India's exports have so far failed to take off to a long-term self-sustaining high growth path. In this paper/Charan Wadhva provides a critical appraisal of the export performance and policies of India during the period 1950-97 with focus on two sub-periods of 1950-90 and 1991 onwards. He concludes that the actual record of growth of India's exports throughout the period 1950-97 can be explained by the strengths and weaknesses of India's export policies identified in this paper both at the governmental (macro) and industry (micro) levels. He also provides an illustrative list of major strategic policies and measures to enable India to fulfill national aspirations for re-emerging as a global player of greater consequence in line with India's potential in this regard.

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Thanks are due to Mr Nawal K Paswan for providing statistical and bibliographical assistance in writing this paper.

The growth performance of India's exports has been highly encouraging only during certain periods after export promotion became a permanent agenda on the national economic policy. Despite continuous efforts by the Government of India to improve the scope and content of a plethora of measures to promote exports particularly after witnessing their unsatisfactory growth in the relevant years, India's exports have failed to take off to a long-term sustained growth.

This paper attempts to provide a critical appraisal of the export performance and export promotion policies which have brought the country to its present position in the global economy. In doing so, we distinguish between two broadly defined sub-periods of 1950 to 1990 (a period in which anti-export policy and procedural biases were sufficiently visible) and 1991 onwards (in which conscious efforts are being made to continuously and more speedily reduce the degree of anti-export policy and procedural biases). This paper also lists some of the major strategic policy measures which should constitute part of a comprehensive and integrated national export policy with genuinely strategic and more effective partnership between the exporting units (at the micro level) and the government (at the macro level) than has been attempted so far.

The Period 1950-90

Front the point of view of analysing India's export policy and performance, the period 1950-90 can be conveniently divided into two clear sub-periods: (i) the period 1950-70 which was characterized by near stagnation of exports; and (ii) the period 1970-90 which despite periodic fluctuations witnessed noticeable growth in exports especially in the 70s.

The Sub-Period 1950-70

At the time of gaining independence in 1947, India inherited a colonial pattern of foreign trade tied to the former "mother country," namely, the United Kingdom (UK). India's exports (valued at around $1 billion) in 1947 constituted roughly 2.5 per cent of world exports. As reviewed by Wadhva (1977), five traditional products, namely jute, tea, cotton, textiles, hides and skins, and oils (animal and vegetable oils) constituted a little over 60.0 per cent of India's total
exports in 1950-51 (the base year of the country's first Five Year Plan covering the period 1951-56). In 1951-52, as much as 26.5 per cent of India's exports went to the UK. Together with USA, nearly 50 per cent of India's exports were then absorbed by the western developed countries.

**The Policy Frame**

Since 1956, Indian planners had chosen the development strategy of import substitution led planned industrialization of the economy. The Indian planners in the 50s and the 60s believed in the then prevailing theories and empirics of "export pessimism." It was then postulated that India's exports of traditional products (dominated by five product categories stated above) faced highly inelastic global demand both with respect to world income and relative prices. Thus, very little scope was seen for increasing India's exports in the short-and medium-term. An inward looking development strategy based on import substitution at any cost following the "high cost economy." It was then postulated that India's exports were then absorbed by the western developed countries.

To these incentives, the government added the low cost services of export-promotion oriented service organizations like the training and research activities of the Indian Institute of Foreign Trade; advisory services of organizations like the Indian Institute of Packaging; export credit guarantees on suppliers credit through the Export Credit and Guarantee Corporation and for buyers credit for engineering goods through the Export-Import Bank of India; cheaper and adequate priority sector export financing and refinancing through commercial banks; and priority for exporters in the allocation of scarce resources like foreign exchange for financing visits and market development activities abroad; power; railway wagons, etc. at terms better than those available to producers for the domestic market.

The devaluation of the rupee as a response to the balance of payments crisis of 1966-67 was seen as an incentive for exporters. The government, therefore, withdrew the CAS. But the benefits of this devaluation for improving international price competitiveness were frittered away by the higher inflation rate in the following two to three years. So, on exporters' forceful demands, the CAS scheme was back around 1970 in the reincarnation of CCS described earlier. For some further details of the export promotion policy measures prevalent almost throughout the period 1957-90 (and beyond), see, Ranjan (1995).

Inspired by the considerably higher growth of exports at an average annual compound growth rate of 15.6 per cent in (US) dollar terms during 1970-80 (compared to 4.3% rate for the previous decade) despite the international oil crisis occurring during that period, the Indian policy makers took keen interest in relooking at the role of export promotion.
for contributing its due share to growth of national output and towards the attainment of a viable balance of payments position. The Government of India appointed several committees to examine afresh the role of export-supported and more deregulated development strategy and to make recommendations for revitalizing national export promotion policy and simplifying export-import procedures. The most influential of these committees turned out to be the Committee on Trade Policies chaired by Dr Abid Hussain which had submitted its Report in 1984 (see Government of India Report, 1984). This Committee had clearly recommended additional liberalization of imports of capital goods and technology as an effective tool for modernization and technological upgradation of Indian export industries for improving their international competitiveness in fiercely competitive global markets. The government accepted this major recommendation of the Abid Hussain Committee Report. The emphasis in all announcements of export and import policies and changes therein during the remaining decade of the 80s distinctly shifted to import liberalization for export promotion.

Yet another major change in the export-import policies of India related to the acceptance by the government of persistent demands of Indian exporting and importing communities for the formulation and implementation of a stable longer-term export-import policy in place of the announcement of an annual policy and frequent changes made therein (within the year). This was expected to help the export units to plan better for their future export marketing operations. The first ever long-term (with three-years validity) was announced by the government which covered the period 1985-88. The second such three years policy followed covering the period 1988-91. The government through the Reserve Bank of India (RBI) also attempted management of the exchange rate of the rupee tied to a basket of leading currencies of India's major trading partner countries.

