AN INTERNATIONAL MULTIDISCIPLINARY
QUARTERLY RESEARCH JOURNAL

Peer Reviewed Referred
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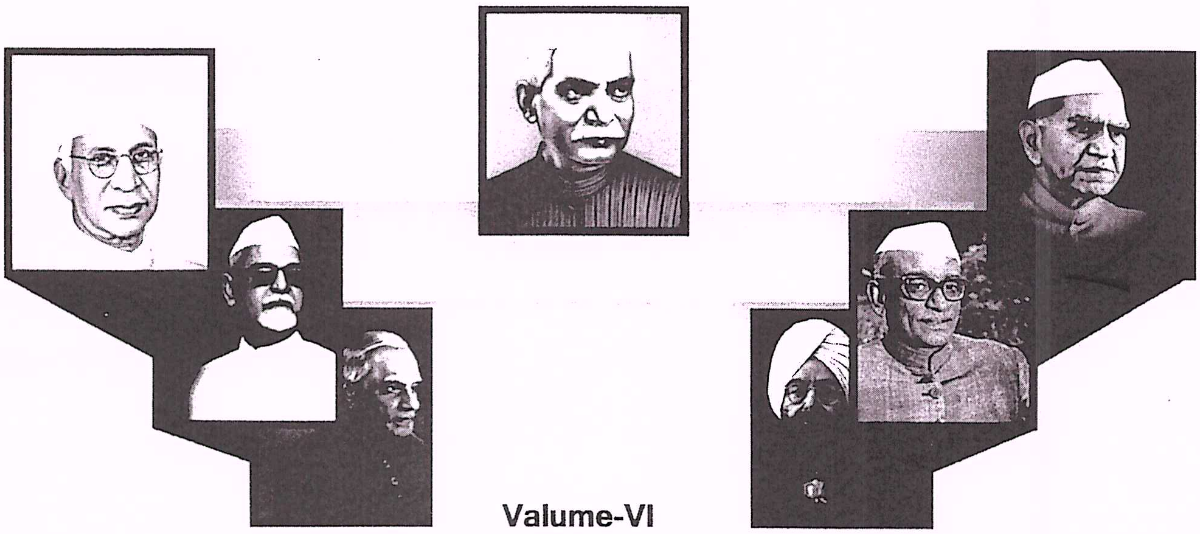
AJANTA



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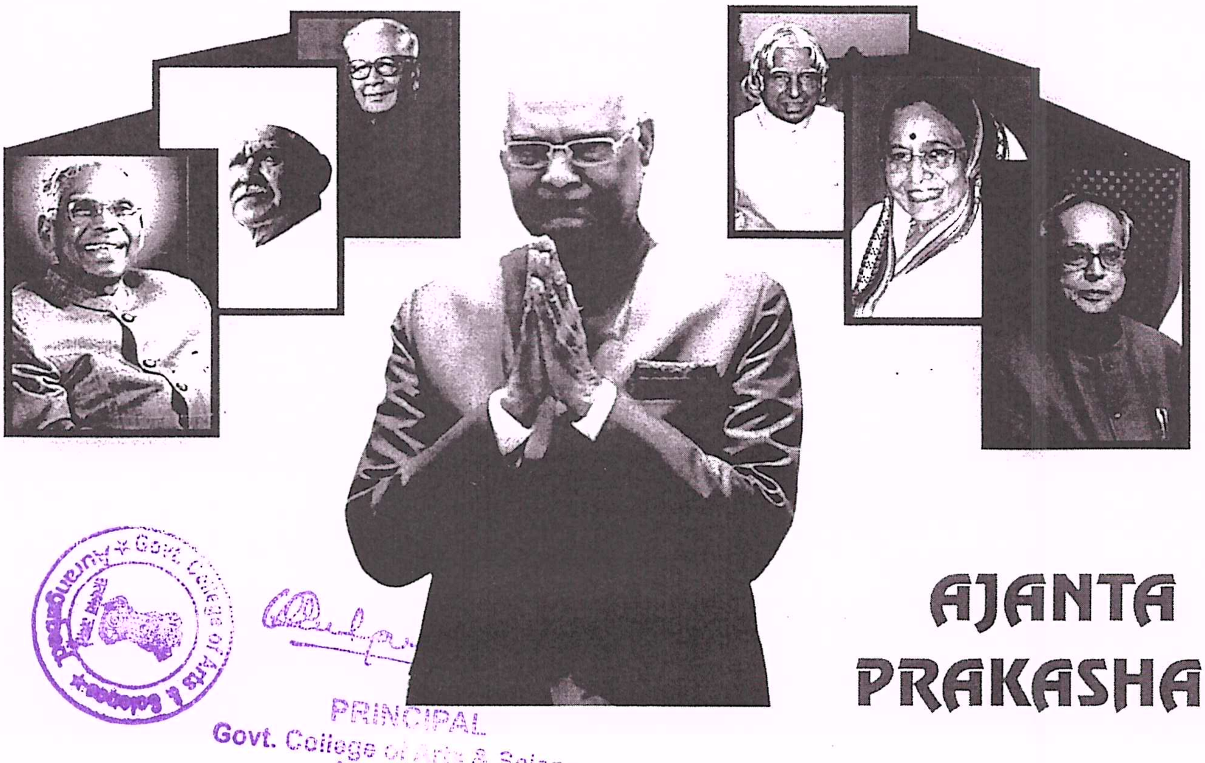
Issue-III
July - September 2017



