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## **UNIT 4 EXPORT PROMOTION IN INDIA**

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### **4.0 OBJECTIVES**

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After studying this unit, you should be able to:

- explain the rationale for the increasing emphasis accorded to export promotion in India
- describe main organisation for export promotion
- discuss the regulatory mechanisms for export promotion
- describe the export promotion measures adopted by the country
- outline some of the major constraints hampering effective export promotion effort
- formulate guidelines for more effective export promotion policies to help India attain national export objectives

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### **4.1 INTRODUCTION**

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You are by now familiar with some of the important facets of India's foreign trade and development as also some of the core issues in this sector. Some background has also been provided to you about the recent trade policy measures and strategies that may need to be evolved in the context of a greatly liberalised international trading environment. You will appreciate that while liberalised trade policy creates a more conducive trading environment, it is the export promotion measures initiated by the Government of a country, in close coordination with the industry and trade that can help the nation realise targeted foreign trade objectives. The impetus to foreign trade and development comes largely through a well conceived and properly articulated export promotion policies of any country. In this unit, you will learn various export promotion measures, the major constraints and guidelines for effective export promotion strategies in India.

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### **4.2 THE RATIONALE AND EVOLUTION OF EXPORT PROMOTION POLICIES IN INDIA**

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In the initial years after attaining independence, India's trade policy and programmes were primarily oriented towards regulating imports, having regard to the nascent state of the domestic industry. Indian supply capabilities were far too limited to cater effectively to the needs of various export markets. Indian export capacity if any, was limited to supplying certain primary commodities which are normally subject to numerous constraints, including

low unit-value realisations. The industrial sector in particular had suffered years of benign neglect at the hands of our erstwhile British rulers, perhaps as a matter of deliberate policy. The accent of our policy planners immediately after independence was therefore on rapid industrialisations of the country and attaining self sufficiency in the output of various industrial goods and services.

There was, in this context, a definite need to discourage imports in general while encouraging the domestic manufacturers goods and services through appropriate import substitution measures for a specific period of time. This policy was designed to enable them to build up the required strength and resilience and build domestic capacities. The concept of Export Promotion under these circumstances did not receive the importance and emphasis that it should normally receive as a component of trade policy, in the earlier years. Import substitution and provision of adequate protection to the domestic industry were the primary concerns of our policy makers at that point of time rather than exports and export promotion.

In due course, there was some shift in the policy emphasis when foreign trade, particularly export was recognised as an important factor for economic progress and was increasingly regarded as the engine of the economic development of the country. The process of industrialisation of the country and capacity building had also necessitated large scale imports of capital goods and services which needed to be financed through increased exports. The need to exploring export avenues and building up domestic supply capabilities for the purpose therefore received greater stress particularly during the formulation of the successive 5-Year Economic Development Plans. A number of export promotion institutions and a fairly elaborate system of export incentives were set in place to further the cause of exports and export promotion in India. However, the results were found to be partially satisfactory, since such export promotion policies and programmes were often negated by a restrictive import licensing regime and high import tariffs. A restrictive import regime tended to stifle export promotion efforts by virtue of the fact that it restricted the scope for bringing in new technologies and processes, prevented the rapid expansion and modernisation of an outmoded industrial infrastructure and the creation of appropriate quality norms within the country. It was only after the wide ranging economic reforms undertaken by the Government of India in early 1991 that there was a perceptible shift in the trade policy emphasis. The restrictive system of administrative, discretionary control over imports (and many export items) were progressively dismantled. The high custom tariffs rates on several commodities which supplemented the restrictive import regime were substantially reduced. The elimination of all procedural hurdles in the way of exports was also regarded as an important adjunct of an effective export promotion effort. In sum, there was a realisation that export promotion policies cannot coexist with a protectionist regime which only stifled healthy competition, created inefficient and high cost industries and caused distortions in the exchange rate system. Export Promotion has now virtually become an article of faith with the Government of India and an essential component of an integrated trade promotion strategy.

It needs to be mentioned that creation of appropriate institutions and a liberalised export promotion environment alone cannot automatically guarantee greater exports. It is also important to draw up optimal programme by way of product and market promotion strategies

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### **4.3 ORGANISATIONS INVOLVED IN EXPORT PROMOTION**

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At the Apex level it is the Department of Commerce in the Ministry of Commerce, which is responsible for all policy decisions relating to infrastructure and export promotion in India. As an Apex body, the Department of Commerce in the Ministry is responsible for India's external trade and other matter connected with it such as state trading, export promotion measures and the development and regulation of certain export oriented industries and commodities. It is also charged with the responsibility of maintaining and fostering commercial relations with other countries of the world. The Department has also the principle responsibility for the formulation and monitoring of the Export and Import policy of India.

