MILLION	SDRs MILLION
1972-73 . . .	2540.40	2313.16	2407.13	2191.81
1973-74 . . .	3232.48	2660.17	3785.83	3115.55
1974-75 . . .	4184.34	3444.01	5680.11	4675.13
1975-76 . . .	4665.92	3894.18	6086.09	5070.46
1976-77 . . .	5754.69	4968.89	5677.57	4902.30
1977-78 . . .	6316.39	5322.43	7031.63	5925.11
1978-79 . . .	6980.08	5489.01	8302.17	6528.68
1979-80 . . .	7946.02	6116.12	11318.51	8711.96
1980-81 . . .	8502.46	6593.26	15899.77	12329.54
1981-82 . . .	8742.61	7552.21	15240.47	13165.31
1982-83 . . .	9178.74	8363.35	14920.03	13594.60
1983-84 . . .	9566.63	9317.23	15285.73	14407.89

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Source : DGCI&S, Calcutta.

NOTE : The DGCI&S figures of India's exports & imports in Rupees have been converted to US dollars and SDRs on the basis of conversion factors made available by the Ministry of Finance and the Reserve Bank of India.

TABLE

INDIA'S PRINCIPAL EXPORTS

(In Rs. crores

S. No.	COMMODITY	1972-73	1973-74	1974-75	1975-76	1976-77
1.	Tea and mate .	147.3	146.0	228.1	236.9	293.1
2.	Coffee . .	32.9	46.0	51.6	66.7	126.0
3.	Tobacco Unmanufactured .	61.1	68.4	80.4	93.1	96.8
4.	Cashew Kernels	68.8	74.4	118.2	96.1	106.1
5.	Fruits and Vegetables . .	15.1	18.1	19.5	38.7	57.0
6.	Spices . .	29.1	55.7	61.4	71.5	75.0
7.	Fish and fish preparations .	54.5	89.2	66.2	127.2	180.6
8.	Sugar . .	13.3	42.7	339.0	472.3	148.1
9.	Rice . .	3.5	8.2	21.5	13.0	6.1
10.	Cotton Raw .	21.5	32.4	15.2	41.3	27.0
11.	Oil Cakes .	74.8	179.2	96.0	96.5	234.4
12.	Iron Ore . .	109.8	132.9	160.4	213.9	238.5
13.	Leather and leather manufactures including footwear . .	187.1	185.5	165.2	222.6	293.6
14.	Cotton Fabrics	100.9	194.7	158.9	161.2	267.3
15.	Readymade Garments . .	56.1	99.6	138.2	202.7	305.8
16.	Madeup articles wholly or chiefly of cotton n.e.s.	20.5	31.8	45.1	42.7	53.3

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1972-73 to 1983-84

at current prices)

1977-78	1978-79	1979-80	1980-81	1981-82	1982-83*	1983-84*
					(Provisional)	(Preliminary)
569.7	340.5	367.8	425.3	395.2	364.6	500.9
194.4	144.0	163.3	214.2	146.3	184.2	182.5
113.2	110.7	102.3	124.4	204.9	208.5	149.4
149.5	80.2	118.1	140.1	181.5	134.0	156.5
47.3	64.5	63.5	79.6	106.0	158.8	141.1
137.1	147.9	149.4	111.4	98.8	88.9	108.4
174.3	226.3	253.4	217.0	284.9	349.5	322.5
19.8	131.0	128.9	36.0	63.2	62.4	137.0
11.5	38.7	128.3	223.9	367.9	199.5	122.8
0.7	16.0	75.1	164.9	36.3	101.2	148.3
133.3	109.9	127.6	125.1	117.9	149.4	143.0
240.4	232.9	285.2	303.3	351.8	373.8	385.3
272.0	353.9	519.5	377.9	406.0	371.8	366.5
224.7	224.3	287.4	276.5	294.6	265.5	271.0
299.9	418.5	459.7	515.0	595.8	527.5	588.4
60.3	56.7	78.0	88.3	104.1	97.0	73.9

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S. No.	COMMODITY	1972-73	1973-74	1974-75	1975-76	1976-77
17.	Jute manufactures . .	250.0	227.3	296.8	250.9	201.1
18.	Machinery and Transport Equipment . .	87.4	118.3	215.5	259.6	302.2
19.	Metal manufactures . .	38.3	49.5	76.4	95.8	163.6
20.	Iron and Steel (Prime and manufactures) .	41.8	60.7	88.4	121.5	398.4
21.	Chemicals and Allied products	35.3	50.3	92.9	85.3	110.8
22.	Gems and Jewellery (a + b) .	81.0	111.6	107.2	156.9	299.4
	(*a*) Pearls, precious and semi-precious stones .	77.9	106.9	98.4	148.5	287.0
	(*b*) Jewellery .	3.1	4.7	8.8	8.4	12.3
23.	Handmade Carpets and Druggets . .	19.6	25.5	35.1	41.7	68.4
24.	Artwares and Art works of Handicraft .	18.3	29.4	34.9	54.9	54.7
25.	Crude Oil .	..	..	..	..	..
26.	Petroleum Products . .	13.3	12.2	13.6	20.0	18.7
	TOTAL ABOVE .	1581.3	2089.6	2724.9	3263.0	4126.0
	TOTAL EXPORTS	1970.8	2523.4	3328.8	4036.3	5142.7
	Principal exports as a percentage of total exports	80.2	82.8	81.9	80.8	80.2

Source : DGCI&S, Calcutta.

NOTE : *Figures for 1982-83 and 1983-84 are provisional/preliminary

1977-78	1978-79	1879-80	1980-81	1981-82	1982-83*	1983-84*
					(Provisional)	(Preliminary)
244.9	116.9	366.1	330.0	258.0	202.8	164.5
337.2	399.4	448.8	525.9	617.9	584.6	476.2
183.1	209.2	216.6	199.4	232.8	201.6	191.6
280.1	223.7	106.1	69.7	79.1	55.8	45.9
116.7	148.1	197.8	224.8	364.1	308.2	270·4
559.6	729.4	543.1	618.4	811.5	894.0	1273.7
545.8	713.7	519.0	601.9	761.1	824.9	1199.8
13.8	15.7	24.1	16.5	50.4	69.1	73.9
83.2	100.3	139.8	163.9	182.8	168.6	192.7
68.5	97.0	115.1	119.0	148.0	109.6	115.2
..	..	..	..	196.2	1023.3	1111.4
15.7	14.2	21.3	24.9	28.7	134.0	164.8 (357.0 (Revised)
4537.1	4784.2	5432.2	5698.9	6674.3	7319.1	7803.9
5407.9	5726.1	6418.4	6710.7	7805.9	8834.2	9396.2
83.9	83.6	84.6	84.9	85.5	82.8	83.1

and subject to revision.

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TABLE 7

INDEX NUMBERS OF THE QUANTUM AND THE UNIT VALUE OF INDIA'S EXPORTS AND IMPORTS

(Base : 1968-69 = 100)

Year	Quantum Index		Unit value Index		Net terms of Trade
	Exports	Imports	Exports	Imports	
(1)	(2)	(3)	(4)	(5)	(6)
1972-73 . .	120.0	99.0	120.0	97.0	123.7
1973-74 . .	125.0	114.0	146.0	138.0	105.8
1974-75 . .	133.0	100.4	183.0	239.2	76.5
1975-76 . .	147.0	98.8	197.2	280.4	70.3
1976-77 . .	174.2	98.9	210.3	272.5	77.2
1977-78 . .	167.7	130.0	35.8	249.0	94.7
1978-79 . .	179.6	140.4	234.3	259.7	90.2
1979-80 . .	199.4	134.6	236.2	360.0	65.6
1980-81 . .	194.1	199.4	254.2	338.4	75.1
1981-82 . .	197.6	213.4	290.5	342.8	84.8

Source : DGCI&S, Calcutta.

