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# Review of India's Exim Policy

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## 1.1 INTRODUCTION

Export-Import (EXIM) Policy alternatively known as Trade Policy, refers to Policies adopted by a country with reference to exports and imports. Trade; Policy can be free trade policy or protective trade policy. A free trade is one which does not impose any restriction on the exchange of goods and services between different countries. A free trade policy involves complete absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption. Though free trade, theoretically, offers several advantages, in reality, particularly underdeveloped countries were at a disadvantage in such a system of international trade. As a result, in the early 20th century, international economy saw the emergence of protective trade policies.

A protective trade policy pursued by a country seeks to maintain a system of trade restrictions with the objective of protecting the domestic economy from the competition of foreign products. Protective trade policy constituted an important plank in the commercial policies of underdeveloped countries during the 50s, 60s, and 10s and to some extent in the 80s. Many of the underdeveloped countries continue to have protective trade policies even today.

Trade policies may be outward looking or inward looking. An outward looking trade policy encourages not only free trade but also the free movement of capital, workers, enterprises and students, a welcome to the multinational enterprises, and an open system of communications. An inward looking trade 5 be the master of its own fate, with restrictions on the movement of goods, services and people in and out of the country. An inward looking trade Policy encourages the development of indigenous technologies appropriate to a country's resource endowment. Given these, a developing country may adopt commodity specific trade polices such as the following :

1. Primary outward looking polices: Aimed at encouraging agricultural and raw material exports

2. Secondary outward looking policies: Aimed at promoting manufactured exports

3. Primary inward looking polices: Objective is to achieve agricultural self sufficiency

4. Secondary inward looking polices: Objective is attaining manufactured commodity self-sufficiency through import substitution.

Trade Policy will strongly influence the direction, trend and growth of foreign trade of a country. This, in turn, will have a bearing on the economic development process. Therefore, trade policy is an important economic instrument which can be used by a country, with suitable modifications from time to time, to achieve its long-term objectives.

### 1.2 INDIA'S EXIM POLICY: A BACKDROP

India's experience of the colonial past had major influence on exim policy in the initial decades after independence. India's strategy towards, trade policy was driven by perceived foreign exchange scarcities and the desire to ensure that scarce foreign exchange is used only for essential purposes for economic development. Industrialisation and self-sufficiency in essential commodities were the important objectives of India's trade policy. This was because it was felt that dependence on other, more powerful countries for imports of essential commodities would lead to political dependence on them as well.

This was succinctly brought out by the National Planning Committee (NPC) in 1946 set up the Indian National Congress, under the Chairmanship of Pt. Jawaharlal Nehru. "In the context of the modem world, no country can be politically and economically independent, even within the framework of international interdependence, unless it is highly industrialized and has developed its power resources to the utmost Nor can it achieve or maintain high standards of living and liquidate poverty without the aid of modern technology in almost every sphere of life. An industrially backward country will continually upset the world equilibrium and encourage the aggressive tendencies of more developed countries. Even if it retains its political independence, this will be nominal only and economic control will tend to pass to others".

Earlier the NPC had said that, "The objective of the country as a whole was the attainment, as far as possible, of national self-sufficiency. International trade was certainly not excluded, but we were anxious to avoid being drawn into the whirlpool of economic imperialism."

These laid the broad framework for the formulation of EXIM policy in the subsequent years. On the whole, import substitution and protection to domestic industrialization through a system of tariff and non-tariff controls became highlights of India's EXIM Policy for the most of the period during 1950-51 to 1990-91. Since 1990-91, however, radical changes have been introduced.

### 1.3 THE FOREIGN TRADE REGIME: ANALYTICAL PHASES AND CHANGES OVER TIME

J.N. Bhagwati and A Krueger, in their comparative analysis of the impact of foreign trade regime and economic development in a number of countries , defined a set of analytical phases with reference to the EXIM policy of a country. These phases in the foreign trade regime were designed essentially as a classificatory and descriptive device to capture meaningfully the evolution of foreign trade regime in terms of its restrictionist content and the dimensions and patterns of its use of control `and price instruments. There are broadly five phases which are as follows :

**Phase I:** Characterised by the systematic and significant imposition of quantitative restrictions (QR). It might start in-response to an unsustainable balance of payments 6 deficit.

Throughout Phase I, controls are generally maintained and often intensified.

**Phase II:** Characterised by continued reliance upon quantitative restrictions and generally increased restrictiveness of the entire control system. Phase II is distinguished by two additional and related aspects of the QR system, both relatively unimportant during Phase I: (1) (2)

The detailed workings of the control system become increasingly complex, and Price measures are adopted to buttress the functioning of the control system.