The efforts of the various Governmental organisations in export promotion are being supplemented by the different Chambers of Commerce and Trade Associations in the country who send out trade delegations abroad, organise seminars and conferences on export related issues and organise Buyers Sellers meets. In the recent years, the Indian mission abroad have been required to play a more active role in promoting the country's commercial interests apart from their traditional role of political diplomacy. The Indian foreign missions help the potential exporters in locating overseas buyers, resolving buyer-seller disputes whenever possible by sending out fairly comprehensive market report to the different Export Promotion Councils and Commodity Boards.

It is necessary to mention that the various State Governments have also been entreated to be equal partners and facilitators, along with the Central Government in boosting exports from the country. This is in recognition of fact that many of the national resources in terms of men and material lie with the individual States. Their cooperation and active involvement is therefore absolutely essential if such resources are to be effectively harnessed for exports. Some of the states like Gujarat and Punjab have already set up Export Corporations to catalyse export activities. Many others have started to organise training programmes on exports development using the services of specialists organisations like the Indian Institute of Foreign Trade to create an export climate at the state level. Most of the State Governments have also established Export Promotion Industrial Parks (EPIP) in an attempt to create the required infrastructural facilities for export oriented production. At the suggestion of the Ministry of Commerce many of the State Governments have set up Apex level Organisations under the chairmanship of the Chief Minister or Chief Secretary to consider and sort out problems faced by the exporters/ importers in the respective States. They have also created Cells in the State Secretariat for looking after export work. The State Governments have also been appointed Nodal Officers (Niryat Bandhus) for export promotion work. Eight nodal officers have been nominated in the Commerce Ministry for maintaining liaison with State Governments in export promotion matters. Thus, export promotion in the country has become a total national effort in which the Government trade and industry and the individual State Governments all have an important role to play.

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#### **4.4 REGULATORY MECHANISMS IN EXPORT PROMOTION**

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Export Inspection Council which has been involved in inculcating quality consciousness and self discipline among the exporting community is an important parameter of the export promotion effort. Towards this objective, the Government of India has established the "Export Inspection Council" under Section 3 of the Export (Quality Control and Inspection) Act, 1963 to provide for the sound development of export trade in the country. The primary function of the Export Inspection Council (EIC) as outlined is to control the activities relating to quality control and pre-shipment inspection of the commodities meant for export.

In order to have a more effective control on the exporting activities in different parts of the country, the Government of India has established five Export Inspection Agencies (EIA's) one each at Calcutta, Chennai, Delhi and Mumbai under the technical and administrative control of the Export Inspection Council (EIC). In addition to these five offices the EIA's have a network of 61 sub-offices located at important industrial centres and port of shipment. These EIA's have well equipped laboratory facilities for testing various export products. The EIA's also undertake inspection on a voluntary basis where desired by the foreign buyers. The Government of India has also recognised 21 private inspection agencies and 7 government inspection agencies to supplement the work of quality certification under the Act. 15 agencies have reportedly been recognised for fumigation of export cargo.

It is important to mention that for all commodities notified under the Act, quality standards have been prescribed by the government. Although in a large number of cases, buyers requirements have been recognised as the basis for inspection, for products involving safety or health hazards, minimum standards have been stipulated. Commodities for which minimum standards have been prescribed are not allowed to be exported unless such standards have

been attained, despite the fact that the foreign buyer may have conveyed his acceptance for the product which had failed to meet such norms.

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## 4.5 EXPORT PROMOTION MEASURES IN INDIA

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A number of measures have been taken by the Government of India to improve export performance of the country. In the overall ambit of export promotion measures, one can broadly include some of the salient export assistance measures as contained in the current Export -Import Policy; promotional and publicity campaigns undertaken in this country relating to the export effort and the support facilities being created by the government by way of infrastructural development and improving market capabilities to boost exports. Some of the important export promotion measures initiated by government over the years are as follows:

**Export Processing Zones and 100% Export-Oriented Units (EOUs):** The Export Processing Zones (EPZs) set up as special enclaves, separated from the Domestic Tariff Area by fiscal barriers, are intended to provide an internationally competitive duty free environment for export production at low cost. This enables the product of EPZs to be competitive in terms of both quality and price in the international markets. India has set up seven EPZs at various centres like Kandla (Gujarat), Santacruz (Bombay), Falta (West Bengal), Noida (UP), Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). The Santa Cruz Electronics Export Processing Zone is meant exclusively for export of electronics goods and gem and jewellery items whereas all other zones are multi-product zones.