NOTE : The Index numbers for the years 1980-81 & 1981-82 have been derived from the new series with 1978-79 as the base year using the simple unitary conversion method to 1968-69 = 100.

TABLE 8

INDEX NUMBERS OF THE QUANTUM OF EXPORTS FROM INDIA BY MAJOR COMMODITY GROUPS

(Base Year 1968-69 = 100)

SECTION	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Food & Food Articles . .	128	121	138	163	162	131	159	231	181	188
Beverages & Tobacco . .	199	165	157	158	167	168	160	157	174	261
Crude Material, inedible except fuel	107	128	129	129	138	109	117	145	172	124
Mineral Fuel and Lubricants .	138	85	85	67	70	61	48	22	38	331
Fats & Waxes . . .	117	86	105	141	232	70	39	90	37	36
Chemicals & related products .	185	233	229	208	254	301	376	448	482	711
Manufactured goods classified chiefly by material . .	102	105	94	110	145	157	150	141	127	132
Machinery & Transport equipment	156	188	386	325	373	397	486	473	634	627
Miscellaneous manufactured articles	275	283	341	410	620	633	719	693	907	856
GENERAL INDEX NUMBERS	120	125	133	147	174	168	180	199	195	198

Source : DGCI&S, Calcutta.

NOTE : The indices for the years 1980 81 and 1981-82 have been converted from the new base year 1978-79 to the earlier base year 1968-69 using a simple conversion factor.

TABLE 9

INDEX NUMBERS OF THE QUANTUM OF IMPORTS INTO INDIA BY MAJOR COMMODITY GROUPS

(Base Year 1968-69 = 100)

SECTION	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Food & Food Articles	34	78	101	134	92	23	21	19	28	51
Beverages & Tobacco	25	27	51	59	35	56	28	22	26	36
Crude Materials inedible except fuel	107	83	61	66	92	181	173	123	124	196
Mineral fuel & Lubricants	391	427	291	299	312	373	460	543	600	511
Animal & Vegetable oils, fats & Waxes	103	244	68	46	266	1873	1413	904	2238	1936
Chemicals & related Products	90	91	93	79	71	104	129	128	142	142
Manufactured goods classified chiefly by materials	164	156	155	120	121	173	266	292	447	460
Machinery & Transport equipment	91	106	92	90	82	105	90	83	160	183
Miscellaneous Manufactures Articles	103	121	99	123	89	132	146	150	214	455
GENERAL INDEX NUMBER	99	114	100	111	97	130	140	135	199	213

Source : DGCI&S, Calcutta.

NOTE : The indices for the years 1930-81 and 1981-82 have been converted from the new base year 1978-79 to the earlier base year 1968-69 using a simple conversion factor.

TABLE 10

TRENDS IN EXPORT ASSISTANCE

(In Rs. Crores)

Year/Assistance	Duty Drawback	Market Development Assistance	MARKET DEVELOPMENT ASSISTANCE				
			(i) C.C.S.	(ii) E.C.D.	(iii) G.I.A. (a) EPCS	(iii) G.I.A. (b) OOS	(iv) OTHERS
1	2	3	4	5	6	7	8
1973-74	42.3	62.4	52.4	4.5	1.1	1.4	3.0
1974-75	60.0	76.4	59.9	7.3	1.0	1.3	6.9
1975-76	82.0	148.3	123.7	9.4	1.3	1.6	12.3
1976-77	120.0	239.6	226.4	10.0	1.4	1.6	0.2
1977-78	133.0	324.4	310.3	9.9	1.8	1.4	1.0
1978-79	150.0	375.2	359.0	13.0	1.8	1.4	..
1979-80	152.0	360.9	344.1	12.5	2.4	1.9	..
1980-81	164.0	399.1	376.4	17.0	3.2	2.5	..
1981-82	204.0	476.9	452.4	18.0	3.1	3.4	..
1982-83	127.0	476.3	448.8	20.0	3.3	4.0	0.2
1983-84	132.0	461.4	429.9	21.3	3.9	6.1	0.2

Source: Directorate of Drawback, Ministry of Finance and Ministry of Commerce.

Abbreviations : C.C.S. — Cash Compensatory Support.

E.C.D. — Export Credit Development Scheme.

G.I.A. Grant-in-Aid to Export Promotion Councils & Other Organisations.

EPCS — Export Promotion Councils.

OOS Other Organisations.

TABLE 11

PERCENTAGE DISTRIBUTION OF C.C.S. BETWEEN MAJOR COMMODITY-GROUPS OF EXPORTS

Sl. No.	COMMODITY GROUPS	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1.	Engineering Goods	65.5	65.3	50.9	46.3	45.0	42.6	41.9	47.0	45.6	42.8
2.	Chemicals & Allied products	23.1	19.7	12.2	12.0	10.1	8.8	9.7	9.4	8.7	8.0
3.	Plastic Products	2.0	2.0	1.3	1.2	1.0	0.9	1.0	1.1	1.4	0.8
4.	Sports Goods	3.2	2.0	1.2	1.0	1.1	1.1	1.2	1.0	0.9	0.7
5.	Processed Foods, Fresh Flowers, Fruits and Vegetables	0.3	1.0	6.6	5.0	4.7	4.2	4.4	5.0	5.5	6.1
6.	Instant tea packets, tea and tea bags	..	Neg.	1.0	1.2	3.0	2.3	2.3	1.7	0.9	0.2
7.	Instant Coffee extracts and essence	..	..	0.2	0.3	0.1	0.1	0.3	0.3	•0.5	1.1
8.	Woollen carpets, rugs and druggets	3.5	4.1	6.3	7.9	8.5	10.0	12.4	10.3	8.4	8.8
9.	Jute Products	..	2.2	5.1	7.7	6.0	3.9	1.4	1.2	3.1	2.6
10.	Fish and fish products	..	0.1	0.3	0.3	0.3	0.4	0.6	0.3	0.7	0.4
11.	Finished leather, leather manufactures, etc.	2 0	3 4	9.8	10.4	11.5	15.2	11.8	11.3	11.9	11.7
12.	Handicrafts	Neg.	0.2	2.8	3.8	4.4	4.4	4.8	3.9	3.0	2 9

13. Natural silk made-ups/garments/synthetic, fabrics, rayon etc.	0.3	0.1	2.3	3.0	4.2	6.0	5.6	5.3	5.7	4.5
14. Cotton Textiles including handloom etc.	..	..	..	..	..	..	2.5	2.2	3.6	9.1
15. Woollen/Blended knitwear .	..	..	Neg.	..	Neg.	..	Neg.	..	..	0.3
TOTAL ABOVE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Ministry of Commerce.

TABLE 12

NUMBER AND RANGE OF C. C. S. RATES

(For the period 1-10-82 to 31-3-85)

S. No.	Products	Below 10%	10% & Below 15%	15% & Below 20%	20% & Above	Total
1.	Engineering Products	72	60	19	..	151
2.	Chemical Products	80	29	06	..	115
3.	Plastic Goods	15	02	..	..	17
4.	Leather Goods	04	05	01	..	10
5.	Sports Goods	..	03	05	..	08
6.	Marine Products	11	02	01	..	14
7.	Processed food	20	21	05	03	49
8.	Handicrafts & Woollen carpets.	04	03	01	..	08
9.	Woollen Textiles	03	01	..	..	04
10.	Silk Goods	..	05	..	..	05
11.	Synthetic & Rayon Textiles	..	05	..	..	05
12.	Cotton Textiles	20	04	02	..	26
13.	Coir Products	04	01	..	..	05
		233	141	40	03	417

Source : Ministry of Commerce.