**Export Performance in Response to Policies (1950-90)**

It can be said with considerable certainty that India's export performance was in line with the strengths and weaknesses of the export (and import) policies within the context of the overall national economic policies emphasizing self-reliant industrialization based on the basic paradigm of import substitution (despite some moderation in this concept over time).

**Stagnation of Exports 1950-70**

India's exports (including re-exports) nearly stagnated in the decade of the 50s. As per Government of India's Economic Survey, (1997), India's exports were valued at Rs 606 crore ($1.27 billion at the then prevailing exchange rate) in the financial year 1950-51 and at Rs 642 crore (or $1.35 billion) in 1960-61. During that decade, world trade in dollar terms had grown at a rate of about 5 per cent per annum. This structural failure of India to take advantage of growing world trade throughout the 1950-90 period can be traced to the failure of government policy. It did not recognize the potential benefit India could derive from actively participating in growing global export business. As stated earlier, the Indian government had in fact accepted the then prevalent belief in "export pessimism" for developing countries like India. This belief led to the clear adoption of the model of "import substitution" in the country's second Five Year Plan with negligible role for exports in promoting India's economic development.

Dr Manmohan Singh (1964) was the first to offer a strong critique of the approach of the inevitable "export fatalism" adopted by the government and pointed out that this was not only not inevitable but a wrong assumption in a world environment of growing trade. He clearly saw a long-term need for the developing countries (including India) to rely on exports to support the process of their economic development provided they evolved appropriate export strategy and supply side responses to take advantage of the demand conditions prevailing in the dynamic markets of the world. In this connection, he had clearly pointed out to the futility of the marketing policy of the Indian exporting industries (units) to attempt to sell more of the same goods (without product innovation) in which they had exportable surplus which the world market no longer wanted in larger quantity.

The devaluation of the rupee in 1966 by nearly 38 per cent led more to an increase in the rupee value of exports in 1970-71 to Rs 1535 crore in 1970-71 than in the dollar value of export at $ 2.0 billion (Economic Survey, 1997). Accordingly, Indian exports registered an annual average compound growth rate of 9.1 per cent in rupee terms but only 4.3 per cent in dollar terms during 1960-70 (over the corresponding rate during 1950-60 specified earlier). This led critics to quickly conclude that devaluation of the rupee could do very little to increase India's exports but would add more heavily to the import bill due to the relatively inelastic demand for developmental as well as maintenance imports. Indian experience of devaluation in 1991 also showed that imports push up domestic prices and quickly eat up the benefits of devaluation to the exporters thus becoming self-
defeating in a bid to increase exports in a sustained manner.

The facts, however, were different. As explained by Jagdish Bhagwati and Padma Desai (1970), the decision to devalue the rupee in 1966 was ill-timed preceded by an acute drought in 1965 and industrial recession creating bottlenecks in the process of an efficient supply side response to quickly augment exportable surpluses in the economy. Hence, the relatively slower growth of exports during the post-devaluation period (1966-70).

The industrial recession of 1966-67 did force the Indian industries of non-traditional manufacturers like engineering goods to look for exports markets and made it possible for the exporters to price exports at their marginal cost of production to improve their capacity utilization and overall profitability. But soon after the revival of the home market, Indian manufactures of non-traditional products restarted selling more of their output in more lucrative over-protected home market instead of selling abroad.

The structural distortions created by over-enthusiastic import substitution policies through high tariff walls and high quantitative restrictions coupled with the maintenance of an artificially overvalued exchange rates during 1956-90 period did not let India's non-traditional industrial exports grow at higher rates in a sustained manner. Jagdish Bhagwati and Padma Desai (1970) were the first to point to the dysfunctionality and contradiction of export promotion policies as pursued by the Government of India under indiscriminate regime of import substitution and in the name of self-reliance at any cost. All export incentives given during the period 1957-70 (and at least up to 1990) did not change the fundamental economic truth that under the impact of over-protection of the home market and other controls, Indian producers continued to find it more profitable to sell whatever they produced (even junk by international quality standards) in the home market than exporting their products. Panchamukhi (1974) had clearly put this fundamental anomaly of continuing anti-export policy bias by his empirical finding that, in India, the effective rate of protection to industry in general was much higher than effective rate of export incentives.

India's exports were relatively less affected by the recessionary impact of the global oil crises of 1979 and 1983. Exports grew at average compound growth rate of 15.6 per cent (per annum) in dollar terms during 1970-80 but at a lower but still respectable rate of 7.7 per cent (on a higher base) during 1980-90. However, this did not provide much solace to the policy makers as India's imports in the corresponding periods increased at even faster trend rate during the period 1970-80. For the entire period 1970-90, there is evidence of increasing import intensity and lower growth of net foreign exchange earnings for several non-traditional industries (see Wadhva, 1977, for the evidence for the earlier period 1967-74).

The export incentives scheme as formulated and operated by the Government of India had been flawed at least till 1980 (and a little lesser flawed to date) as it emphasizes maximization of gross export earnings on f.o.b. basis and not the maximization of net foreign exchange by giving due weightage and higher incentive to the manufacturers for using larger proportion of domestically produced (and low import content) inputs (see Wadhva, 1977).

The high trend growth registered by Indian exports since 1970 (by previous Indian standards), however, pales into insignificance when we compare India's export performance with that of Asian NICs and some other developing countries. Thus, using the data provided in the International Financial Statistics, (1997), we find that during 1980-90, the estimated average annual growth rates of exports (in dollar terms) of selected countries were as follows: India:

- 7.7 per cent; world : 6.1 per cent; China : 13.1 per cent;
- South Korea : 14.0 per cent; Malaysia : 8.6 per cent;
- Singapore : 10.5 per cent; Thailand: 13.6 per cent. As a result of much faster growth of exports by Asian NIEs throughout the period 1970-90, India lost its share in world exports from 1.0 per cent in 1970 to 0.5 per cent in 1990. Not too long ago (around 1960) India's exports were as large as China's exports but by 1980, China's exports had risen to $ 18 billion at more than double of India's exports of $ 8 billion. The gap between the growth performance of India and China had widened further with India's exports of $18 billion in 1990 compared to China's $62 billion.