Hundred per cent export-oriented unit scheme is complementary to the EPZ scheme. It means an industrial unit offering for export its entire production excluding the rejects and items otherwise specifically permitted to be supplied to the Domestic Tariff Area (DTA). But unlike the EPZs the 100% EOUs can be set up in any part of India subject to a locational criteria. The locational is normally with reference such factors as source of raw materials, port of export, hinterland facilities, availability of technological skills, existence of an industrial park and the need for a larger area of land for the project.

### Major Facilities to 100% EOUs /EPZs

- Proposals fulfilling certain conditions are granted automatic approvals within 15 days. In other cases, approvals are granted by Board of Approvals within 45 days.
- No import licence is required for import of Capital Goods, Raw materials, Consumables etc.
- They are exempted from the payment of customs duty on capital goods, raw materials, consumables etc.
- Exemption is also given from payment of excise duty on capital goods, raw materials etc. brought from the Domestic Tariff Area.
- 50% of production is permitted clearance for domestic sale at concessional rate of duty.

**Export Promotion Industrial Park Scheme (EPIP):** A centrally sponsored "Export Promotion Industrial Park" (EPIP) Scheme has been introduced with a view to involving the State Governments in the creation of infrastructural facilities for export oriented production.

**Software Technology Parks (STPs) & Electronics Hardware Technology Parks (EHTPs)**  
**Scheme:** Software Technology Parks (STPs) are 100% Export Oriented Projects catering to the needs of software development 100 per cent exports. No export licence is required for import of equipment into Technology Park. All the imports into the Technology park are duty free. Under the Hardware Technology Park Scheme, an Electronic Hardware Technology Park may be set up by the Central Government, State Government, public or private sector undertakings. An EHTP unit may import free of duty all types of goods including all capital goods required by it for its production operations.

**Special Economic Zones:** Special Economic Zones have been permitted to set up with a view to encourage free trade. It is a specifically delineated duty free enclave and shall be deemed

to be foreign territory for the purposes of trade operations and duties and tariffs. Goods going into the SEZ area shall be treated as deemed exports. Goods coming from the SEZ area into DTA shall be treated as imported goods.

**Export Houses, Trading Houses and Star Trading Houses:** The registered Exporters having a record of export performance over a number of years are granted the status of Export/Trading Houses/Star Trading Houses/Super Star Trading Houses subject to the fulfilment of minimum annual average export performance in terms of FOB value or net foreign exchange earnings on physical exports prescribed in the Export Import (EXIM) policy. The objective of this scheme is to provide a degree of national recognition to established exporters and the larger export houses and spur them to greater efforts in the export sector.

These status holder houses are granted following facilities:

- i) Duty Entitlement Pass Book Scheme.
- ii) Advance licences for physical export, intermediate supplies and deemed exports.
- iii) Automatic licence
- iv) Legal undertaking

**Diamond, Gem and Jewellery Export Promotion Schemes:** Exporters of Gems and Jewellery are eligible to import their inputs by obtaining Replenishment Licence and Diamond Imprest Licence from the licensing authority. Exporters of gold/silver/platinum jewellery and articles thereof may import their essential inputs such as gold, silver, platinum, mountings, findings, rough gems, precious and semi-precious stones, synthetic stones and unprocessed pearls etc. in accordance with the procedures specified in this behalf.

**Export of Services:** In order to increase the export of services, several facilities have been provided to the service exporters. Service providers are eligible for recognition as Service Export House, International Service Export House, International Star Service Export House and International Super Star Service Export House on achieving the prescribed export performance. They will be allowed to avail the benefits as per the EXIM Policy.

**Facilities for Deemed Exporters:** Deemed Exports cover those transactions in which the goods supplied do not leave the country and the payment for the goods is received by the supplier in India.