TABLE 13

C.C.S. AS A PERCENTAGE OF THE FOB VALUE OF EXPORTS FOR MAJOR COMMODITY GROUPS

Commodity Groups	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Engineering Products	16.1	14.8	15.3	14.4	15.3	16.1	14.2	15.1	14.1	14.8
2. Chemicals & Allied Products	14.9	13.3	12.7	12.8	13.1	11.4	10.2	10.1	10.0	9.8
3. Plastic Goods	9.2	9.7	10.1	9.5	10.0	9.3	9.5	10.1	11.5	9.6
4. Sports Goods	19.4	16.2	14.9	14.1	14.5	14.6	14.8	15.2	14.6	12.6
5. Processed food, fresh fruits, vegetables etc.	8.0	13.8	12.8	11.9	10.9	10.0	7.0	8.4	8.3	9.2
6. Instant tea, packet tea and tea bags etc.	..	10.0	9.9	10.4	9.6	11.3	13.4	12.3	12.7	13.0
7. Instant Coffee etc.	..	..	10.0	10.0	10.0	10.0	10.0	9.9	10.0	5.6
8. Woollen Carpets, Rugs and Druggets	5.7	11.0	15.1	17.5	16.9	17.3	16.9	15.9	14.6	14.0
9. Jute Products	..	9.8	9.2	9.9	10.0	7.4	7.4	7.5	7.2	4.7
10. Fish & Fish Products	..	6.1	4.9	5.6	5.4	5.0	6.5	6.0	6.6	5.1
11. Finished leather and leather manufactures	5.6	5.2	6.1	2.4	12.9	11.2	11.0	12.3	11.9	11.3
12. Handicrafts	5.1	8.7	12.1	13.1	14.7	13.1	6.9	9.9	9.4	9.1
13. Natural silk fabrics, garments and made-ups synthetics fabrics & garments etc.	7.6	9.9	12.6	13.1	13.9	13.1	12.4	11.4	10.8	8.5
14. Woollen/Blended Knitwear	..	15.0	12.1	10.1	9.8	10.7	14.3	..	..	7.0
15. Cotton Handlooms	..	..	..	..	..	..	8.3	9.1	9.6	8.3
TOTAL ABOVE	14.1	13.2	12.2	9.1	13.7	13.2	11.8	12.7	11.9	11.2

Source : Ministry of Commerce.

TABLE 14

COMPOSITION OF INDIA'S IMPORTS FOR THE YEARS 1971-72, 1976-77, 1981-82

(In Rs. crores)

S. No.	Heads	1971-72		1976-77		1981-82	
		Total value	% share in total imports	Total value	% share in total imports	Total value	% share in total imports
1.	Food Cereals and edible Products	169.3	9.3	977.3	19.3	1298.3	9.5
2.	Finished Goods nes	41.2	2.3	66.0	1.2	231.6	1.7
3.	Fuels	194.6	10.6	1413.4	27.9	5230.2	38.4
	of which :						
	Crude oil and Petroleum Products	194.1	10.6	1413.3	27.9	5189.3	38.1
4.	Metals	339.3	18.6	379.6	7.5	1600.7	11.8
	(*a*) Iron and Steel	237.5	13.0	219.7	4.3	1203.5	8.8
	(*b*) Non-ferrous metal	101.8	5.6	159.9	3.2	397.2	2.9
5.	Raw materials and Intermediate manufactured goods	582.5	31.9	1160.0	22.9	3134.2	23.0
6.	Machinery and Equipment	466.7	25.6	1009.2	19.9	2108.8	15.5
	(*a*) Complete machinery and equipments	192.8	10.6	435.6	8.6	946.4	7.0
	(*b*) Components and Spares	273.9	15.0	573.6	11.3	1162.4	8.5
7.	Miscellaneous	30.9	1.7	68.3	1.3	3.7	0.1
	TOTAL IMPORTS	1824.5	100.0	5073.8	100.0	13607.5	100.0

Source : Office of the Chief Controller of Imports and Exports and DGCI&S, Calcutta.

TABLE 15

INDIA'S PRINCIPAL IMPORTS (1972-73 to 1983-84)

(In Rs. Crores

S. No.	Commodities	1972-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83* (Provisional)	1983-84* (Preliminary)
1.	Cereal & Cereal Preparations of which	80.8	473.2	763.8	1342.8	867.6	122.5	86.9	105.8	100.4	347.2	306.5	597.8
	Wheat	48.2	346.1	698.2	1210.6	799.2	93.6	66.1	84.3	76.6	229.8	292.3	495.3
2.	Synthetic & Regenerated Fibres	4.9	2.5	2.7	6.3	30.2	191.8	197.6	108.2	96.5	173.2	124.7	100.6
3.	Metaliferrous Ores & Metal Scrap	6.6	13.3	6.0	20.2	31.1	45.2	67.7	92.4	115.6	202.7	152.2	141.4
4.	Fertilizers Crude	11.2	21.3	50.0	29.0	25.0	40.7	40.3	59.7	79.1	82.6	55.5	80.7
5.	Fertilizers manufactured	96.3	162.8	436.2	461.4	191.6	258.1	370.7	371.3	652.3	509.7	145.6	106.1
6.	Crude Petroleum, Petroleum Products & related Products	204.0	560.3	1156.9	1225.7	1413.3	1551.0	1676.8	3267.1	5263.5	5189.3	5605.0	4685.9
7.	Vegetable Oils Fixed & Fats (Edible Oil)	15.5	56.9	12.3	14.2	100.6	711.6	537.1	446.3	682.9	625.3	226.3	541.0
8.	Organic & Inorganic Chemicals	91.9	110.9	188.4	180.7	137.8	196.6	230.9	323.6	358.2	485.2	387.0	571.9
9.	Medicinal & Pharmaceutical Products	23.2	26.4	34.2	36.3	42.2	63.6	79.2	73.9	84.6	84.4	80.6	128.5
10.	Artificial Resins, Plastic material etc.	11.9	15.7	18.4	19.5	27.3	66.2	70.0	97.4	121.4	125.2	125.7	184.3
11.	Chemical Material & Products n.e.s.	23.4	27.7	39.0	39.5	26.1	40.9	54.8	61.9	72.1	77.6	73.2	118.5
12.	Paper, Paper-Board & mfrs. thereof	31.4	29.2	59.5	57.7	62.2	81.8	104.7	158.8	186.5	245.4	147.5	169.1
13.	Textile yarn, Fabrics & madeup articles n.e.s. and related products	6.3	6.0	12.9	12.5	7.6	20.3	47.4	52.6	59.4	96.7	112.6	122.5
14.	Pearls, Precious & Semi-precious stones	41.6	74.0	53.0	84.2	180.6	330.7	466.8	347.4	416.7	397.4	677.4	1082.4
15.	Non-Metallic Mineral mfrs. (excluding Pearls)	12.5	12.3	9.2	12.5	11.2	32.0	93.5	94.9	138.5	114.2	141.4	174.8
16.	Iron & Steel	225.8	249.9	423.7	311.9	219.5	262.8	462.5	868.6	852.4	1203.5	1146.0	938.5
17.	Non-ferrous Metals	109.1	140.3	178.7	100.4	157.1	192.1	245.5	353.4	477.4	397.1	279.1	360.7
18.	Manufactures of Metals n.e.s.	18.8	21.9	27.6	33.1	31.9	38.1	46.1	75.7	89.5	115.5	136.5	139.5
19.	Machinery & Transport Equipment (a+b)	532.1	651.6	695.7	934.6	1047.6	1110.4	1259.9	1382.7	1820.8	1980.7	2231.8	2777.3
	(a) Machinery Electric and Non-electric	432.0	556.6	564.5	777.5	876.8	885.1	963.1	1043.2	1348.8	1675.6	1631.3	2329.6
	(b) Transport Equipments	100.1	95.0	131.2	157.1	170.7	225.3	296.8	338.6	472.0	305.0	600.5	447.7
20.	Professional, Scientific Controlling Instruments, Photographic & Optical goods, watches and clocks	27.9	30.3	34.4	40.5	55.6	90.1	118.6	155.6	176.1	201.3	189.8	273.5
	TOTAL ABOVE	1575.2	2686.5	4202.6	4971.0	4666.1	5446.5	6257.0	8497.3	11843.9	12654.2	12344.4	13295.0
	TOTAL IMPORTS	1867.4	2955.4	4518.8	5264.8	5073.8	6020.0	6810.6	9142.6	12549.2	13607.6	14355.8	15347.3**
	Selected Principal Imports as a Percentage of total Imports	84.4	90.9	93.0	94.4	92.0	90.5	91.9	92.9	94.4	93.0	86.0	86.6