India did not learn from the concept of strate-gically managed trade a la Krugman (1986) successfully followed by several exporting East Asian (including China and South Korea) and South East Asian countries. These countries followed export oriented industries in a more open economy policy regime generally lowering tariff and non-tariff barriers over time and encouraging inflows of Foreign Direct Investment (FDI) into export oriented industries and into special exports zones and technological parks based on the advantage of their cheaper labour into areas of their international competitive advantage. India did not think of reorienting its policies in those directions until 1991.
As Porter (1990) has pointed out, really speaking, nations do not export. National exports are affected through the corporations and other business units (including trading houses) both indigenous and multinational corporations (based in the concerned country) that really discover and sharpen their international competitive advantage in selected niche products and niche market and become successful marketers in global exports. The governments have to provide supporting package of policy environment conducive to sustain the growth of exports. In the strategic trade policy frame as borne out by the experience of Asian tigers and cubs, the leading elements of this policy package include: (i) Open market economy frame with leading role for the private sector; (ii) Developing superior quality export products taking advantage of the economies of scale including regional level expansion of trade and investment with the latter as the major driving force for export expansion; (iii) Maintenance of low domestic inflation through prudent fiscal and monetary policies; and (iv) Appropriate management of exchange rate with emphasis on maintaining Real Effective Exchange Rate (REER) (and not letting it appreciate) over time. The recent currency turmoil in these countries has not reduced the validity of any of the above factors.

There is now empirical evidence available, for example, in the empirical work of Singh (1994) that the shift towards import liberalization as a tool for export promotion incorporated in India’s export policies in the 80s had a positive impact on improving India’s competitiveness in several categories of manufactured exports including garments, engineering goods, and chemicals. There is also enough evidence in the literature that India’s manufactured exports are highly elastic in demand with respect to the growth of world income and world trade (Wadhva, 1988) and sufficiently elastic with respect to the pass-on effect of devaluation and depreciation of the REER through lowering relative prices of India’s exports to those of its competing sources of exports of most categories of non-traditional exports (Wadhva, 1988; Ranjan, 1995 and Srinivasan, 1998, who has also cited the celebrated work by Vijay Joshi and IMD Little on this subject).

In the absence (or only mild adoption) of strategic export management policies in India up to 1990 in stark contrast to the strategic export oriented policies vigorously pursued in East Asian and South East Asian countries for a long period, it was inevitable that India has been steadily losing market shares of its exports in the world markets in several non-traditional products in recent years. Srinivasan (1998) has illustrated this point by revealing that during the period 1979-81 and 1988-90, China had clearly gained significantly (over India) in market shares in world exports in all of the following eight commodity groups considered: (i) Toys, sporting goods, etc.; (ii) Articles of Plastics; (iii) Footwear; (iv) Textile Clothing Accessories n.e.s.; (v) Men’s outerwear non-knit; (vi) Women’s outerwear non-knit; (vii) Electrical machinery n.e.s.; and (viii) Telecom equipment parts, accessories and n.e.s. However, India has gained market share in world exports over time in gem and jewellery and rice. In several agro-products, India has lost a major share in exports mainly due to shrinkage of exportable surplus due to very high pressure of faster rise in domestic demand. A classic example in this category of exports is tea. The on-and-off policy of permitting exports of specific agro-based products has also hurt longer term growth of such exports.

It has to be acknowledged that Indian exports have had to bear several adverse costs of the policy of import substitution during the period 1956-90 listed above. Indian domestic policies have led to additional costs of export production through lower productivity, inadequate supply and quality of output of infra-structural industries such as steel as also services (such as power, ports, etc.) produced largely in the public sector compared to the global standards. However, it must be noted that there have been positive payoffs to India by the long-term pursuit of its policy of import substitution. This policy regime has enabled the country to relatively quickly shift the composition of its exports in favour of manufactured goods especially after the devaluation of the rupee in 1966. Thus, as Wadhva (1977) had pointed out, in 1950-51, manufactured exports had largely constituted of simple cotton textiles (greys, fabrics, and yam) and jute manufacturer and had constituted around 38 per cent of India’s total exports. In 1968-69, manufactured exports had contributed nearly 50 per cent of total exports. Thereafter, this proportion had been steadily going up and had stabilized at around 75 per cent since 1980. Within manufactured goods, readymade garments, leather and leather products, gem and jewellery have been among India’s dynamic non-traditional exports. Since 1970, India has also emerged as a long-term exporter of new non-traditional manufactured goods like engineering goods including transport equipment and capital goods; chemicals and allied products; and services like turnkey engineering products; consultancy services; and software exports. These achievements demonstrate that India has a strong dynamic comparative advantage in skill-intensive value added services in the future.

As a critique of the pattern of commodity com-
position of India's exports, it has to be said that the country's exports are concentrated only in a few categories like readymade garments; leather and leather products; gem and jewellery and handicrafts; and agro-products like rice and marine products. These do not project India's image as an industrialized country and as an exporter of high-tech and higher value added industrial products. As Srinivasan (1998) points out, India has failed to enter in a big way in manufactured products vacated by more developed countries due to rising wage costs in those countries and their appreciating currencies. There has also been a policy failure to develop several agro-based exports (including processed food, fruits and vegetables, floricultural and horticultural products) on long-term basis by augmenting supply of these products in which India possesses dynamic comparative advantage.

India has also succeeded in diversifying its markets through its export policies in the post-independence period. The share of UK in India's total exports had come down from as much as 26.5 in 1951-52 to less than 15.0 per cent in 1968-69 (Wadhva, 1977) and has been around 6.0 per cent since 1980-81 (Economic Survey, 1997). However, the developed Organization for Economic Cooperation and Development (OECD) countries still account for nearly 60.0 per cent of India's exports (Economic Survey, 1997). The on-going slowdown in the overall growth rates of OECD countries as a whole since 1980 has partially adversely affected the growth of India's exports. This has been caused by the adoption of neo-protectionist policies by the western developed countries including greater resort to anti-dumping proceedings; insistence on environmental standards, and imposition of other non-tariff barriers. While India has been able to increasingly shift the market composition of its exports towards the dynamic markets of East Asia (including Japan) and South East Asia (including ASEAN groupings) accounting for around 16 per cent of its total exports in 1990-91 (Economic Survey, 1997) it has not yet been able to offset the dominance of the western developed countries in the destination of its export markets. India is naturally the biggest trading partner in exports among the SAARC countries.