AJANTA
PRAKASHAN

ISSN 2277 - 5730

AN INTERNATIONAL MULTIDISCIPLINARY QUARTERLY RESEARCH JOURNAL

AJANTA

VOLUME - VI ISSUE - III JULY-SEPTEMBER- 2017 AURANGABAD

Peer Reviewed Referred and UGC Listed

Journal No. 40776

ज्ञान-विज्ञान विमुक्तये

IMPACT FACTOR / INDEXING
2016 - **4.205**
www.sjifactor.com

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M.Sc (Math's), M.B.A. (Mkt), M.B.A (H.R), M.Drama (Acting), M.Drama (Prod & Dirt), M.Ed.

✦ PUBLISHED BY ✦

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Indias New Trade Policies and Market Orientation of Trade

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Abstract

The present article delineates the various policy measures taken by the governments in its exim policies to enhance the market orientation of trade and boost export at the same time. These measures emphsise an outward looking strategy for India's foreign trade since the announcement of trade reforms in 1991.

Introduction

For decades India had a closed door policy regarding its external trade. The balance of payments crisis in 1991, forced a rethink on the foreign trade restrictions that were the hall mark of its foreign trade policy. Various measures were taken in the early nineties to open up Indias trade with the outside world. The basic philosophy behind lifting of these trade restriction was to allow a greater role for the market forces in order to benefit both the producers and the consumers and strengthen India's poisition with regard to the external sector. Following are the various policy initiatives taken by the government to boost the external sector of India's economy.

1991- Foreign Trade Policy

i) Free Imports and Exports

The new trade policy simplified the import-export procedures through abolition of various licenses and the classification of imports into various groups.By March 2000, tariffs on 8066 goods were removed. Till 2002, quantitative restrictions on 1400 goods were lifted.

ii) Rationalisation of Import & Export tariffs

Import tariffs were stgnificatly reduced according to the Chelliah committee recommendations. The peak rate of tariff was reduced from 110 to 85 percent. In the 2001-02 budget, it was reduced to 35 percent and in the 2002-03 budget to 30 percent.

iii) Decanalisation

Decanalisation allowed private sector particpation in foreign trade. According to the supplementary policy of August 1991, decanalisation of 16 export goods & 20 import goods was effected.

iv) Free Exchange rate

In 1994, free exchange rate policy was implemented. In the same year, rupee was made fully convertible on the trade account and the current account and measures were taken towards fuller capital account convertibility.

5) Trading Houses

Trading houses were allowed imports of various commodities. Trading houses were permitted 51 percent foreign shareholding for-export growth. The concept of Star trading houses came into being in 1994-95. They were provided various concessions and facilities.

6) Special Economic Zones

According to this policy, a free trade Zone will be established in the country. This area will be free from bureaucratic interference and export restrictions.

7) Export Promotion Industrial Parks

According to this scheme, for the development of infratructural facilities for export-oriented units, co-operation of state governments will be sought. This scheme has been sponsored by central Government.

8) Agro-Export Zones

The scheme envisages the structure of agricultural regions and particular commodities. Producetion Geographical regions will be selected for the production of agricultural goods and an integrated process will be followed from the primary stages to the last stage of marketing.

9) Export Market Promotion Scheme

This scheme includes measures like collection of data regarding export possibilites of select commodities to targettted regions and countries to organise, exhibitions of goods by exporters, trade expos, publicity drives etc.