Source : DGCI&S, Calcutta.

Note : *Commodity-wise figures for 1982-83 and 1983-84 are provisional/preliminary and subject to revision.

**Figures for imports for 1983-84 for which commodity-wise break-up is not available have been revised upto September, 1984.

TABLE 16

TRENDS IN IMPORTS OF SELECTED BULK-ITEMS

(In Rs. Crores at current prices)

Sl. No.	ITEMS	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
1.	Food Grains	70.3	464.6	758.0	1329.7	854.0	100.0	68.0	86.9	85.1	324.1
2.	Fertilizers (a + b)	107.5	184.1	486.2	498.4	216.6	298.8	411.0	431.0	731.4	592.3
	(*a*) Crude Fertilizers	11.2	21.3	50.0	29.0	25.0	40.7	40.3	59.7	79.1	82.6
	(*b*) Manufactured Fertilizers	96.3	162.8	436.2	469.4	191.6	258.1	370.7	371.3	652.3	509.7
3.	Edible Oils	15.5	57.0	12.3	14.2	100.6	711.6	537.1	446.3	682.9	625.3
4.	Crude Oil and Petroleum Products	204.0	560.3	1156.9	1225.7	1413.3	1551.0	1676.8	3267.1	5263.5	5189.3
5.	Iron & Steel	225.8	249.9	423.7	311.9	219.5	262.8	462.5	868.6	852.4	1203.5
6.	Non-ferrous Metals	109.1	140.3	178.7	100.4	157.1	192.1	245.5	353.4	477.4	397.1
7.	Newsprint	20.5	18.5	44.5	38.3	47.2	60.7	80.4	110.6	115.0	181.3
8.	Cement	..	..	..	..	0.1	13.3	68.9	67.7	95.5	73.0
	TOTAL ABOVE	752.7	1674.7	3060.3	3518.6	3008.4	3190.3	3550.2	5631.6	8303.2	8585.9
	TOTAL IMPORTS	1867.4	2955.4	4518.8	5264.8	5073.8	6020.2	6810.6	9242.6	12549.2	13607.6
	Selected bulk items as a percentage of total imports	40.3	56.7	67.7	66.8	59.3	53.0	52.1	61.6	66.2	63.1

Source : DGCI&S. Calcutta.

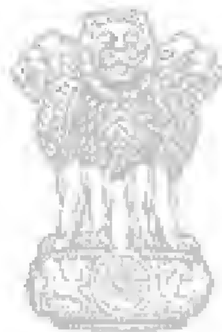


TABLE 17

CATEGORY-WISE VALUE OF IMPORT LICENCES ISSUED DURING THE YEARS 1972-73 TO 1983-84

(In Rs. Crores)

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Established Importers	55.3	38.5	42.3	46.3	52.3	43.4	5.0	..	..	..	..	..
ACTUAL USERS	(3.0)					(0.6)						
Non DGTD, Non-SSI	376.0	483.4	720.1	633.3	1404.4	801.5	645.5	686.1	1191.0	2307.5	1894.0	1075.5
Industrial	(20.3)					(10.8)						(15.9)
Non- Industrial	..	..	..	..	..	..	134.5	205.3	234.6	234 1	313.0	142.7 (2.03
Raw Materials for Scheduled Industries (DGTD Units).	171.2 (9.2)	198.2	253.1	619.5	547.3	671.1 (9.1)	702.6	743.4	1090.0	1174.6	1174.6	999.4 (14.2)
Small scale Industries	86.4 (4.6)	82.9	58.8	87.5	107.1	107.8 (1.6)	184.6	211.6	216.0	233.0	252.1	215.7 (3.1)
Registered Exporters	136.0 (7.3)	151.3	166.4	237.2	415.5	741.4 (10.0)	1096.7	1089.6	1422.0	1762.0	1963.5	2294.5 (32.6)
Capital Goods	249.5 (13.4)	254.4	268.6	562.2	506.2	497.2 (6.7)	425.3	647.2	980.1	1682.4	1259.2	1181.6 (16.8)
Heavy Electrical Plant	18.6 (1.0)	7.2	0.7	4.2	3.9	24.3 (0.3)	135.9	90.0	147.3	77.5	50.5	685.5 (9.7)
Ad-hoc (All Categories)	16.5 (0.9)	36.5	31.9	147.4	1203.0	1293.0 (17.5)	96.3	95.5	86.5	59.9	46.1	182.1 (2.6)
Customs Clearance Permits	58.1 (3.1)	65.4	98.1	127.6	76.0	181.2 (2.4)	49.1	68.0	67.5	66.6	42.9	61.3 (0.9)
State Trading Agencies	620.9 (33.5)	948.3	935.6	764.7	1570.9	1669.7 (22.5)	469.5	207.9	205.7	156.5	93.0	129.0 (1.8)
Railways Contracts	20.1 (1.1)	17.1	14.6	15.8	16.6	18.6 (0.2)	47.7	89.8	36.0	45.2	15.8	29.0 (0.4)
Others	47.3 (2.6)	50.6	45.9	73.4	17.8	1357.2 (18.3)	11.7	60.2	10.5	39.7	51.0	34.0 (0.5)
(A) Total of above	1855.7	2333.8	2636.0	3316.1	5921.0	7406.3	4004.3	4206.2	5340.4	7755.3	7165.7	7030.3
(B) India's Total Imports	1867.4	2955.4	4518.8	5265.2	5073.8	6025.3	6814.3	9142.6	12549.2	13607.6	14360.0	15618.2
Share of (A) in (B)	99.4%	79.0%	58.3%	63.0%	116.7%	122.9%	58.8%	46.0%	42.6%	57.0%	49.9%	45.1%

SOURCE : OFFICE OF THE CHIEF CONTROLLER OF IMPORTS & EXPORTS

NOTE : Figures in brackets indicate proportion of total value in percentages.