Deemed exports shall be eligible for the following benefits in respect of manufacture and supply of goods qualifying as deemed exports:

- i) advanced licence for intermediate supply/deemed export
- ii) deemed export drawback
- iii) refund of terminal excise duty

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### Check Your Progress A

- 1) What is Export House ?

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- 2) What do you mean by Special Economic Zones ?

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3) What is deemed export ?

4) State whether the following statements are True or False.

- i) In the initial years, India's trade policy were primarily oriented towards regulating imports.
- ii) The Central Government have appointed Nodal Officers for export promotion work.
- iii) Commodities for which minimum standards have been prescribed are not allowed to be exported unless such standards have been attained.
- iv) Goods coming from the SEZ area into DTA shall be treated as imported goods.
- v) Advanced licence shall not be available for deemed exports.

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**Export Promotion Capital Goods Scheme:** New capital goods including computer software systems may be imported under the Export Promotion Capital Goods (EPCG) Scheme. Under this provision, capital goods including jigs, fixtures, dies, moulds and spares upto 20% of the CIF value of the capital goods may be imported at 5% customs duty. This import is subject to an export obligation equivalent to 5 times CIF value of capital goods on FOB basis or 4 times the CIF value of capital goods on NFE basis to be fulfilled over a period of 8 years. Import of capital goods shall be subject to actual user condition till the export obligation is completed.

**Duty Exemption/Remission Scheme:** Duty exemption scheme enables import of inputs required for export production. An advance licence is issued for duty free import of inputs subject to actual user condition. Such licences are exempted from payment of basic customs duty, surcharge, additional customs duty, anti dumping duty and safeguard duty if any. Advance licence can be issued for physical exports, intermediate supply and deemed exports.

Duty Remission scheme consists of Duty Free Replenishment Certificate and Duty Entitlement Pass Book Scheme. The scheme allows drawback of import charges on inputs used in the export product.

**Export Finance:** Export finance and credit are made available to the exporters for export production and selling to overseas customers on credit. The pre-shipment finance is given for financing the purchase, processing, manufacturing or packing of goods as defined by RBI. The Post-Shipment finance/credit is provided to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realisation of export proceeds. Both pre-shipment and post-shipment credits are also available in foreign currency. Under the deferred payment, the credit is extended to exporters beyond the prescribed period for realisation of export proceeds.

Export-Import Bank of India is the principal financial institution involved in both financing and promoting India's foreign trade. The EXIM Bank's major operations include: providing deferred payment credit for exports, guarantees and financing of overseas joint ventures and turnkey contracts executed by Indian companies.

**Duty Drawback:** Customs and excise duties paid on raw materials, components and spares including packaging material, imported or indigenous used in export products are refunded/exempted to the exporters.

**Tax Relief:** Export sales are not subject to sales tax. Excise duty is not payable on goods for exports, if paid can be refunded. Profits on merchandise exports including software exports are fully exempt from income tax. Foreign exchange earning from other heads as specified in the policy also get income tax relief.

**Brand Promotion and Quality Awareness:** With the objective of promoting exports of branded products, a committee shall be constituted for identification of such products. When such brands are recognised by the committee, the exporters of such brands would be allowed to avail the benefits as per the EXIM policy.

The Government of India aims to encourage manufacturers and exporters attain internationally accepted standards of quality for their products. Government will extend support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of total quality management.

**Market Development Assistance (MDA):** The Scheme of Market Development Assistance (MDA) originally known as the Market Development Fund was established in 1963. The main objective of the scheme is to stimulate exports and diversify the pattern of export trade from the country. The scheme also provides assistance in the marketing of various Indian commodities abroad. The various components under the umbrella of MDA are as follows:

- Market research, commodity research, area survey and research.
- Product Promotion and commodity development.
- Export Publicity and dissemination of information.
- Participation in Trade Fairs and Exhibitions.
- Trade Delegations and Study Teams.
- Establishment of offices and branches in countries abroad.
- Grants-in aid to Export Promotion Councils and other approved organisations for the development of exports and the promotion of foreign trade, and
- Any other scheme which is designed to generally promote the development of markets for Indian commodities in the overseas markets.

**Crucial Balancing Investment Scheme:** The Crucial Balancing Investment Scheme envisages balancing capital investments for relieving bottlenecks in infrastructure for export production and conveyance. The Scheme has been introduced with view to boosting exports through export facilitation and removal of impediments to exports with particular emphasis on infrastructural bottlenecks.