Both these characteristics of Phase II arise from dissatisfaction with the results of an undifferentiated system and are often the result of many small decisions rather than an overall policy design.

Price measures are introduced to both exports and imports. The continuation or intensification of foreign exchange shortage leads to the recognition that additional export earnings would be desirable. Rebate schemes, import replenishment schemes, special credits for exporters, and a variety of other devices may be instituted that offset part or all the discrimination against exports implicit in an overvalued exchange rate. As for imports, price measures are also adopted to absorb part of the excess demand for imports. Tariffs may be increased or surcharges added to the cost of importing.

The following aspects of the price situation in Phase II are then evident: (1) the exchange parity is overlaid by tariffs and subsidies, levied in lieu of formal parity change, (2) domestic currency is overvalued at the current parity plus trade tariffs and subsidies, implying a premium on imports.

**Phase III:** In this phase, attempts are made to systematize the change introduced during the previous phase. It may consist of a mere "tidying-up" operation directed at replacing the diverse import premiums by reasonably uniform tariffs such that the differential incentive effects caused by diverse premiums on different imports are greatly reduced or virtually eliminated.

Alternatively, the tidying-up operations may replace the existing tariffs and export subsidies with a formal parity change, the result being that the effective exchange rates on exports and imports do not change much but the dispersion of tariffs is replaced by uniform devaluation.

On the other hand, Phase III may take the form of a devaluation cum liberalization package. Such a package may have a gross devaluation large enough to leave a net devaluation despite the removal of trade tariffs and subsidies, and measure of import liberalization.

**Phase IV:** The continued liberalization in Phase III leads to the emergence of Phase IV. There will be consistent decline in QR and import tariffs. The effective exchange rate for exports will come closer to the effective exchange rate for imports.

**Phase V:** The transition into Phase V occurs when the exchange regime is virtually liberalized. There will be full convertibility on current account and quantitative restrictions will not be employed as a means of regulating the balance of payments. Thus, Phase V represents a total alternative to the QR regimes of Phases I and II. The pegged and exchange rate will be at its equilibrium level and a flexible exchange rate policy will be in. operation.

The application of these phases to the exim policies of

India since independence would help to understand the policy developments in a proper perspective.

**1.4 INDIA'S EXIM POLICY: PHASES OF CHANGES**

In the early fifties (1950-56) there was a rough equilibrium in the balance of payments, with import demand more or less equaling export earnings. During this period, there was no clear exim policy and import restrictions of any kind were not in use. The conditions were, more or less, similar to Phase IV.

In the second half of the fifties (1956-61), due to heavy industry oriented industrial planning, the rapid rise in imports put pressure on India's balance of payments. The Government imposed quantitative restrictions were selective so as to encourage the development of particular industries through import licenses. Import substitution was stimulated while exports were not considered a line of activity to be stimulated. Thus, this period resembled the characteristics of Phase I.

In the early sixties (1961-66) quantitative restrictions for imports continued. At the same time, efforts were made to boost exports by creating a favourable atmosphere to export industries, diversification of export markets and the development of export support services. Export subsidisation was introduced in 1962 primarily to offset the penalties that quantitative restrictions imposed, in effect, on exports. This period could be classified under Phase II.

The economy entered Phase III in the second half of the 60s (1966-68) with a devaluation in dune 1966 to systematize and rationalise the export incentive system. At the same time, export subsidies were reduced, export duties imposed, and import duties were reduced. The net devaluation after allowing for these changes was, on an average, less than the gross devaluation of 51.5 percent and varied among commodities. According to Bhagwati and Srinivasan, the total net devaluation on the trade account was 21.6 percent for exports and 42.3 percent for imports. Consequently, the net effect was a further stimulation of import substitution over export production.

At the end of sixties up to the mid-seventies (1968-15) the hesitant steps towards liberalisation introduced with devaluation were abandoned. The country moved back to Phase II. Export subsidies were reinstated and augmented. Import policy became increasingly restrictive and complex. This was due to various shocks which the economy experienced such as (1) refugee inflow due to Bangladesh war in 1911 (2) stagnant agricultural production resulting out of adverse weather conditions, (3) oil- price hike shock of 1913, etc.

The foreign exchange reserves position improved in the latter half of the 10s, due to:

- increased remittance from Indians working in West Asia,
- improved agricultural production and
- Decline in public investment.