TABLE 18

CATEGORY-WISE NUMBER OF IMPORT LICENCES ISSUED DURING THE YEARS, 1972-73 TO 1983-84

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Established importers	19,038 (16.5)	17,751	11,658	15,052	15,589	14,121 (9.9)	793	..	..	..	..	..
ACTUAL USERS (Non-DGTD Non-SSI)	10,762 (9.3)	9,402	8,648	8,839	13,507	8,166 (5.7)	1,607	1,266	1,001	1,073	1,149	1,140 (1.4)
Non Industrial	..	..	..	..	..	..	2,429	2,254	1,856	1,714	1,848	1,553 (1.9)
Raw Material for Scheduled Industries (DGTD Units)	6,178 (5.3)	5,257	6,003	8,951	6,110	5,846 (4.1)	3,478	3,835	3,571	3,575	3,540	3,405 (4.2)
Small Scale Industries	39,230 (34.0)	33,765	22,074	22,718	17,035	11,340 (7.9)	9,017	8,124	7,664	7,458	6,277	4,909 (6.0)
Registered Exporters	26,364 (22.8)	25,703	24,488	24,911	29,729	39,256 (27.4)	41,562	38,275	48,780	50,869	52,707	53,029 (65.1)
Capital Goods	2,503 (2.2)	3,361	1,781	2,741	2,611	2,599 (1.8)	2,830	3,498	4,183	4,085	3,968	3,543 (4.3)
Heavy Electrical Plant	115 (0.1)	78	52	74	117	172 (0.1)	87	85	74	84	51	39 (0.43)
ADHOC (All Categories)	716 (0.6)	751	450	573	632	661 (0.5)	383	305	421	405	829	1,107 (1.4)
Customs Clearance Permits	4,966 (4.3)	4,161	3,393	2,614	2,319	1,970 (1.4)	1,371	1,303	1,538	1,881	8,726	4,558 (5.6)
State Trading Agencies	3,272 (2.8)	8,566	10,258	9,696	8,648	1,835 (1.3)	212	253	230	152	138	111 (0.1)
Railway Contracts	482 (0.4)	493	313	354	393	394 (0.3)	424	599	117	106	60	69 (0.1)
Others	1,913 (1.7)	1,793	1,598	1.517	931	56,718 (39.6)	309	297	331	6,668	7,271	8,033 (9.9)
Total	115539	111078	90,716	98,040	97,621	1,43,078	64,502	60,094	69,766	78,070	86,564	81,496

SOURCE : OFFICE OF THE CHIEF CONTROLLER OF IMPORTS & EXPORTS

NOTE : Figures in brackets indicate proportion of total number in percentages.

TABLE 19

EXPORT PRODUCT-WISE VALUE OF REPLENISHMENT LICENCES ISSUED DURING 1972-73 TO 1983-84

(Value : Rs. Crores)

Sl. No.	Export Product	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1.	Engineering Goods	38.3	32.2	38.1	76.2	98.4	150.3	178.5	232.6
2.	Chemicals & Allied Products	13.4	17.0	18.7	90.0	34.3	57.8	48.3	53.9
3.	Plastics	2.8	2.8	4.5	5.6	8.1	14.5	8.3	10.3
4.	Leather & Leather Goods & other Products	5.6	6.9	5.8	8.3	16.6	21.6	31.3	45.0
5.	Sports Goods	0.6	0.7	1.4	1.3	1.3	2.7	2.9	4.9
6.	Fish & Fish Products	5.6	6.8	7.3	9.4	18.6	19.6	23.1	26.5
7.	Processed Food	1.0	1.1	1.5	1.8	3.8	7.7	15.7	17.6
8.	Handicrafts	3.4	1.7	2.7	6.3	8.8	15.1	28.0	33.3
9.	Cashew Kernels	0.8	1.3	3.6	3.7	5.1	6.5	2.4	8.8
10.	Tabacco & Tabacco Products	1.5	2.2	2.2	2.6	2.1	3.3	2.1	2.1
11.	Woollen Carpets, Rugs & Druggets	0.1	1.4	4.0	1.5	2.5	4.8	4.8	24.2
12.	Woolen Tex, Hosiery & Mixed Fabrics	Negl.	0.6	0.6	0.4	1.1	13.4	15.2	9.8
13.	Coir Products	0.3	0.3	0.4	0.3	0.6	0.8	0.6	0.2

	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
14. Cotton Textiles	5.1	5.6	5.6	7.6	11.8	17.5	18.4	23.3
15. Readymade Garments (other than Natural Silk)	1.4	3.5	4.8	8.5	18.6	50.7	94.5	120.5
16. Natural Silk Fabrics, Garments	1.7	1.9	1.6	1.6	2.3	3.5	6.1	8.1
17. Stainless Steel Products	0.2	0.4	0.4	0.9	0.2	2.0	2.9	3.0
18. Ship repairing	0.3	0.1	0.1	0.1	0.9	0.7	0.0	Negl.
19. Gem & Jewellery	52.4	62.3	56.9	78.0	173.9	339.9	605.2	450.5
20. Gem Jewellery Sales to Foreign Tourists	Negl.	0.1	0.1	0.2	0.1	0.1	..	..
21. Cinematograph Films (Exposed)	0.4	0.4	0.3	0.5	0.6	0.5	2.2	4.3
22. Natural Fibre Products	Negl.	Negl.	Negl.	Negl.	0.1	1.0	0.4	0.0
23. Non-Cellulosic Products	0.1	0.4	0.7	0.3	0.5	2.4	2.1	3.7
24. Cellulosic Products	0.2	0.3	0.5	0.2	0.7	1.0	2.4	2.6
25. Mixed Blended Products from mixture of Cotton/cellulosic fibre or yarn/nylon/polyester fibre or yarn/natural silk	0.1	0.1	0.1	0.1	0.1	0.4	0.6	1.0
26. Misc. Export Products	0.8	1.2	4.5	1.8	4.7	4.2	0.7	3.5
(A) Total of Above	136.1	151.3	166.4	237.2	415.5	741.4	1096.7	1089.6
(B) Grand Total of Exports	1970.8	2523.4	3328.8	4042.3	5142.3	5404.3	5726.1	6418.4
Share of A in B	6.9%	6.0%	5.0%	5.9%	8.1%	13.7%	19.1%	17.0%

Sl. No.	Scheme	Export Products	1980-81	1981-82	1982-83	1983-84
1.	A	Engineering Goods	305.8	373.1	391.7	593.6
2.	B	Chemicals & Allied Products	99.4	147.4	137.6	99.3
3.	C	Plastics	16.6	18.3	22.4	24.4
4.	D	Leather & Leather Goods & other animal products	64.6	88.1	76.1	55.6
5.	E	Sports Goods	7.8	8.9	7.8	4.1
6.	F	Fish & Fish Products	31.8	34.5	46.0	53.7
7.	G	Foods	28.0	35.3	54.7	32.6
8.	H	Handicrafts	46.8	52.1	51.3	45.9
9.	I	Cashew Kernels	17.2	17.7	13.5	11.3
10.	J	Tobacco & Tobacco Products	4.0	3.1	5.8	4.1
11.	K	Textiles	131.2	131.9	147.7	132.8
12.	L	Cinematograph Films (Exposed)	6.7	6.8	7.0	3.5
13.	M	Coir Products	0.0	0.5	0.9	1.3
14.	N	Natural Fibre Products	0.3	0.1	0.1	0.2
15.	O	Readymade Garments Hosiery and Knit wears	185.4	216.8	166.9	131.2
16.	P	Gem & Jewellery (including Gem & Jewellery Sales to foreign tourists)	466.3	612.8	791.5	1045.8
17.	Q	Stainless Steel Products	10.0	14.7	15.6	15.0
18.	S	Misc. Export Products	0.2	0.4	27.0	40.2
		A. TOTAL OF ABOVE	1422.0	1762.9	1963.5	2294.5
		B. GRAND TOTAL OF EXPORTS	6710.7	7805.9	8834.2	9742.5
		SHARE OF 'A' IN 'B'	21.2%	22.6%	22.2%	23.6%

Source : Office of the Chief Controller of Imports & Exports.