The Scheme would consider providing funding support to proposals involving bottlenecks at ports, roads, airports, export centres etc. Some of the proposals which have been approved in principle in this regard include, Establishment of an International Land Port at Petrapole in West Bengal; Truck Terminus at Bongaoan and strengthening and widening of Bongaoan - Panchpota Road in West Bengal; Power Systems Improvement at Moradabad in Uttar Pradesh and Infrastructural Facilities at Aroor, Alappuzha for the Marine Industry in Kerala.

**Electronic Data Interchange:** The Government of India has identified use of Electronic Data Interchange (EDI) as high priority in trade facilitation. The specific steps taken to promote use of EDI in the country include:

- Creation of the institutional set up for EDI through establishment of EDI Council, India EDIFACT Committee and EDI Working Group.
- Federation of Indian Export Organisations (FIEO) has been nominated as the nodal agency for promotion of EDI in the private sector.
- Initiatives for alignment of Trade Documents and Trade Process in India in respect of International Trade has been taken.

- The Regional Adviser UN/ESCAP, at the request of Ministry of Commerce, Govt. of India, has prepared reports on the framework for introduction of EDI in India.
- Implementation of EDI in key departments/organisations connected with international trade such as Customs, Ports, DGFT, Airport Authorities etc. is being carefully monitored and coordinated for effective use of EDI in International Trade.

The Government of India has periodically been organising major international EDI events to highlight the capabilities of Electronic Commerce.

**States Cell:** To step up the level of the various state governments in the country's export effort, the Government has established a *States Cell* which acts as a nodal agency for interacting with the States/Union territories on matters concerning exports from their region. At the suggestion of the Ministry of Commerce most of the State Governments have set up Apex level organisations under the chairmanship of the Chief Minister or Chief Secretary to consider and sort out the problems faced by the exporters in the respective States. Cells have also been created in State Secretariats for looking after the export work. The State Governments have also nominated Nodal Officers (Niryat Bandhus) for export promotion work.

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## 4.6 CONSTRAINTS HAMPERING EFFECTIVE EXPORT PROMOTION EFFORT

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In an era where international trade has become a highly complex and specialised operations, export promotions calls for a high degree of skills and flexibility in approach to meet emerging situations. There has been a general feeling among a section of Indian Industry and Trade that the export promotion efforts initiated by the Government of India have been somewhat fragmented and do not take into account certain ground realities.

It has been pointed out that export promotion, in the context of the increasing complexity of international trading operation is no longer confined to participation in trade fairs and exhibitions, sponsoring trade delegations abroad, holding buyer-seller meets or reproducing popular designs in vogue in the overseas markets. No doubt that such activities are important in any trade promotion programme but they may not be entirely effective in a situation where certain realities are not duly recognised. In an era where technological progress and strategic trade alliances are beginning to play a dominant role in securing product entry and enhancing market shares, India's limitations in terms of technological competence and marketing clout become obvious.

**The Technology Gap:** India's production capacity, for instance remains essentially limited in terms of designs, range, finish and packaging etc. which has hindered the speedy growth of manufactured exports. To cite one instance - automobile parts in the engineering sector is reported to have considerable potential in markets like Germany, United Kingdom, France and Italy which are bulk importers of such items. However, India's market share of the product, in respect of each of these countries remains miniscule at below 1 per cent. The inability of Indian Manufacturers to conform to the stringent product standards stipulated in these markets is the oft-cited reason for this deficiency. Even with regard to products wherein this country has the so called comparative advantage as for instance, handtools, gems and jewellery, readymade garments etc., India's share in individual markets has not shown any appreciable increase over the years. The Textiles and Garments sector which is regarded as the showpiece in the Indian export sector remains as yet technologically obsolete by global standards. This technology-gap can be regarded as the single most important reason for India not being able to export high quality clothing, including men's suiting, winter wear, sports wear etc, which have a continuous and volume demand in the overseas markets and which would have enabled India to move up the value chain in the garment sector.

**Financial Stringency:** Market Development in an era of intense global competition has not only become a highly professional operation but involves large financial outlays which is often beyond the individual capacities of the majority of Indian exporters, who are in the small scale sector. Intensive market promotion programmes involve a continuous monitoring



of consumer needs, promotional campaigns if need, be at the store level, publicity campaigns through appropriate media like television, trade journals press releases and even lobbying with opinion -makers in the government & trade and industry in selected countries. Markets have also been cultivated through cross-border alliances, buy-back deals, franchising arrangements etc. Indian efforts at market development in this context remains as yet halting and ineffective. Financial constraints, absence of a nodal agency which can take charge of sustained market development and greater emphasis accorded to short-term gains over long-term interests have been some of the major stumbling blocks preventing India from realising its export ambitions.