A remarkable feature of the diversification of India's export markets was the policy oriented creation of the Rupee Payment Area (RPA) since late 60s. RPA was designed to the mutual benefit of all trading partners in that area suffering from the common problems of scarcity of "hard" currencies (foreign exchange). The influence of foreign policy and politics of international relations in the Cold War era was evident in India's growing export (and import) relationship with the Former Soviet Union (FSU) and other Eastern European nations. As Wadhva (1998) has pointed out, by 1980-81, India's exports to the RPA had peaked at 22.1 per cent of the former's total exports. And, despite the withdrawal of Eastern European Countries from the RPA in the 80s as the latter began to lose its economic utility, even in 1990-91, the FSU alone had accounted for 16.1 per cent share of India's exports (Economic Survey, 1997).

The Period Since 1991

India faced the greatest balance of payments crisis in its history in 1990-91. Foreign exchange reserves in June 1991 had dwindled to a dangerously low level which could barely cover two weeks of imports. With large outflows taking place on capital account, as the Economic Survey, 1997 had pointed out, India was close to defaulting on external payments obligations in 1990-91. India turned this crisis into an opportunity. It responded by taking a near U-turn in its policies based on a relatively closed economy. It launched a more open economy and market driven and private sector led economic reforms in June 1991 under a new government led by Mr P V Narasimha Rao as the Prime Minister and Dr Manmohan Singh as the Finance Minister. These reforms have been on-going and have covered both areas of macroeconomic policy reforms and structural economic reforms (see Wadhva, 1994). The structural economic reforms have dominantly covered both areas of sectors like trade and industry and have used instruments like tariffs and exchange rate for effecting changes. Many of these economic reforms have progressed further in certain sectors during the rule of the United Front Government (a coalition of 14 political parties) which took office in 1996. A new government should be in place in March 1998 following the general elections conducted in the country in February 1998. No matter which government comes to power, further economic reforms will be put in place broadly in the same direction.

Export promotion policies have acquired a distinctly new face in the post-1991 reforms period. The anti-export policy biases of the economic policies of the last 40 years were fully recognized in the post-1991 period. The government made a firm resolve to consciously lower these biases over time. The government decided to incrementally and as speedily as possible (within the constraints of the democratic polity and free voices of various pressure groups) move to transform the Indian economy to an internationally more competitive market economy with an ever increasing degree of closer integration with the global economy in general and neighbouring regional markets.
economies (like SAARC and the dynamic ASEAN groupings) in particular (see Wadhva, 1994 and 1998). Thus, sustaining the growth of India's exports at an adequately high level was incorporated as an integral element of the new economic policy. Such a growth of exports was considered by the government as being vital for the ultimate success of India's post-1991 economic reforms (Wadhva, 1994).

The following are the major measures taken by the government to impart a new meaning and urgency to the national export promotion policies in the post-1991 period:

**Exchange Rate Management:** In responding to the economic crisis of 1990-91, the Government of India recognized the vital importance of the exchange rate management as a tool for not only promoting India's exports in the short (to medium) run but also for both restoring international confidence in the Indian rupee and for genuinely more efficient import substitution in line with the principle of dynamic comparative advantage. It also learnt the importance of not letting REER rise for a long period. The devaluation of the Indian rupee in two instalments on July 1 and 3, 1991 marked the launching of twin macroeconomic and structural economic reforms. Simultaneously, CCS as an export "subsidy" was "permanently" abolished. The government tried to follow stable nominal exchange rate policy whenever market conditions so allowed. This policy was pursued to encourage larger inflows of private FDI (particularly to export oriented industries) and private Foreign Portfolio Investments (FPI) as also inflows of foreign exchange from the Non-Resident Indians (and their overseas corporate bodies) into both investment and bank deposits within India. This policy of maintaining stable nominal exchange rate of the rupee did not prove to be conducive for the growth of India's exports.

The government experimented with transitional dual exchange rates (official as well as market based). This exchange rate policy incrementally favoured Indian exporters first through a scheme of transferable "Exim Scrips" (introduced in August 1991 and terminated in February 1992) and later through the launching on March 1, 1992 of the Liberalized Exchange Rate Management System (LERMS) popularly known as the system of "partial convertibility of the Indian rupee on trade account." The government made the final transition to the market based full unification of the exchange rate of the rupee on March 1, 1993. India achieved Article VIII status of the International Monetary Fund in 1994 making the rupee convertible on the current account. The RBI has faced dilemmas from time to time in having had to support the dollar (from depreciating against Indian rupee) due to increasing net inflows of capital (of both direct and portfolio investments) as also for maintaining domestic price stability (so desirable for sustained high growth of exports) while purchasing dollars thereby *pari passu* increasing domestic money supply (see, Rangarajan, 1997). The REER of the rupee has been rising in recent months to the detriment of the interests of the Indian exporters. Worse still, the recent currency turmoil in East Asian and South East Asian currency markets leading to very wide depreciation of many currencies of that region (for example of Thai baht by nearly 50% and Indonesian rupiah by 70% between July 1997 and January 16, 1998) has adversely affected Indian exporters. This on-going Asian currency crisis poses new challenges to the Indian policy makers for reorienting the management of the external value of the rupee to serve national interests (including further growth of exports). Srinivasan's empirical analysis (1998) has shown that for the post-1991 period also, India's overall trade (including exports in general) is price-elastic enough in global demand. Hence, the urgency of an appropriate new policy for determining the external value of the rupee in the period of post-South East Asian currency turmoil.