TABLE 20

INDUSTRY-WISE VALUE OF IMPORT LICENCES FOR CAPITAL GOODS/HEAVY ELECTRICAL PLANTS ISSUED DURING THE PERIOD 1979-80 TO 1983-84.

(In Rs. Crores)

S. No.	Industry	1979-80	1980-81	1981-82	1982-83	1983-84
1.	Iron & Steel Industry	164.9	64.0	306.6	133.5	223.6
2.	Non-Ferrous metals	6.6	10.1	14.9	199.9	9.5
3.	Boilers & Steam Gen. Set	0.1	14.7	3.9	3.7	0.1
4.	Electrical Equipments	47.5	59.9	74.0	124.5	196.8
5.	Telecommunication Equipment	26.5	80.4	107.8	42.9	104.4
6.	Transport Equipment	38.7	47.9	78.7	59.6	69.6
7.	Industrial Machinery	13.9	18.3	25.7	25.3	17.4
8.	Machine Tools	10.8	11.3	16.4	6.9	11.4
9.	Mechanical & Engg. Industries	0.6	1.0	11.0	12.1	8.6
10.	Industrial Instruments	5.1	0.5	0.5	5.7	3.2
11.	Fertilizers	51.4	132.2	436.4	60.8	54.3
12.	Chemicals	25.3	55.2	130.9	40.9	42.1
13.	Oil Exploration, Production & Refining	16.2	20.2	21.1	99.0	38.9
14.	Drugs & Pharmaceuticals	6.0	5.5	4.2	29.0	3.9
15.	Pulp & Paper	15.9	22.3	31.2	55.5	19.6
16.	Glass including rough blanks	6.9	2.4	2.1	2.8	5.3

S. No.	Industry	1979-80	1980-81	1981-82	1982-83	1983-84
17.	Ceramics	2.3	1.8	4.1	3.2	10.9
18.	Cement	2.5	27.3	17.4	48.8	56.3
19.	Jute Textiles	4.6	8.1	9.2	2.0	0.9
20.	Cotton Textiles . .	24.4	52.5	53.9	32.3	34.2
	(A) Total above . .	470.1	635.3	1349.8	988.2	910.8
	(B) Industris other than those specified above .	267.0	492.1	410.1	331.5	956.3
	(C) TOTAL of (A) + (B) .	737.1	1127.4	1759.9	1319.7	1867.1
	(D) India's Total Imports .	9142.6	12549.2	13607.6	14360.0	15616.2
	(E) C as a percentage of D	8.1%	9.0%	12.9%	9.2%	12.0%

SOURCE : Office of Chief Controller of Imports & Exports

NOTES : Data prior to 1979-80 are not available.

सत्यमेव जयते

LIST OF ASSOCIATIONS, COUNCILS, EXPORTERS AND INDIVIDUALS WHO SENT THEIR SUGGESTIONS TO THE COMMITTEE

ASSOCIATIONS, FEDERATIONS AND CHAMBERS OF COMMERCE ETC.

1. Federation of Indian Chambers of Commerce and Industry,
   Federation House, Tansen Marg,
   New Delhi—110 001.

2. All India Shippers Council,
   Federation House,
   Tansen Marg,
   New Delhi—110 001.

3. Maharatta Chamber of Commerce & Industries,
   Tilak Road,
   Pune—411 002.

4. PHD Chamber of Commerce,
   PHD House, Siri Institutional Area,
   New Delhi—110 016.

5. National Alliance of Young Entrepreneurs,
   301-302, Saraswati House,
   27, Nehru Place,
   New Delhi—110 019.

6. Overseas Construction Council of India,
   Commerce Centre, 7th Floor,
   Tardeo Road,
   Bombay—400 034.

7. Indian Plastics Federation,
   13/A, Government Place East,
   Calcutta—700 069.

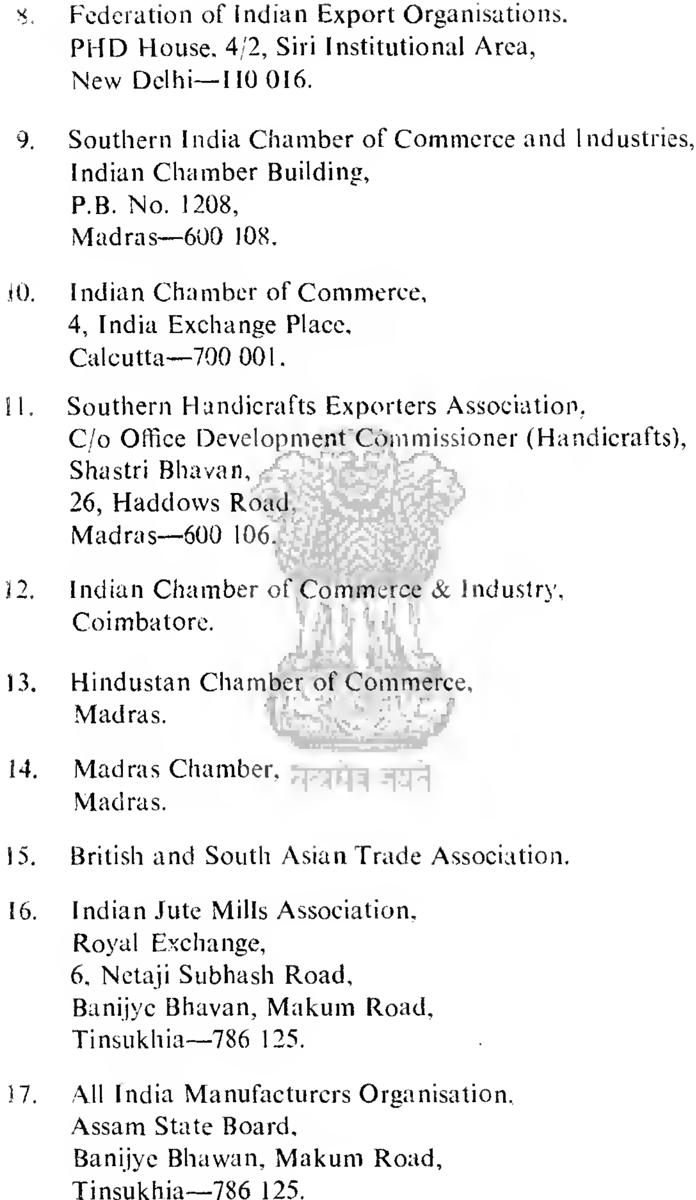
सत्यमेव जयते

8. Federation of Indian Export Organisations.
PHD House, 4/2, Siri Institutional Area,
New Delhi—110 016.

9. Southern India Chamber of Commerce and Industries,
Indian Chamber Building,
P.B. No. 1208,
Madras—600 108.

10. Indian Chamber of Commerce,
4, India Exchange Place,
Calcutta—700 001.

11. Southern Handicrafts Exporters Association,
C/o Office Development Commissioner (Handicrafts),
Shastri Bhavan,
26, Haddows Road,
Madras—600 106.