10) Concessions and Exemptions

Reduction in the peak rate of custom duties signficant changes in the tariffs on imported inputs necessary for information technoogy sector, 10 year tax holiday for the Special Economic zones. Tax concessions have also been given to them.

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Export Promition Measures Post 1991 Policy

Rationalisation of tariff structure

As per the recommendation of Chelliah committee, the government reduced the maximum rate of duty. In the 1993-94 budget, the govt. had reduced the maximum rate of duty from 110 percent to 85 percent. The later budgets reduced the duty further in stages. The peak rate of custom duty on imports is now only 10%.

Convertibility of rupee on current A/c.

Rupee was made partially convertible by government of India in 1992-93 budget. This was a major step for the integration of the Indian economy with the world economy. Subsequently, rupee was made fully convertible on current account in August 1994. Since March 1993 the exchange rate of rupee is market determined.

Trading Houses

The Exim Policy of 1991 has given permission to establish export houses, trading houses and star trading houses towards imports of wide range of items. On the other hand, for the promotion of exports, the government, permitted to set up trading houses with 51% foreign equity. The Foreign Trade Policy of 1992-97 made a provision for export houses and Trading houses of a system of advance licences which generally permits duty free imports for exports. The third supplement to foreign trade policy 2004 to 09 which was announced on April 2007, broadly divided export houses into five categories.

a) Export Houses, b) Star Export houses, c) Trading Houses. d) Star Trading houses, e) Premium Trading Houses.

Above status are given to the trading houses according to their achievments such as the volume of exports to the tune of 20 Crores, Rupees 100 Crores, Rupees 500 Crores, Rupees 2500 Crores and Rupees 10,000 Crores. respectively. these houses get different concessions and benefits according to their categories.

Special Economic zone

With a view to overcome the short-coming experienced on account of multiplicity of controls and clearances, absence of world-class infrastructure and unstable fiscal regime and with a view to attract larger investment in India, the SEZ policy was announced in April 2000.

This policy intended to make SEZs an engine of economic growth supported by quality infratructure, complemented by an attracitve fiscal package both at the centre and the state level with minimum possible regulation.

The SEZ rules provided for-

i) Simplified procedure for development and operation.

ii) Single window clearance for setting up SEZ.

iii) Single window clearance for setting up a unit in SEZ.

iv) Single window clearance on matters related to state as well as central govt.

Simplified complaints procedure and documentation with emphasis on self - certification.

7. Export-oriented Scheme Units

The Export-oriented UnitScheme scheme was introduced in early 1981. The EOU scheme is complementary to special economic Zones, free trade zones, export processing zones. Units that are undertaking to export their entire production of goods are allowed to set-up EOU.The following are the benefits enjoyed by the export-oriented units.

1) EOU's are eligible for reimbursement of Central Sales Tx.

2) EOU's are eligible for fuels procured from domestic oil companies.

3) EOU's are eligible for cenvat credit on the goods and services and through fast-track clearance facilities.

4) Exemption from industrial licensing for manufacture of items reserved for SSI sector.

6) EOU's are allowed to procure raw materials or capital goods duty from either through import or domestic sources.

8) Agriculture Export zones

Under chapter 16 of the Exim Policy 2001, a new concept of Agri Export Zones has been inserted by the government of India on 11 May 2012. An Agricultural Export Zone is a specific geographic region in a country, demarcated for setting up agricultural based processing industries mainly for exports. APEDA has been nominated as nodal agency to co-ordinate the efforts on the part of the central government. The concept of Agricultural Export Zones thus attempts to take a comprehensive look at produce located in a contiguous areas for the purpose of developing a sourcing raw materials, their processing and packaging, leading to final export.

Market Access Initiative Scheme

The Market Access initiative scheme was interoduced in 2003, to act as a catalyst to promote India's export on sustained basis. The scheme is formulated on producet-focus country approach to evolve specific strategy for speific market and specific producers. Under the scheme, project based assistance is provided to Export Promotion Council, Trade Promotion Organisation, Apex Chamber of Commerce.

Fine Thrust Sectors

Under foreign Trade Policy 2004-2005, special focus is given on five sectors, there are a) Agriculture b) Handicrafts c) Gems and Jewellery d) Handlooms e) Leather and foot wear sector. For example, VisheshKrishiUpajYojana was launched to boost export of fruits and vegetables, flowers, minor forest produce and their value in the agriculture sector. In Handloom sector, Handicraft Special Economic zone was established.