**Reduction in Tariff and Non-Tariff Barriers:** Planned and relatively speedily implemented reductions in the rates of tariffs as also in the numbers and intensity of non-tariff barriers (especially through massive deregulation of import and export licences) have been the major achievements of trade policy reforms in India. The Government of India has explicitly recognized the ultra anti-export bias of high tariff and non-tariff walls. It is only natural that such a policy regime also lures MNCs in India (like domestic investors) to sell most of their output in the distinctively higher profitable domestic market than in export markets. Through several union budgets, the peak import duty in India has been brought down from 400 per cent level in 1991-91 to 50 per cent in 1995-96. The import weighted average tariff has come down from 87 per cent in 1990-91 to 37 per cent in 1996-97.

The massive deregulation of industries subject to import and export licensing over time through long-term Export-Import Policy of 1992-97 and the latest Export-Import Policy covering the period 1997-2002 (co-terminus with the period of India's Ninth Five Year Plan) together with the virtual abolition of the industrial licensing system since August 1991 and the ever improving and friendlier policies towards liberalizing inflows of private foreign-investment (of both direct and portfolio types) have definitely created more
favourable conditions for international business units to operate in India.

India still maintains a large number of quantitative restrictions on the import of consumer goods, (including agricultural products). However, India is committed under its obligations to the World Trade Organization (WTO) to phase out all its quantitative restrictions on imports in the next six years. Once that happens, MNCs might genuinely explore opportunities for sourcing exports of labour-intensive products or even producing them in India for exports.

Other Major Export Incentives: Under the longer-term Export-Import Policy for 1990-93 as modified for 1992-97 (first five-yearly policy co-terminus with the Eighth Five Year Plan) as strengthened by the 1997-2002 Policy (announced on March 31, 1997 and co-terminus with the Ninth Five Year Plan), continuous emphasis has been placed on further improving availability of imports for export production. For manufacturer-exporters (as well as for merchant exporters), the following five major schemes for export promotion stand out:

- **Duty Exemption Scheme**: In order to reduce costs of blocking exporter's funds for payment of duties on imports going towards export production (for which norms for most products have been published), the following two duty exemption schemes are currently available: (a) Quantity Based Advance Licensing (QBAL); and (b) Modified Duty Entitlement Passbook Scheme. For details, see the document entitled Export-Import Policy 1997-2002.

- **Export Promotion of Capital Goods Scheme**: This scheme is designed to encourage exports of Indian capital goods under zero duty (or at special concessional duty rates) payable on imported inputs under specified export obligations. For example, under the latest policy, the threshold limits for the zero duty scheme require fulfilment of the export obligation of six times the f.o.b. value of the export order in hand in the next eight years. For further details, see the latest document cited above.

- **Special Import Licences**: In order to increase the profitability of exports over sales in the domestic markets, the government currently allows issue of Special Import Licences (SIL). SILs are currently issued to all exporters for 150 items out of the published larger list of restricted imports. SIL licences are tradeable in the market and carry premia depending on demand and supply conditions prevailing in the market.

Monitoring, Review, and Reformulation of Overall and Sector-specific Export Promotion Policies by the Ministry of Commerce: As the nodal agency concerned with the promotion of exports, the Union Ministry of Commerce continuously (monthly) monitors and reviews the performance of India's export in response to governmental policies. After discussions with the representatives of trade and industry, the Ministry of Commerce announces both mid-course corrective policies and procedures. It also prepares annual targets/projections for exports by major products and major destinations of exports. It also forwards its suggestions for export promotion to the other central ministries (for example the Ministry of Finance) and to various state governments for their appropriate action. During the period 1991-97, the following major initiatives taken by the Union Commerce Ministry deserve special mention:

(i) **Board of Trade and its Variants**: The Board of Trade was for the first time constituted on May 5, 1989 by the Union Ministry of Commerce to "provide a forum for ensuring continuous dialogue with Trade and Industry in respect of major developments in the field of international trade" (see its Annual Report 1994-95, p 36). The Commerce Minister is usually the Chairman of this Board. It has been periodically reconstituted. In its latest incarnation, a new Export Promotion Board was set up by the government in June 1997 at the

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intervention of the (then) Prime Minister I K Gujral who was greatly concerned at the sluggish export performance in 1996-97.

(ii) States Cell: In order to involve state governments and persuade them to take greater interest in promoting exports from their states, the Union Commerce Ministry had for the first time formally set up a states cell on June 19, 1990 under the charge of an Additional Secretary. This cell has been functional since then. The central government has recently formulated an 'Export Promotion Industrial Park' (EPIP) Policy for improving infrastructural facilities for modernizing exports and channelizing them towards higher value added activities. Under this scheme, the central government provides 75 per cent of the capital costs for such products to the concerned state government.

(Hi) Schemes for Export Promotion: The Union Commerce Ministry has since long recognized the importance of selectivity in the formulation of a strategic approach for export promotion. The following conceptual and empirically verifiable schemes for export promotion conceived by the Union Ministry of Commerce during the period 1991-97 deserve special attention of the analysts of India's export policy and performance:

(a) Identification of 34 Extreme Focus Products: As a result of the deliberations of the Board of Trade meetings held in December 1991 and subsequent work by 26 Working Groups constituted for the purpose of targeting selected dynamic export products (experiencing 30.0% or more annual growth rate(s) in the past and extending the earlier identified list of 14 Thrust Sectors (as listed in Exim policy 1985-88), the following 34 'extreme focus' products were identified where India is believed to possess actual (or potential) international competitive advantage:


(b) Strategic Export Promotion based on Government Industry Partnership with a Focus on Top 100 Indian Export Oriented Corporations: The then Commerce Minister Mr P Chidambaram in 1993-94 had advocated and elaborated his concept of forging a strategic government-industry partnership for identifying 100 top India's export oriented corporations and encouraging them to evolve their own corporate export plans (on annual and five-yearly basis). He had also pleaded for more frequent interaction between the government and those firms so as to provide maximum possible governmental assistance for improving their export marketing environment. Later, the Abid Hussain Committee (1997) had made a powerful plea for abolishing reservations for small scale industry for several products where large domestic units and MNCs have various resource advantages in pushing their exports (e.g. readymade garments).