12. Indian Chamber of Commerce & Industry,
Coimbatore.

13. Hindustan Chamber of Commerce,
Madras.

14. Madras Chamber,
Madras.

15. British and South Asian Trade Association.

16. Indian Jute Mills Association,
Royal Exchange,
6, Netaji Subhash Road,
Banijye Bhavan, Makum Road,
Tinsukhia—786 125.

17. All India Manufacturers Organisation,
Assam State Board,
Banijye Bhawan, Makum Road,
Tinsukhia—786 125.

18. Association of Indian Engineering Industry,
172, Jorbagh,
New Delhi—110 003.

19. Assam Entrepreneurs Assoeiation.
Industrial Estate,
Guwahati—21.

20. Federation of Karnataka Chamber of Commeree & Industry,
Kempe Gowda Road,
P. B. No. 9996,
Bangalore—560 009.

21. Kandla Free Trade Zone Industries Association,
Kandla Free Trade Zone,
Gandhidham—370 230.

22. Automotive Component Manufacturers Association of India,
80, Dr. Annie Besant Road,
Worli, Bombay—400 018.

23. All India Manufacturers Organisation,
(Andhra Pradesh State Board)
6-3-540/8/1, First Floor,
Punjagutta Road,
Hyderabad—500 004.

24. South Bihar Chamber of Commerce,
P.O. Baidyanath, Deoghar—814 112 (S.P.),
Bihar.

25. Kamrup Chamber of Commerce,
Kamrup Chamber Road,
Guwahati—781 001.

26. Bombay Millowner's Association,
Elphinstone Building,
10, Veer Nariman Road,
P.B. No. 95,
Bombay—400 023.

27. Indian Chamber/Chemical Mfgs. Association,
Sir Vithaldas Chambers,
16, Bombay Samachar Marg.
Bombay—400 023.

28. Bengal National Chamber of Commerce & Industry.
23, R. N. Mukherjee Road.
Calcutta—700 001.

29. Organisation of Indian Engg. Industry,
538, Mirza Galib Street,
Calcutta—700 016.

30. Electronic Component Industries Association,
408, Sahyog,
48, Nehru Place. New Delhi—110 019.

31. Andhra Chamber of Commerce,
Andhra Chamber Building,
127, Angappa Naick Street,
P.B. No. 1511,
Madras—1.

32. Calcutta Chamber of Commerce,
18-H, Park Street (Stephen Court),
Calcutta—700 001.

33. Merchants Chamber of Commerce,
14, Old Court House Street,
Calcutta—700 001.

34. Bharat Chamber of Commerce,
Bharat Chambers,
8, Old Court House Street,
Calcutta—700 001.

35. All India Stainless Steel Industries Association.
302, Arun Chamber, Tardeo Road,
Bombay—400 034.

36. The Export Chamber,
    P.B. No. 11062,
    Bombay—400 020.

37. The Real Madras Handkerchiefs Export Association (Rgd.),
    'Sky Lark' 5th Floor,
    Block D,
    Rutland Gate, 5th Street,
    Madras—600 006.

38. Gujarat Chamber of Commerce & Industry,
    Sri Ambica Mills,
    Gujarat Chamber Building,
    P.B. No. 4045,
    Ranchhodlal Road,
    Ahmedabad—380 009.

39. The Associated Chambers of Commerce & Industry of India,
    17, Parliament Street,
    New Delhi—110 001.

40. The Indian Merchant Chamber,
    76, Veer Nariman Road,
    Churchgate,
    Bombay—400 020

EXPORT PROMOTION COUNCILS

41. Cotton Textiles Export Promotion Council,
    Engineering Centre, 5th Floor,
    9, Mathew Road,
    Bombay—400 004.

42. Engineering Export Promotion Council,
    World Trade Centre, 3rd Floor,
    14/1-B, Ezra Street,
    Calcutta—700 001.

43. Plastics and Linoleums Export Promotion Council,
Rashid Mansion, 622 Mount Road,
Madras—600 006.

44. The Handloom Export Promotion Council,
Madras—600 006.

45. The Silk and Rayon Textiles Export Promotion Council,
Resham Bhavan,
78, Veer Nariman Road,
Bombay—400 020.

46. Basic Chemicals, Pharmaceuticals & Cosmetics Export Promotion Council (CHEMEXCIL),
Jhansi Castle, 4th Floor,
7, Cooperage Road,
Bombay—400 039.

47. Plastics & Linoleums Export Promotion Council,
World Trade Centre,
14/1-B, Ezra Street,
Calcutta—700 001.

STATE GOVERNMENTS

48. Government of West Bengal,
Writers Buildings,
Calcutta—700 001.

49. Chandigarh Administration,
Chandigarh.

50. Government of Uttar Pradesh,
Sachivalya Annexe Bhawan,
Lucknow.

51. Government of Gujarat,
Ahmedabad.

52. Government of Himachal Pradesh,
Shimla—171 002.

53. Government of Tamilnadu,
Madras.

54. Andaman & Nicobar Islands Administration,
Port Blair.

55. Government of Sikkim,
The Secretariat,
Gangtok.

56. Government of Karnataka,
Bangalore.

INDIVIDUALS

57. C. T. Augustine,
Dy. Director (Export Promotion),
Ministry of Commerce,
3, Vijaya Ragva Road,
Madras—17.

58. Rahul Bajaj,
Chairman and Managing Director,
Bajaj Auto Ltd.,
Bombay-Pune Road,
Akurdi, Pune—411 035.

59. B. S. Bhatnagar,
Tata Exports, Block A, Shiv Sagar Estates,
Dr. Annie Besant Road,
Worli,
Bombay—400 018.

60. Willem C. F. Bussink,
Principal Economist,
The World Bank,
Resident Mission in India,
55, Lodi Estate,
New Delhi—110 003.

61. S. S. Chawla,
Chief Editor,
Glimpses,
M-70, Greater Kailash-I,
New Delhi—110 048.

62. V. D. Chowgule,
Chowgule House,
Marmugoa Harbour,
Goa.

63. P. K. Dave (IAS Retd.),
B-2, Gulmohar Park,
New Delhi—110 049.

64. B. D. Garware,
Chander Mukhie, Nariman Point,
Bombay—400 021.

65. Prof. Alak Ghosh,
Deptt. of Economics,
University of Calcutta,
Calcutta—700 050.

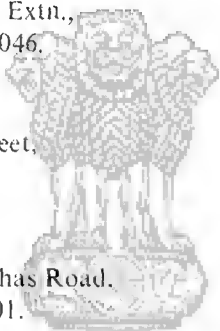
66. Y. V. Sivarama Krishnayya,
CMD, Bank of Baroda,
3, Walchand Hirachand Marg,
Ballard Pier,
Bombay—400 038.