Concessions and Exemptions

For liberalisation of imports and promotion of exports, government of India has granted a large amount of tax benefits and exemptions. Generally, these benefits and exemptions are as follows.

1) Reduction in the peak rate of customs duty to 10 percent.

2) Reduction in duty rates for necessary inputs for the information technology sector.

3) Grant of concessions for building Infrastructure by way of 10 year tax holiday to developers of SEZs.

4) Reduction in customs duty on some critical and specified equipment for ports development and growth of international level infrastructure facility.

5) For the three integral parts of the convergence revolution large amount of tax benefits have been given.

Reducing transactional costs and simplifying Procedures

The foreign trade policy 2004-2009 announced a large number of measures to reduce transactional costs and simplify procedures. All EDI equippeal ports will be treated as a single port from January 2009 to reduce procedural delays for exporters and importers. The commerce ministry will also make the advance authorisation scheme and the EPGG scheme EDI enabled from July this year to do away with the hsssles of physical verification and registration at the customs end.

The government also allowed the export oriented units to pay the duty on monthly basis rather than taxing it on consignment basis. Also, under EPGG scheme, payment has been allowed through the debit of duty scrips under the promotional schemes of government. The government has also given facility that the central excise to endorse supply invoice within 21 days of supply to facilitate faster clearance of deemed export benefit. The government reduced the aplication fee for credit duty scrips and for EPCG authorisation to Rs. 2 per thousand for getting the exports imports code number. For getting the duty free import of Rand D equipment, units not registered with excise department can now give an installation. certificate from an independent chartered engineer. Earlier, the certificate of excise authorities was essential. For supplementary claims, the fee has been reduced to 2% from prevailing 10%. The limit of duty free import samples has been increased to Rs. 100,000 from 75,000.

Free Trade and Ware housing Zone

The objective of this scheme is to create trade related infractructure to facilitate the import and export of goods and services with freedom to carry out trade and transactions in free currency. The scheme envisaged creation of world-class infrastructure for ware-housing of various products, state of the art equipment, transportation and handling facilities, commercial handling space, water, power, communicaions and connectivity with one step clearance of import and export formalities to support the integrated Zones as trading hubs. These Zones would be established in areas proximate to the seaports, airports and dryports so as to offer easy access by road and rail. The free Trade and Warehousing zones shall be a special category of special economic zones with a focus on trading and ware housing.

Service Scheme from India

As per highlights of foreign trade policy 2015-20 by Ministry of commerce and Industry.

a) Served from India scheme has been replaced with service exports from India scheme. SEIS will apply to service providers located in India instead of Indian service providers of notified services who are providing services from India, regardless of the contribution or profile of the service provider.

b) The rate of reward under the SEIs would be based on net foreign exchange earned. The rewards issued as duty scrips would no longer be restricted to usage for specified types of goods but be freely transferable and usable for all types of goods and services tax.

A Critical Overview of Policy

1) Ignored the Importance of the home Market.

2) Risks associated with minimal state intervention (Problems for domestic traders and manufacturers.)

3) Neglect of Indigenously developed Technology.

4) Over-dependence on imports from the other economies.

5) Slow growth of domestic economies.

6) Possiblities of Misuse of natural resources.

7) Possiblities of Political Explotation.

8) Posssibilities of harmful goods.

9) Some other Criticism

a). Possibility of rivalry among nations.

b). Possibility of invasion of culture.

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c). Problem of dumping.

Self Balancing Mechanism

- A large part of the administered licensing of imports was replaced by import entitlements, linked to export earnings. These import entitlements, renamed eximscrips, were freely tradable and attracted a premium in the market. For most exports, a uniform rate of 30 percent of Exim scrips was made applicable.
- Exim Scrips could be used to import any item in the limited permissible list, the non-essential list, all OGL items for actual users, and non-OGL capital goods which were not in the restricted list.
- The advance licensing system for exports was simplified so as to improve exporters' access to imported input at duty free rates.
- Permission to import capital goods was given without clearance from the indigenous availability angle, provided this import was fully covered by foregin equity, or was upto 25 percent of the value of the plant and machinery, subject to a maximum of Rs. 20 Million.
- Export and trading houses and star trading hosues were permitted a large same of imports. Fifty one percent foreign equity was allowed in trading houses.
- The scope of canalisation for both exports and imports was narrowed.
- Actual user requirement of import of capital goods, raw materials and components under OGL was removed.
- Established exporters were permitted to maintain foreign currency accounts.