(c) The 15 X 15 Export Product-Market Matrix Focus: Encouraged by the high growth of India's exports during the three recent years (1993-94 to 1995-96), the Union Commerce Ministry was emboldened to originally set an ambitious export target of Indian exports at US $ 100 billion by the year 2002 thereby achieving a one per cent share in global exports. This was toned down in the document on Export-Import Policy for 1997-2002 to US $ 90 to US $ 100 billion by the year 2002 after witnessing sluggish growth of India's exports in 1996-97. Even at the lower level, this implies a targeted minimum annual growth rate of exports in dollar terms at about 20 per cent. This is also the target set for growth of India's exports in the latest Approach Paper for the Ninth Five Year Plan (revised downwards to 14.5% rate in the Draft Ninth Plan approved by the Planning Commission in March 1998 in the last few days of the United Front government).

To achieve this vision, the Ministry of Commerce has evolved the following 15 X 15 matrix. This matrix identifies 15 niche products and 15 niche markets for focusing on export development efforts.
The 15 products include the following:

The 15 identified thrust markets include the following:

(d) Medium-term Export Strategy Document : In response to the continuing sluggish performance of Indian exports in 1996-97 and the first ten months of 1997-98 and realizing the urgency of improving India's export competitiveness in the context of the sudden strengthening of rupee vis-a-vis South East Asian currencies since July 1997, the Union Ministry of Commerce has come out with the document entitled Medium-term Export Strategy. This document (published in late 1997) provides a strategic response by the Ministry of Commerce to the current unfavourable external developments and points to the paramount need for the formulation of a new export strategy for the next five years or so. The following are the highlights of this medium-term strategy as per the official document:

* The identification of thrust items (enhancing production base).
* Procedural simplification.
* A Sector specific approach to overcome difficulties faced by the exporters of selected sectors.
* Infrastructural improvements.
* A phased reduction in interest rates on export credit.
* A directional strategy to new and emerging markets such as Latin America, Africa and CIS countries has been planned.

The above (and several other measures not reproduced here for lack of space) are expected to help to attain "$ 90 billion in exports in the medium-term and a one per cent share for India in world exports" (by 2002).

Temporary Reversal of Easy Money and Credit Policies by the RBI In direct contrast to the most recent lowering of interest rate regime in 1997 and the hope for further reduction in interest rates (and easier availability of export credit), the RBI in its latest emergency response to South East Asian currency crisis has since late January 1998 tightened monetary policy. This includes the raising of interest rates for export credit and reducing quantum of export credit refinancing. These emergency measures have been adopted by the RBI to stop the contagion effect from South East Asia hitting the Indian rupee and making it fall heavily. This has certainly affected the prospects for growth of Indian exports at the present juncture. Hopefully, it is a temporary phase and monetary and export credit policies will be changed in favour of exporters in the near future.

WTO-Related Export Issues and India's Strategic Response: As is well known, India (like several other developing countries) is facing new opportunities as well as new challenges for the future of its exports of both products and services to the markets of the developed countries under the new market based competitiveness rules of the world trade and investment being framed under the auspices of the WTO which replaced General Agreement on Trade and Tariffs (GATT) in 1995. The new WTO order is expected to open up new opportunities for India's exports in at least three major areas, namely, (i) Agriculture (in a wider sense); (ii) Textiles; and (iii) Services specially of skilled labour such as software. On the other hand, new rules on Trade Related Intellectual Property Rights, environmental and labour standards, free mobility of capital (investments by the MNCs) — but not of labour — are expected to place new barriers to the future growth of Indian exports. The Government of India and the Indian industry are yet to come out with a clear national strategy to meet the challenges posed by the newer WTO's rules of the game governing the patterns of global trade and investment flows.

India's Export Performance 1991-97: An Evaluation
Against this backdrop of the new and qualitatively different vision of growth of exports formulated (and reformulated) by the Government of India, we undertake the task of evaluating the actual growth performance (or lack of it) of India's exports since 1991.
Growth Record of India's Exports 1991 onwards

India's exports were of the order of US $ 17.98 billion in 1990; they went down to US $ 17.66 billion in 1991 (registering a decline in $ terms by (-) 1.3 per cent in the immediate aftermath of the rupee devaluations of July 1991); thereafter registering an annual growth rate (in $ terms) by 10.7 per cent in 1992; 10.2 per cent in 1993; sharply accelerating to 16.3 per cent in 1994; and further to as high as 22.4 per cent in 1995 (when they totalled at US $ 30.76 billion). The deceleration in the growth of exports (in $ terms) had started since 1996 and is still continuing. In 1996, exports registered a growth rate of 7.4 per cent in dollar terms. During the first quarter (January to March) of 1997, exports in dollar terms grew only by 1.4 per cent (over January to March of 1996); and by a mere 0.2 per cent in the second quarter of 1997 (April-June 1997 over April-June 1996). Exports in November 1997 had registered a negative growth rate in dollar terms at 1.2 per cent (an absolute decline over exports during November 1996). This negative growth continued and widened in January 1998 to a new peak of -7.5 per cent in dollar terms (over the value of exports in January 1997). It is now estimated that exports would grow in dollar terms by less than 3.0 per cent in 1997-98 (over 1996-97). The marked deceleration in the growth of India's exports over targeted growth rates (detailed below) is causing a great deal of anxiety in the nation.