The net result was a relaxation in the severity of import control regime during 1915- 85, signifying the re-entry into Phase III. Import allocation rules were made simpler. Protective quotas, however, remained intact and domestic industry continued to be completely shielded from import competition.

In April 1985, in a significant departure, the Government announced new Export- Import Policy for a period of three years. The objectives was to bring some stability to the policy and thereby reduce the uncertainty about year to year changes that exporters and importers faced. However, in reality, this did not restrain the Government from announcing changes in the exim policy from time to time.

Although the stringency of the import regime did not dilute substantially, the two three-year policies (i.e. Exim polices of 1985-88 and 1988-91), did represent some major simplifications. In particular, the number of items in the category of Open General Licence (OGL) for capital goods imports increased from nil in 1915 to over 1,100 items in the 1988-91 policy. Similarly, many intermediate goods were put in the OGL category. Thus policy changes that occurred in the latter half of the 80s till 1991 (1986-91) characterized the continuance of Phase III, which began in 1915.

However, it was since 1991 that radical changes were introduced in India's exim policy. There has been a gradual and steady curtailment of import tariffs and liberalization of quantitative restrictions. All these signify that India has entered Phase IV with regard to the foreign trade regime.

**1.5 EXPORT IMPORT POLICY 2002-2001: OBJECTIVES**

This policy came into force with effect from 151 April, 2002 and shall remain in force upto 31st March 2001 and will be co-terminus with the Tenth Five Year Plan (2002-2001) The principal objectives, of this Policy are :

(i) To facilitate sustained growth in exports to attain a share of atleast 1% of global merchandise trade

(ii) To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.

(iii) To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.

(iv) To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

Some key provisions of the EXIM Policy 2002-2001 have been given in Sections 1.6 - 1.10.

**1.6 GENERAL PROVISIONS REGARDING IMPORTS.. AND EXPORTS**

Some of the general provisions regarding imports and exports as outlined in the policy are as given below :

(a) Exports and Imports free unless regulated: Exports and Imports shall be free, except in cases where they are regulated by the provisions of this Policy or any other law for the time being in force.

(b) Importer-Exporter Code Number: No export or import shall be made by any person without an Importer-Exporter Code (IEC). number unless specifically exempted. An Importer-Exporter Code (IEC) number is granted on application by the competent authority in accordance with the procedure specified in the Handbook of Procedures (Vol. I ).

(c) Actual User Condition: Capital goods, raw materials, intermediates, components, importable without any restriction, may be imported by any person. However, if such imports require a licence/certificate/ permission, the actual user alone may import such goods unless the actual user condition is specifically dispensed with by the licensing authority

(d) Export of Imported Goods: Goods imported, in accordance with this Policy, can be exported in the same or substantially the same form without a licence/certificate/ permission provided that the item to be imported or exported is not mentioned as restricted for import or export. Exports of such goods imported against payment in freely convertible currency is permitted against payment in freely convertible currency.

(e) Free movement of export goods: Consignments of items meant for exports shall not be withheld / delayed for any reason by any agency of the Central/ State Government. In case of any doubt, the authorities concerned may ask for an undertaking from the exporter.

(f) Registration-cum-Membership Certificate: Any person, applying for (i) a licence/ certificate/ permission to import/ export, [except items listed as restricted items] or (ii) any other benefit or concession under this policy shall be required to furnish Registration-cum-Membership Certificate (RCMC) granted by the competent authority in accordance with the procedure specified in the Handbook of Procedures (Vol.]) unless specifically exempted under the Policy.

**1.7 PROMOTIONAL MEASURES**

Some of the key promotional measures undertaken by the Government under this policy are as given below Central Assistance to States:

The State Governments are encouraged to fully participate in encouraging exports from their respective states. For this purpose, suitable provisions are made in the Annual Plan of the Department of Commerce for allocation of funds to the states on the twin criteria of gross exports and the rate of growth of exports from different states. The States utilise this amount for developing complementary and critical 'infrastructure such as roads connecting production centres with the ports, setting up of Inland Container Depots and Container Freight Stations, creation of new State level export promotion industrial parks/zones, augmenting common facilities in the existing zones, equity participation in infrastructure projects and any other activities as may be notified by DGFT from time to time.

(b) Market Access Initiative :Financial assistance is made available under the scheme to the export promotion councils, industry and trade associations and other eligible entities, as may be notified from time to time, on the basis of the competitive merits of proposals received in this regard for the following purposes which inter-alia includes:-

• Marketing studies on country product focus approach basis.

• Setting up of common showrooms under one roof and warehousing facility in the identified centres on the basis of marketing studies in important cities abroad.