**Infrastructure Hurdles:** Lack of proper infrastructure has been one of the major factors inhibiting the Indian industry and trade from realising its export ambitions. Even a well designed and supported export promotion scheme will have minimal impact if it is not backed up by appropriate infrastructural facilities in the country. Infrastructure is a generic term encompassing many basic services deemed necessary for industrial growth and export expansion. It generally covers sectors such as transport (railways, airports, airlines, shipping and ports) power, water supply, telecommunication, sanitation etc. Some of the bottlenecks, especially in sectors like power, railways, roadways and ports have seriously eroded the international competitiveness of several Indian industries. In India, recurring power shortages and cuts have already led to inadequate capacity utilisations by industries and resulted in unproductive expenditure such as back up generators in the manufacturing units, all of which act as serious constraint to growth. Obviously it is difficult to plan an export campaign under such adverse conditions.

In terms of cargo transportation, railways are regarded as one of the most energy efficient and least polluting transport modes. Therefore, several expert committees have stated that it should account for major share traffic-passenger as well as freight. However share of railways has progressively decreased over the years. This reducing share of railways is one of the major problems affecting the competitiveness of Indian industries, as the operating cost of freight transport by rail are generally cheaper than road. There are several reasons for this trend such as shortage of track capacities on trunk routes, lack of adequate resources for capacity augmentation and superiority of road transport in terms of flexibility and convenience due to -door to -door delivery. In regard to road transport, the road network in India is presently highly saturated and further growth in this sector is full of bottlenecks, which would have an adverse impact on industrial growth and expansion. Paucity of resources has been cited as the major impediment in the progress of roadways in India. There has not been a matching investment in this sector to cope rapid traffic growth. Inadequate road network leads to higher transportation cost and improper maintenance of roads contributing to economic losses which ultimately erodes the competitiveness of Indian industries. As far as Ports are concerned, there has been a tremendous surge in port traffic specially after liberalisation of policies but there has no corresponding increase in the port capacities in all the major ports of India. The situation of limited capacity and high demand has led to acute congestion in all ports. The average turnaround time for ships in India has increased. Average output per ship birth-day is extremely poor by international standards. Use of obsolete equipment, inadequate container handling facilities, use of labour-intensive methods of bulk handling of sensitive cargo like thermal coal, and lack of proper coordination of the logistic chain are reported to have reduced the productivity of Indian ports to a very abysmal level. Poor productivity and high freight transportation costs through Indian ports once again reduces the competitiveness of Indian exporters and tend to nullify all export promotional programmes and activities. Strengthening infrastructure should therefore be an intrinsic feature of any export promotion policy conceived by the Government.

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## 4.7 GUIDELINES FOR EFFECTIVE EXPORT PROMOTION STRATEGIES

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It is felt that an effective export promotion strategy should take into account the existing shortcomings both at the micro and macro levels. In the ensuing portion, an attempt has been made to draw up a few guidelines in the approach towards a more realistic export promotion programme.

**Product/Market Development:** A detailed analysis of the inherent strengths and weaknesses in respect of many of India's major export products and in regard to our marketing approach to the major markets is considered necessary if the country is to achieve its objective in the foreign trade sector. This is due to the fact that India's share in regard to most of its major exports products in the selected markets has an average share of a meagre 2 to 3 per cent of the total import by any of the importing countries. A proper investigation for the reasons for such continued low shares therefore become imperative. *Prima Facie* the reasons for India's poor performance in terms of its export products seem to indicate several shortcomings in regard to technology requirements, finish, styling, packaging and more recently in regard to environment standards. Even in respect of readymade garments, an item which ranks as a star performer in our merchandise exports, India's share has never exceeded a negligible 3 per cent of world trade, whereas China's share of the world garment trade is reported to have increased from a 4 per cent to a significant 15 per cent, during the span of a little over a decade. India's low share of the large world trade in garments is attributed to the country's inability to supply polyester cotton blended clothing and certain high-value items which have a continued demand abroad. Once the weaknesses are properly diagnosed with reference to each of thrust export products, remedial measures need to be introduced with minimum delay and without involving unnecessary complicated procedure. In other words product upgradation should form an important element of the export promotion policies of a country.