The above analysis must be modified through a technical correction. Since the US dollar has been appreciating against major currencies in the world since 1995, the growth rates of exports measured in the Special Drawing Rights (SDR) would give a more accurate picture of the growth record of our exports. One SDR was valued at US $ 1.358616 on July 31, 1997 based on a weighted composite basket of the five leading currencies of the world (Deutsche Mark; French Franc; Japanese Yen; Pound Sterling; and US Dollar) as per accounting procedures adopted by the IMF (for details see IMF Survey, Special Issue, September 1997). It turns out that, valued in SDRs, the comparable growth rates of India's exports (over relevant corresponding periods) were higher at 12.3 per cent in 1996 (versus 7.4% in $ terms); 6.7 per cent in the first quarter of 1997 (versus 1.4% in $ term-iskand 4.7 per cent in the second quarter of 1997 (versus 0.2% in $ terms).

Regardless of the above technical correction, the essential point is that despite all the big dreams and high export target settings by the government and despite the various export promotion strategies conceptualized by the Ministry of Commerce as also the administrative corrective actions devised through the high-powered Export Promotion Board set up in June 1997 at the initiative of the Prime Minister, there is no mistaking the distinctly clear and continuing deceleration of India's exports since July 1996 (as a turning point). The government and the exporters are both helplessly watching the growing adverse scenario and performance on the export front. A more serious analysis of this continuing downturn is required. This is briefly attempted below at both aggregate and disaggregated levels.

But first, a brief analysis of the main positive achievements in the export front during the 1991-93 sub-period (over spilling into later period). As a result of the growth in exports during 1993 to 1996, exports accounted for 8 per cent share of GDP by the end of 1996 (up from 5% in 1990). Exports also financed as much as 95.4 per cent of imports in 1993-94 (compared to 75.4% in the crisis year of 1990-91). India also marginally improved its share in global exports to 0.6 per cent in 1995-96.

The most important changes in India's exports since 1991 have come through the changes in the direction of India's exports. Along with a crisis-ridden economy with sluggish overall as well as industrial growth in 1990-91, Indian exporters suddenly had to face the external shock of disintegration of the Former Soviet Union (PSU) and the consequent demise of whatever was left of the Rupee Payment Area (RPA). According to Economic Survey 1997-98, as much as 16.1 per cent of India's exports went to the FSU in 1990-91. This share drastically fell to 3.3 per cent in 1992-93 and further to 2.9 per cent in 1993-94 before recovering to a little over 3.0 per cent level of 1994-95. Spurred by the devaluation of the rupee in 1991 and by the superb entrepreneurial efforts made by the Indian exporters to the RPA to quickly and profitably diversify their exports to the General Currency Area, India overcame the shock of the demise of the FSU smoothly. Again, thanks to the 'Look East' policy and 'improve relations with SAARC neighbours' policies including the so-called Gujral doctrine of foreign policy (Wadhva, 1998) and the marketing efforts made by the Indian exporters to capture the dynamic markets of the ASEAN countries and other countries of the Asia-Pacific region on the basis of internationally more competitive exports, India succeeded in substantially raising growth rates of its exports to most SAARC and the South East Asian (ASEAN) countries and consequently improved its market share in these countries especially since 1993-94 (For further details, see Wadhva, 1998).
The high growth of India’s exports during the three years (1993-94 to 1995-96) can be explained more by the effects of the steep devaluation of the Indian rupee in July 1991 (with no major South East Asian NIC devaluing its currency in the same period but rather facing strengthening of currencies of several South East Asian NICs) rather than by significant improvement in the productivity or quality of Indian exports in the short run. This benefitted more India's traditional exports like rice and new agro-based exports like grapes, etc. than import-intensive manufactured exports (for example, capital goods). At the disaggregated level, except for software exports, none of the other 34 extreme focus products showed consistent high growth rate of exports (of over 30% per annum in $ terms). In the same way, the 15 x 15 product market matrix empirically did not show consistent high growth rates of exports even in the best of recent three years export performance (referred to above). Once Mr P Chidambaram left the Commerce Ministry, no headway was made on his strategic prescriptions relating to focusing on the export plans of top-100 dynamic Indian large corporations and encouraging them to forge strategic alliances with the MNCs to use India as a mutually profitable base for sourcing Indian products for their global markets or for relocating their plants to India for production mainly destined for exports. No earthshaking export performance was registered by the EOU/EPZs and EPPIPs in India. The state governments continued to provide only lip sympathy for promoting exports from their states without having any share in the nation's export earnings in hard foreign exchange. Despite all kinds of incentives provided under the longer term Export-Import Policy of India for the period 1992-97 for facilitating the formation of international trading houses based in India by foreign companies either on their own or in collaboration with Indian companies, no such new ventures were formed. The complex governmental policies and procedures including customs procedures and associated transaction costs of red tape and corruption were perceived by the foreign investors to be still unfriendly to them especially for setting up export-oriented ventures through FDI.

On the whole, despite good progress made during the 1993-96 period on the export front by previous Indian standards, Indian exports were not yet sufficiently competitive. They also failed to adequately respond at the micro level to take advantage of the dynamic world trade conditions in that period, especially for capturing export industries being vacated by relatively more developed countries due to rising wage rates and strengthening of the latter currencies against US dollar (Srinivasan, 1998).

Coming to the recent debacle on India’s export front since 1996-97, the overall performance in dollar values fell short of the target by 13.5 per cent. For the same period, the following sectors fell short of their export targets set by the Commerce Ministry by the percentage margins indicated against their names:

1. Textiles including handicrafts (-40.1%);
2. Gems and jewellery (-24.7%);
3. Leather and leather manufactures (-22.3%);
4. Plantations (-18.5%);
5. Agricultural and allied products (-16.1%);
6. Ores and chemicals (-15.8%);
7. "Other items" (-13.8%);
8. Electronic goods (-10.6%);
9. Chemical and allied products (9.5%);
10. Marine products (-7.7%);
11. Engineering goods (-7.3%);
12. Sports goods (-6.0%);
13. Petroleum products (-3.6%).

Thus, the deceleration in exports (compared to targets) was very widely shared across the ‘major’ exports products.