67. Kumar Mahadevan,
Senior Vice President,
Kirloskar Electric Co. Ltd.,
P.B. 5555, Malleswaran West,
Bangalore—560 055.

68. Mahendra G. Mehta.
Bharat Diamond Industries,
Nagin Mahal,
82, Veer Nariman Road,
Bombay—21.

69. Mathuradas H. Mehta.
101, Indra Bhawan.
Walkeshwar Road.
Bombay—400 006.

70. P. C. Nayak (IAS Retd.).
Meghdoot,
119, Jaya Mahal Extn.,
Bangalore—560 046.



71. C. M. Parikh,
22, Gopal B. Street,
Calcutta.

72. Rabin Raha.
12-B, Netaji Subhas Road.
Calcutta—700 001.

73. K. K. S. Rana,
High Commissioner for India,
Nairobi (Kenya).

74. Prof. S. Seetharaman,
Economic Adviser—SCOPE,
26, Ring Road,
Lajpat Nagar-4,
New Delhi—110 024.

75. G. D. Shah,
25, Netaji Subhas Road,
Calcutta—700 001.

76. R. J. Shahaney,
Chairman Cum Managing Director.
Ashok Leyland Ltd.,
19, Rajaji Salai,
Madras—600 001.

77. Raunaq Singh,
Chairman,
Raunaq Enterprises,
Allahabad Bank Building,
17, Sansad Marg,
New Delhi—110 001.

78. Sudershan Singh,
Jt. Director,
Ministry of Commerce,
New Delhi.

79. P. M. Sinha,
Vice Chairman,
Hindustan Lever Ltd.,
Hindustan Lever House,
165/166, Backbay Reclamation,
Bombay—400 020.

80. Mantosh Sondhi,
3-B/6, Ganga Ram Hospital Marg,
New Delhi—110 060.

81. Prof. T. N. Srinivasan,
Yale University,
Connecticut,
(USA).

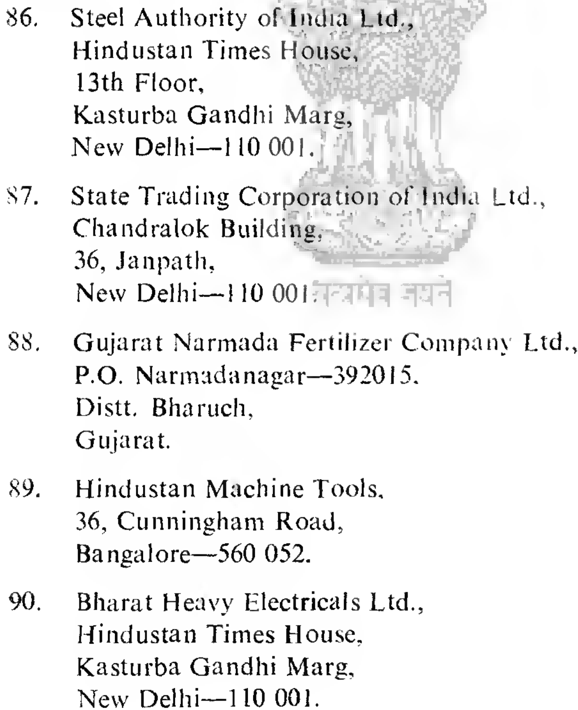
82. M. L. Tandon,
Chairman and M.D.,
Tandon Magnetics (I) Pvt. Ltd.,
Unit 9, SDF I, Seepz, Andheri East,
Bombay—96.

83. Ratan Tata,
Tata Sons,
Bombay House,
Fort,
Bombay—23.

84. S. N. Tekchandani,
Research Officer,
Ministry of Commerce,
New Delhi.

85. A. R. Vatsaraj,
Vasant, 9th Road, Khar,
Bombay—400 052.

PUBLIC SECTOR ORGANISATIONS



86. Steel Authority of India Ltd.,
Hindustan Times House,
13th Floor,
Kasturba Gandhi Marg,
New Delhi—110 001.

87. State Trading Corporation of India Ltd.,
Chandralok Building,
36, Janpath,
New Delhi—110 001.

88. Gujarat Narmada Fertilizer Company Ltd.,
P.O. Narmadanagar—392015.
Distt. Bharuch,
Gujarat.

89. Hindustan Machine Tools,
36, Cunningham Road,
Bangalore—560 052.

90. Bharat Heavy Electricals Ltd.,
Hindustan Times House,
Kasturba Gandhi Marg,
New Delhi—110 001.

91. EXIM Bank,
Maker Chambers IV.
Nariman Point,
Bombay—400 021.

OTHER ORGANISATIONS

92. Allanasons Private Ltd.,
Allana House,
4, Allana Road,
GPO Box No. 997, Colaba,
Bombay—400 039.

93. Weston Electronics,
43-A, Okhla Industrial Estate,
New Delhi—110 020.

94. Tata Sons,
Bombay House,
Fort,
Bombay—400 023.

95. Binny Limited,
Madras.

96. Hindustan Electro-Graphites Ltd.,
Bhilwara Bhawan,
40-41, Community Centre,
New Friends Colony,
New Delhi—110 065.

97. Pt. Debipershad Prayagdutt,
201, Ravindra Sarani,
Calcutta—700 007.

98. Hansa Overseas Enterprises,
12-2-709, "Borbun",
Hyderabad—500 028.

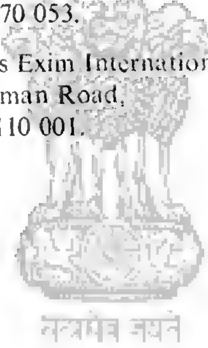
99. Baria & Co.,
12-B, Netaji Subhas Road,
Calcutta—700 001.

100. Unilever,
Unilever House,
Blackfriars.
London-EC4P 4BQ.

101. Gem Granites,
58, Cathedral Road,
Madras—56.

102. Diamond Dyes Manufacturing Corporation Ltd.,
228, First Floor, Chickpet,
Bangalore—570 053.

103. Nath Brothers Exim International Ltd.,
50/2-3, Hanuman Road,
New Delhi—110 001.

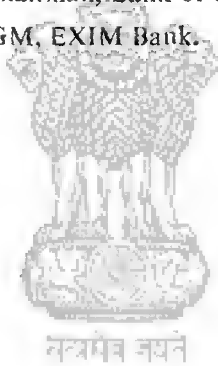


LIST OF ECONOMISTS WHO MET THE COMMITTEE

1. Dr. Shankar Acharya.
2. Dr. Malcolm S. Adiseshiah.
3. Dr. M. S. Ahluwalia.
4. Dr. Y. K. Alagh.
5. Dr. Krishna Bharadwaj.
6. Dr. Amaresh Bagchi.
7. Dr. N. K. Chandra.
8. Dr. Ashok Desai.
9. Dr. Nitin Desai.
10. Dr. S. K. Goyal.
11. Shri S. Guhan.
12. Dr. Bimal Jalan.
13. Dr. P. C. Joshi.
14. Dr. Vijay Joshi
15. Dr. V. L. Kelkar.
16. Dr. C. T. Kurien.
17. Dr. D. T. Lakdawala.
18. Dr. Prabhat Patnaik.
19. Dr. V. R. Panchamukhi.
20. Dr. V. K. R. V. Rao.
21. Dr. Alok Ray
22. Dr. Ranjit Sau.
23. Dr. Sunanda Sen.
24. Dr. M. R. Shroff.
25. Dr. Suresh Tendulkar.
26. Dr. Praveen Visaria.

LIST OF REPRESENTATIVES OF FINANCIAL INSTITUTIONS WHO MET THE COMMITTEE

1. Shri Kalyan Banerji, GM, EXIM Bank.
2. ,, K. Gopalakrishna, GM, ECGC.
3. ,, K. J. Hegde, Joint Chief Officer, Reserve Bank of India.
4. ,, V. Prabhakar, Chairman, ECGC.
5. ,, A. S. Puri, Chairman, State Bank of India.
6. ,, R. C. Shah, Chairman, EXIM Bank.
7. ,, Y. V. Sivaramkrishnaya, Chairman, Bank of Baroda.
8. ,, T. Tiwari, Chairman, Bank of India.
9. Miss T. Vakil, GM, EXIM Bank.



RRND—S/3 M of Com./85—TSS-I—12-8-85—3000.