• Participation in sales promotion campaigns through international departmental stores.

• Publicity campaign for launching identified products in selected markets.

• Participation in international trade fairs, seminars, buyers sellers meet.

• Promotion of select brands.

• Transport subsidies for select agriculture products.

• Registration charges for product registration abroad for pharmaceuticals, bio- technology and agro chemicals and testing charges for engineering products.

• Inland freight subsidies for units located in North East, Sikkim and Jammu &Kashmir.

(c) Brand Promotion and Quality: The Central Government aims to encourage manufacturers and exporters to attain internationally accepted standards of quality for their products. The Central Government extends support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of total quality management.

(d) Status Certificate: Merchant as well as Manufacturer Exporters, Service Providers, Export Oiented Units (EOU's)/ Units Located In Export Processing Zones (EPZ's)/ Special Economic Zones (SEZ's) / Agri Export Zone (AEZ's)/ Electronic Hardware Technology Parks (EHTPs)/ Software Technology Parks (STPs) shall be eligible for such recognition.

The applicant is required to achieve the prescribed average export performance level:

| **Category** | **Average FOB/ FOR value during the preceding three licencing years (in** | **FOB/ FOR during the current licencing year (in Rupees)** |
|---|---|---|
| **Export House** | **15 crore** | **45 crore** |
| **Trading House** | **100 crore** | **300 crore** |
| **StarTrading House** | **500 crore** | **1500 *crore*** |
| **SuperStar Trading House** | **2000 crore** | **6000 crore** |

The status holders are eligible for the following special facilities:

• Licence/certificate/permissions and Customs clearances for both imports and exports on self-declaration basis;

• Fixation of Input-Output norms on priority;

• Priority finance for medium and long term capital requirement as per conditions notified by RBI;

• Exemption from compulsory negotiation of documents .through banks. The remittance, however, would continue to be received through banking channels;

• 100% retention of foreign exchange in EEFC account;

• Enhancement in normal repatriation period from 180 days to 360 days.

(e) Electronic Data Interchange: In an attempt to speed up the transactions, reduce physical interface and to bring about transparency in various activities related to exports, electronic data interchange is encouraged. Applications received electronically are cleared within 24 hours.

### 1.8 DUTY EXEMPTION/REMISSION SCHEME

The Duty Exemption Scheme enables duty free import of inputs required for export production. An Advance Licence is issued under Duty Exemption Scheme. The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in scheme allows drawback of import charges on inputs used in the export product.

(a) Advance Licence : An Advance Licence is issued to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts, etc. which are consumed in the course of their use to obtain they export product, may also be allowed under the scheme. Duty free import of mandatory spares upto 10% of the C1 F value of the licence which are required to be exported/ supplied with the resultant product may also be allowed under Advance Licence. Advance Licence can be issued for:-

• Physical exports

• Intermediate supplies

• Deemed exports

(b) Duty Free Replenishment Certificate (DFRC): DFRC is issued to a merchant- exporter or manufacturer-exporter for the import of inputs used in the manufacture of goods without payment of basic custom:.; duty, and special additional duty. However, such inputs are subject to the payment of additional customs duty equal to the excise duty at the time of import.

(c) Duty Entitlement Passbook Scheme (DEPB): The objective of DEPB is to neutralize the incidence of Customs duty on the import content of the export product. The neutralisation is provided by way of grant of duty credit against the export product.

### 1.9 EXPORT PROMOTION CAPITAL GOODS SCHEME

(a) EPCG Scheme: The scheme allows import of new capital goods including CKD/SKD thereof as well as computer software systems at 5% Customs duty subject town export obligation equivalent to 5 times CIF value of capital goods to be fulfilled over a period of 8 years reckoned from the issuance of license over a period of 8 years.

However, in respect of EPCG licences for Rs. 100 crone or more, the same export obligation shall be required to be fulfilled over a period of 12 years.

The capital goods include jigs, fixtures, dies and moulds. Spares can also be imported under the scheme upto 20% of the CIF value of capital goods. EPCG licence may also be issued for import of components of such capital goods required for assembly or manufacture of capital goods by the licence holder.

(b) Eligibility: The scheme covers manufacturer exporters with or without supporting manufacturer(s)/vendor(s), merchant exporters tied to supporting manufacturer(s) and. service providers.

(c) Conditions for Import of Capital Goods: Import of capital goods is subject to Actual User condition till the export obligation is completed.