Similarly, market development programmes also needs to be well articulated and there has to be a gradual evolution from excessive reliance on conventional strategies like participation in trade fairs and exhibitions, visits of sales delegations, buyer-seller meets etc. to longer-term strategies including forging of strategic production and market alliances, brand publicity campaigns and increasing direct presence in the overseas market through establishment of warehouses, overseas branch offices and through company acquisitions abroad if need to be. In fact, each of the major markets would warrant a separate market entry plan which will more or less guarantee optimum results.

**Revamping Trade Information System:** The existing trade information network in India consisting of several Export Promotion Councils, Federation of Indian Export Organisations (FIEO), Chambers of Commerce & Industry etc. seem to somewhat unwieldy in the context of a fast changing global trade scenario. Many of these organisations, particularly the EPC's have been constrained in their trade information and development functions due to budgetary limitations. Many of these organisations had also been according more attention to solving specific grievances of individual exporters and overcoming procedural bottlenecks in what has hitherto a protected trade regime. Under these circumstances export promotion and aspects like product and market development apparently received very little attention. Although under the present liberalised regime many of these organisations are relatively freer to devote increased attention to trade promotion and development, paucity of resources and lack of professionalism raises many doubt on their effectiveness.

If these organisations are to gain increasing recognition from trade and industry as effective instruments of export promotion and development, some revamping may be needed in terms of services currently rendered by them. Apart from improving their commercial intelligence networking in the overseas markets, such agencies need to hone their consultancy skills and upgrade their specialisation in specific aspects of export promotion including procurement counselling, product adaptation and modification policies, branding and media advertising policies, formulation of export marketing plans etc. to improve client servicing. Such improved consultancy services will naturally involve an appropriate fee which should improve the financial standing of many of the export promotion agencies. To impart a degree of professionalism to their services these agencies need to devise suitable personnel staffing policies with an inbuilt provision for continuous training.

**Human Resource Development in Foreign Trade Sector:** An often neglected aspect of export promotion and development is the need for qualified and competent personnel in such areas. In India, the demand for qualified export personnel far exceed the supply. There is a felt need for the premier organisation like the Indian Institute of Foreign Trade (IIFT) which presently focuses on Human Resource Development for manning the foreign trade sector to

establish regional chapter in the various metropolitan cities of India to cater to this growing need. Or alternately, of the leading business houses can take the initiative and establish top class training Institutes for providing the required personnel for the export sector with the assistance from the State/Central Governments if needed. Some of the major Indian Universities have recognised the need and include International Trade Management in their curriculum. Apart from constantly seeking to update its course content to reflect the changes in the global trading environment, such institutions have to act as change agents to bring about an attitudinal change among its trainees who could be nascent exporters or officials from various export promotion organisations. The transition from a protected domestic economy to a highly competitive and open world environment involves a total change in perception and mental attitudes.

**Accelerating Infrastructure Development:** Any programme of trade development or promotional strategy can come to gridding halt, if it is not backed by a sound and vibrant infrastructure in terms of power, transportation, port facilities and so on. It is however in the crucial area of infrastructure that India has a large unfinished agenda of reforms. With respect to power for instance, it had been pointed out that although the fast track approach that had been adopted for several priority project areas, about five years ago, barely one or two projects could get on -stream and that also partially. In the telecommunication sector for instance, the process of opening up had run into various procedural bottlenecks and port congestion remain as acute as ever in all the major Indian ports. It has been found that ships entering Bombay or Calcutta need about 7 days to turn around as against half a day in most of other international ports. Although the Government of India somewhat belatedly presented a new law in Parliament opening up the sector to private sector operators, here also the speed of the clearance process and process of implementation by bureaucracy have been regarded as critical constraints. In all such factors the attitudinal factor will be the key determinant of the success of all promotional reforms.

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### Check Your Progress B

1) What is EPCG Scheme?

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2) What do you mean by duty exemption scheme?

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3) What is crucial balancing investment scheme?

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- 4) State whether the following statements are **True** or **False**.
- i) EXIM Bank provides deferred payment credit for exporters.
  - ii) Export sales are subject to sales tax.
  - iii) Duty exemption scheme enables import of inputs required for export production
  - iv) China's share of world garment trade has increased from 4% to 15% during the span of over a decade.
  - v) Textiles and garments sector is regarded as technologically advance by global standard.