Since then, the trend of deceleration of India's exports has been continuing in 1997-98 with a particularly disturbing export performance in January 1998. It is doubtful if India will be able to achieve the toned down target of exports for 1997-98. And it is more doubtful if India can achieve even the downward revised target of a minimum of $ 90 billion exports and a one per cent share in global exports by the year 2002 unless it quickly effects some radical strategic repositioning of its exports in the global markets and also makes appropriate changes in related domestic economic policies.

What are the principal reasons for the poor export performance of India since 1996? These can be found in both external factors and (more so in the) internal factors.

On the external front, three main factors need to be mentioned. First, the western developed countries are continuing to practice and to intensify newer forms of neo-protectionist policies such as banning (or threatening to ban) imports from India of selected goods on the grounds of health and hygiene standards (e.g., ban on shrimp exports by the EU); environmental protection (the ban in USA on fire-prone girls' dresses from India); child labour involvement (e.g., carpets); patenting prime exports of Indian basmati rice (given the latest patent awarded to a US company for texmati rice); and frequent impositions of anti-dumping cases (leading to anti-dumping duties where found justified by the concerned authorities). However, still a relatively small percentage of India's exports is affected by such measures. Secondly, there has been a clear deceleration in the growth of world's exports in 1996 (at just 3.5% in $ terms compared to 19.7% growth in 1995). Not much recovery is expected in the growth.
of world exports in 1997 (expected growth being around 5.0%). Almost all major Asian successful exporting countries had experienced big falls in the growth rate of their exports (in $ terms) in 1996 going by the data provided in the IMF’s International Financial Statistics. For example, China’s annual growth rate of exports fell sharply from 22.9 per cent in 1995 to just 1.6 per cent in 1996; Malaysia’s from 26.0 per cent to 0.3 per cent in the corresponding period; and even Singapore’s from 22.1 per cent to 5.7 per cent in the corresponding period. Perhaps, this was indicative of the shape of things to come in East and South East Asia but was not taken note of. The third major setback to India’s exports since August 1997 has come in the form of major currency depreciations against US dollar in East Asia and South East Asia since June 1997. For example, between June 1997 and January 1998, Indonesian rupiah lost 70 per cent value; Thai baht lost 50 per cent; and the Korean won some 30 per cent. This has led to noticeable rise in the REER of the rupee and distinct erosion of international competitiveness of India’s exports since mid-1996.

Besides the basic problems of continuing anti-export policy biases, the bigger problems for expanding India’s exports globally lie on the domestic front in the form of supply side bottlenecks. The initial push towards higher growth of exports was due to the devaluation of the rupee in 1991. This has not been followed by any noticeable increase in the international competitiveness of Indian exports through significant improvements in their productivity and quality. Nor have adequate export surpluses been generated in the commodities in which India possesses (actual and potential) competitive advantage. The Indian industrial sector has distinctly registered lower growth rates of output since 1996-97. Growth of imports has consequently been sluggish and has correspondingly affected export production. Infrastructural bottlenecks in the form of power shortages, congestion and occasional strikes at ports and airports, shortages of railway wagons, poor roads, inefficient telecom facilities and procedural delays at customs clearance have all combined to raise the costs of export production and have adversely affected the growth of exports (as well as the sustainability of high industrial growth rates in India). Srinivasan (1998) has quoted a recent World Bank Study which has estimated the comparative disadvantage to Indian exporters at $80 per container.

In an effort to contain inflation, tighter monetary policy has been practised between 1991-92 and 1996-97 leading to costlier export credit (compared to the cost of export finance in India’s competing exporting countries). Some lowering of interest rates was effected in 1997 but this has proved to be a short-lived affair. Even if temporarily, the Reserve Bank of India has effectively raised interest rates in general and costs of exports finance and refinace in particular. These measures undoubtedly have been adopted to stop further fall in the external value of the Indian rupee as a result of the potential spillover of the contagion effect of South East Asian currencies. In view of the very substantive rise in the value of the Indian rupee vis-a-vis values of the currencies of India’s competing exporting countries in several East Asian and South East Asian countries, the prospects for higher growth rate of India’s exports in the next two years appear to be dimmer.

Conclusions, and Select Recommendations
From the above analysis and appraisal of India’s export performance, we conclude that the failure of India’s exports so far to take off to self-sustaining high growth rates can be directly traced to the continuing weaknesses and even failures of Indian policies both at macro and micro levels to come up to the required global standards. Specifically, India’s relatively low export performance can be attributed more distinctly to the domestic supply side constraints than to the adverse impact of unfavourable external factors.

It would be fair to conclude that India has so far not succeeded in evolving a more genuinely strategic and comprehensive national export policy. Export strategy needs to be reformulated as an integral component of the national macro-economic strategy. Special focus has to be built in this exercise on micro-level planning of exports based on a smaller selective number of niche products (and services) and niche markets than has been attempted so far. The formulation of such a strategic national export policy by the policy makers in India is an urgent task. The importance of this task especially increases for taking advantage of the new opportunities (and meeting new challenges) arising for India in a more competitive and ever dynamic global economy under the new trade and trade related investment policy regimes being evolved at multilateral level under the auspices of the WTO as also at regional and bilateral levels.

While the government will have to play a crucial supportive role in carrying out the above exercise and become a partner with exporting units for further export promotion, the prime movers in this act will have to be the exporting units themselves in India. The latter would benefit a great deal by formulating their own strategic corporate export plans and linking themselves more closely with the global economy.
through forging appropriate strategic alliances with the successful MNCs. Such alliances based on the assimilation of FDI and cost effective appropriate technologies for competitive quality products will help to more effectively integrate India into the global international production and marketing networks of the MNCs who are major players in international business.

Simultaneously, the indigenous exporting units (including trading houses) will have to redouble their efforts at improving quality and productivity of their products and services. They will also have to more aggressively market selected products and reposition them to take advantage of changing world demand for higher value added products and at the same time meeting the critical test of "dynamic international competitive advantage." The transition to this regime by Indian exporting units can be facilitated initially by discovering competitive regional advantage in the markets of regional organizations such as ASEAN, APEC, Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) and of course, SAARC and then extending this effort to reach global competitive advantage.

References