### 1.10 EXPORT ORIENTED UNITS (EOUs), UNITS IN EXPORT PROCESSING ZONES (EPZs), ELECTRONICS HARDWARE TECHNOLOGY PARKS (EHTPs) AND SOFTWARE TECHNOLOGY PARKS (STPs)

(a) Eligibility: Units undertaking to export their entire production of goods and services may be set up under the Export Oriented Unit (EOQ) Scheme, Export Processing Zone -(E-,P-Z)-Scheme, Electronic Hardware Technology Park (EHTP) Scheme or Software Technology Park (STP) Scheme. Such units may be engaged in manufacture, services, repair; remaking, reconditioning, re-engineering including making of gold/ silver/ platinum jewellery and articles thereof, agriculture, including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites and may export all products except restricted and prohibited items of exports. Units for generation/distribution of power may also set up in EPZs. No trading units are permitted.

(b) Export and import of goods: India's Export- Import Policy

An EOU/EPZ/EHTP/STP unit may export goods and services including agro- products, partly processed jewellery, sub-assemblies and components. It may also export by-products, rejects, waste scrap arising out of the production process.

An EOU/EPZ/EHTP/STP unit may import without payment of duty all types of goods, including capital goods, required by it for its activities as mentioned above or in connection therewith, provided they are not prohibited items of imports. The units shall also be permitted to import goody, required for the approved activity, including capital goods, free of cost or on loan from clients.

Second hand capital goods may also be imported without payment of duty.

### 1.11 DEEMED EXPORTS

"Deemed Exports" refers to those transactions it which the goods supplied do not leave the country.

The following categories of supply of goods by the main/ sub-contractors are regarded as "Deemed Exports" under this Policy, provided the goods are manufactured in India:

(a) Supply of goody, against Advance Licence/DFRC under the Duty Exemption / Remission Scheme.

(b) Supply of goods to Export Oriented Units (EOL's) or units located in Export Processing Zones (EPZs) or Special Economic Zone (SEZs) or Software Technology Parks (STPs) or Electronic Hardware Technology Parks (EHTPs);

(c) Supply of capital goods to holders of licences under the Export Promotion Capital Goods (EPCO) scheme;

(d) Supply of goods to projects financed by multilateral or bilateral agencies/funds as notified by the Department of Economic Affairs, Ministry of Finance under International Competitive Bidding in accordance with the procedures of those agencies/funds, where the legal agreements provide for tender evaluation without including the customs duty;

(e) Supply of capital goods, including in unassembled/ disassembled condition as well as plants, machinery, accessories, tools, dies and such goods which are used for installation purposes till the stage of commercial production and spares to the extent of 10% of the FOR value to fertiliser plants.

(f) Supply of goods to any project or purpose in respect of which the Ministry of Finance, by a notification, permits the import of such goods at zero customs duty coupled with the extension of benefits under this chapter to domestic supplies;

(g) Supply of goods to the power and refineries not covered in (0 above.

(h) Supply of marine freight containers by 100% EOU (Domestic freight - containers manufacturers) provided the said containers are exported out of India within 6 months or such further period as permitted by the Customs.

(j) Supply of goods to nuclear power projects through competitive bidding as opposed to international competitive bidding.

The benefits of deemed exports are available under paragraph (d), (e), (f) and (9) above only if the supply is made under the procedure of International Competitive Bidding (ICB).

Deemed exports are eligible for any/all of the following benefits in respect of manufacture and supply of goods qualifying as deemed exports subject to the terms and conditions as given in Handbook (Vol. I):-

(a) Advance Licence for intermediate supply/ deemed export. (b) Deemed Exports Drawback.

(c) Refund of Terminal Excise duty.

Full text of the EXIM POLICY 2002-2001 as well as the Handbook of Procedures is available on DGFT website dgft.delhi.nic.in. For details you may visit this website.

**1.12 SUMMARY**

In this paper we have discussed the role of EXIM Policy in a nation's economy. There are different phases with reference to the EXIM Policy of a country. J.N. Bhagwati and A. Krueger have identified five such phases. The paper elaborates on the phases of changes in India's Exim Policy which have taken place over last five decades. The current Export Import Policy (2002-2001) carne into force with effect from 1st April 2002 and shall remain in force for a period of five years i.e. upto 31st March 2001. The unit has discussed objectives and various key aspects of this policy. (Though this policy is valid for a period of 5 years, some changes are made by the Government over period of time keeping in view the economic conditions and industry's demand)

**NOTES:-**

Govt. of India Publications (i) Export Import Policy. 2002-2001 (U) Handbook of Procedures

Paras Ram, Export: What, Where, How, Anupam Publishers, Delhi