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## 4.8 LET US SUM UP

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The accent on export promotion in India gained momentum once it was recognised that the foreign trade particularly exports, is an important element in the economic progress and was in fact instrumental in the economic growth of several countries, particularly in South East Asia. The process of India's industrialisation and capacity building has necessitated large scale import of capital goods and services which had to be financed through exports and promotion of an export culture. A number of export promotion institutions and a fairly elaborate system of export incentives were therefore set in place to further the cause of exports.

The wide ranging economic reforms including reforms in trade policy undertaken by the Government of India in early 1991 can be regarded as the turning point in India's foreign trade sector. The earlier somewhat restrictive import regime was totally dismantled. Export promotion became an article of faith with the Government and has formed the cornerstone of an integrated export strategy.

The key elements of the Indian Export Promotion Strategy include: creation of specialised commodity based Export Promotion Councils/Commodity Boards under the overall supervision and control of the Ministry of Commerce, directing some of the major Public Sector organisations like the State Trading Corporation and the Minerals and Metal Trading Corporations to play a complementary and catalytic role in the export effort besides devising a variety of policy measures including publicity campaigns to expand exports. Special type of Organisations/Institutions were also created to look after specific aspects relating to export and export promotion which include the Export Credit and Guarantee Corporation (ECGC), Export Inspection Council (EIC), Directorate-General of Commercial Intelligence & Statistics (DGCI&S), India Trade Promotion Organisation (ITPO), Indian Institute of Foreign Trade (IIFT) etc. The efforts of the different export related organisations is being supplemented by the different Chambers of Commerce and Trade Associations. The Indian missions abroad have also been required to play a more active role in promoting commercial diplomacy. The various State Governments in India have on their part, set up Export Promotion Industrial Parks and "Niryat Bandhus" for speeding up export promotion work. In sum, export promotion has become a total national effort in which the Central Government, private industry and the individual State Governments all have an important role to play. The trade policy changes effected by the government have, in fact, been regarded as the showpiece of the economic reform process, and showed its commitment to export promotion. The stifling system of administrative controls on imports and most of the export items were removed and the customs tariffs substantially reduced so as to enable the Indian industry to import much needed capital goods and equipment to build up export capacities. The new Export-Import policy has placed greater emphasis on linking import entitlements to export performance. A new category of Super Star trading houses was created in respect of exporters with a specified turnover. Procedures were also greatly simplified under the duty exemption scheme.

However it has been felt that the growing complexities in international trade calls for adoption of more dynamic and result-oriented export promotion strategies which could include export co-production ventures and strategic marketing alliances besides the conventional export promotion measures like participation in trade fairs and exhibitions and organising buyer-seller meets. Towards this objective it is necessary for India to bridge the existing

technology-gap in respect of many of its export products and improve the financial capabilities and marketing clout of its several export promotional organisations. It has also to improve substantially its infrastructure facilities in terms of transportation of cargo, telecommunication networking and port handling facilities. Otherwise many of the country's well-intentioned efforts at export promotion could fail to realise cherished goals.

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## 4.9 KEY WORDS

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**Advanced Licence:** The licence granted to a merchant-exporter or manufacturer exporter for the imports of input required for the manufacture of goods without payment of basic customs duty.

**Deemed export:** The specified sales in India which are considered as exports.

**Duty Drawback:** The scheme under which import duty and central excise duty on raw materials, components and packing materials used in export products are refunded back to the exporter.

**Third Party Export:** Exports made by an exporter or manufacturer on behalf of a third party.

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## 4.10 ANSWERS TO CHECK YOUR PROGRESS

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A4 i) True ii) False iii) True iv) True v) False

B4 i) True ii) False iii) True iv) True v) False

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## 4.11 TERMINAL QUESTIONS

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1. What is the rationale behind the importance accorded to Export Promotion by the Government of India? Has export promotion always been an integral part of India's overall trade policy?
2. What is the need to establish regulatory mechanism in the export sector? To what extent do they complement export promotion activities?
3. Describe some of the important export promotion measures initiated by the Government of India to boost the national export effort. What are the major areas in the export sector that such measures have sought to address?
4. Do you consider that the export promotion measures initiated so far have been entirely satisfactory? If not what have been the major constraints and the reforms that need to be carried out so that such measures have a better impact on the foreign trade sector?