The effect of these reforms was to reduce the degree of licensing in import trade to broaden incentives and to introduce a self balancingmechamism where imports would be automatically regulated by the availability of eximscrips through export earnings.

Beneficial Elements

i) Decanalisation

Decanalisation led to the & reduction of tariffs and quotas

Market orientation of trade i.e. commodities could be imported on the basis of demand from private players. Similarly import tariffs were reduced which led to the freeing up imports, which could be used to fulfill the import demand of the consumers and producers. Similarly exports restriction and quotas were removed so that exports would be determined by the demand & supply factors. Better allocation of resources too would be possible.

ii) Increase in exports and reduction in Balance of Payment Reduction

iii) Self Balancing Mechanism

i) DEPNB Scheme

ii) Export Promotion Capital Goods.

iii) Exim Scrips

iv) Marketdetermind Exchange rate.

iv) Increase in Foreign Direct Investment

v) Increase in foreign Exchange Reserves and capital flows.

vi) Increase in Industrial production & the GDP growth.

vii) Increased availability of better quality goods and services to Indian consumers.

viii) Increased integration of India with the world economy.

ix) Improvement in productivity and efficiency of Indias economy due to competion from foreign goods.

Pre-reform Trade Policies Adopted in India

The import policy of government of India in the pre-reform period has two important components.

a) Import Restrictions.

b) Import Substitutions.

a) Import Restrictions

During the second five year plan, the government of India adopted-

Mahalanobis model of economic growth to encourage large-scale industrialisation in the country. The government had to import industrial raw materials, intermediate goods, technical knowledge, spare parts components machinery, plant andequipments, special goods etc. on a large scale and consequently a large increase in the spending of foreign exchange took place. As against this, export earnings continued to be stay low thus the Indian economy suffered adverse balance of trade and payment.Thus, the history of servere import restrictions starts in 1956-57. Due to the acute shortage of foreign exchange, policy makers opted the satrategy of direct allocation of foreign exchange among different users and uses through import licenses. Quantitative Restrictions were selective in the sense that the specified ceiling limits were different for the import of different items depending on their perceived importance in the development strategy. For example, limits of allocation of foreign exchange were high and liberal for capital goods imports and zero, low or rigid for the import of non-essential goods.

2) Fiscal Concession for Exports

There were two kinds of fiscal concessions allowed for the promotion of exports. The first one was with regard to indirect taxes. The concessions regarding the indirect taxes were incorporated in the duty drawback system and the regime of cash compensatory support. The second concession was with regard to direct taxes. The direct tax concessions were in the form of low tax rate or partial exemption on export earnings.

3) Duty Drawback System

Under this scheme, exporters who had paid any taxes, duties or tariffs on the inputs and intermediate goods used in the manufacture of exported goods, were reimbursed for these payments. This reimbursement was for central exicise duty and the customs duty paid on imported inputs.

4) Blanket Exchange Permit Scheme

This scheme was introduced by government in June 1987 for export promotion. Under this scheme, exporters were permitted to utilize 5-10 percent of their foreign exchange earnings for export promotion activities.

5) Import Replenishment Scheme

This scheme was introduced in 1957, to provide opportunity to the exporter to import raw material which will be used for the production of export goods. Under this scheme, licenses were allotted to exporters in the ratio of their exports.

6) Export Credit and Assistance to Export Promotion Councils

Export credit and assistance were granted to export promotion councils for the following purpose.

i) Market research, commodity research, area research.

ii) Export publicities.

iii) Dissemination of information.

iv) Trade delegations & Teams.

v) Participation in trade fairs and exhibitions.

vi) Establishment of offices and branches in countries abroad.

vii) For any other schemes or programs which would promote the development of market for indian goods and services abroad.

viii) Research and Development Schems.

7) Export Processing Zones & 100 percent export oriented units

Export processing zones and 100% export oriented units are set up as enclaves separated from domestic tariff area by both physical & procedural barriers and are intended to provide duty free and incentive oriented environment for export production at low cost and international competitive terms.

8) Subsides on Domestic raw materials

In this category, the most important scheme was the international price Re-imbursement scheme for steel. This scheme equalised the difference between international & domestic prices of steel which were obtained from Indian domestic market.

9) Advance Licenses and Duty Exemption Scheme

Duty exemption scheme enables duty free import of inputs required for export production. An advance license is issued as a duty exemption scheme. A duty remission scheme enables export replenishment/remission of duty on inputs used in export product.

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