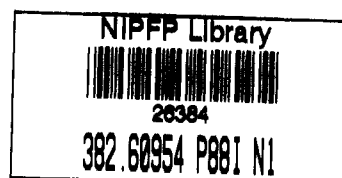Confidential
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INCENTIVES FOR EXPORTS IN INDIA:
AN EVALUATION

Gopinath Pradhan

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PREFACE

The National Institute of Public Finance and Policy is an autonomous non-profit organisation established for carrying out research, undertaking consultancy work and imparting training in the field of public finance and policy.

The present study was undertaken at the instance of the Ministry of Finance, Government of India. The objective was to examine the major export incentives in India and their cost to the public exchequer. It has been prepared by Gopinath Pradhan under the guidance and supervision of B.N. Goldar.

The study was completed in March, 1991 and the preliminary results were presented at a seminar which was attended by senior officials of the Ministry of Commerce and the Ministry of Finance. It is of some satisfaction to find that the changes made this month in the scheme of subsidies provided for exports through CCS and Rep licences happen to be essentially in accord with the tenor of the recommendations made in the present study.

Although the scheme of incentives has already undergone far reaching reform, it is earnestly hoped that the careful work that has gone into the preparation of the study and the comprehensive analysis of various issues presented in the report will be found useful.

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July, 1991   A. Bagchi
                                                        Director

Summary of the main Findings

The present study attempts to examine the major export incentives for promoting exports in India in recent years with a view to exploring the possibility of their rationalisation in the context of rapidly changing exchange rate.

A product-wise analysis of export performance of the country shows that expenditure incurred by the Government on export incentives has gone up significantly, but the comparative advantage of the exported commodities has not registered any substantial improvement in the world trade. In fact, the revealed comparative advantage (RCA) recorded by most of the manufactured goods enjoying cash compensatory support (CCS) is found to be less than unity. Such results indicate the need for the existing incentive schemes to be scrutinised and trade policy modified to bring about an increase in the competitiveness of exported commodities. The role of policy variables like the exchange rate should be examined from this perspective.

Our analysis of the CCS scheme reveals that CCS rates vary widely among different commodity groups. While some degree of rate variation is necessary to compensate the exporters for disadvantages suffered by them due to local taxes and varying price elasticity of exports, a widely differentiated rate structure of CCS induces inefficient resource allocation among various export activities.

Policy changes in recent years appear to have moved in the right direction by effecting a downward adjustment in the rate of CCS for engineering goods for which the cost of export promotion has been high in relation to foreign exchange earnings. However, there are quite a few commodities such as chemical products, cotton textiles and leather goods, which enjoyed unduly large cash compensation. The extra cost borne by the public exchequer on some of these items could have been avoided without any detrimental effect on exports.

One component of the incentives provided for export promotion consisted of import licences issued to registered exporters. The demand for different categories of duty free advance licences has grown over time in comparison with the ex-post import (REP) licences. However, as in the case of CCS, the proportion of import licences issued in relation to exports shows a wide variation among different commodities. This is not desirable and needs correction in the same way as suggested for CCS.

While changes made in exchange rate in recent years have helped in improving the performance of exports on the whole, their impact across commodities has not been uniform. Commodity groups such as engineering, leather, chemicals, plastics and sports goods have responded well to the changes in real effective exchange rate (REER) but others have not. Thus, incentive schemes of a non-financial nature may be necessary to improve the export performance of some of the commodities.

That the relative profitability of exports in comparison with that of domestic sales has improved in recent years as a result of exchange rate depreciation is indicated by the faster rate of growth of the f.o.b price of some commodities. A comparison of the growth rate of domestic price with that of f.o.b price reveals that the latter has grown at a higher rate in commodities like refrigerators, sewing machines, ceiling fans, motor cars and buses, electric lamps, air conditioners, paints and varnishes, woollen yarns and leather and coir products. This increase in realisation from exports ought to have reduced the subsidy requirement of these categories of commodities. Thus the level of incentives rate for such commodities could be re-examined in the context of their improved competitiveness, which the devaluation of the rupee has imparted to Indian exports.

The element of cash compensation, which could be regarded as redundant following the changes in REER does not constitute a significant proportion of total CCS paid in recent years. However, the cost of all export incentives taken together in relation to domestic resource cost of foreign exchange earning appears to be on the high side in that a part of it might have been redundant. Perhaps the present level of incentives could be limited to about 30 per cent of the export earnings without adversely affecting the export performance. Such a measure will reduce the cost borne by the public exchequer. Also, this ceiling would imply the reduction of the level of present subsidies in commodity groups such as engineering, man made fibres, plastics and sports goods.

Keeping these findings in view, the study has two suggestions to offer for reducing the burden on the exchequer arising from export promotion schemes. First, at the prevailing exchange rate, incentives of the export sector could be limited to about 30 per cent of export earnings[1]. Second, the existing incentive rates could be made more uniform by scaling down the significant differences found at present in the rates among various commodity groups.

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1.   Coincidentally, in the new trade policy of the Government which came into force in July 1991, export subsidy (calle EXIM Scrip) has been fixed at 30 per cent of the expor earnings, a measure similar to the suggestion made in t present study. The new policy, of course, incorporates othe drastic changes like scrapping up of CCS scheme, which t present study was required to go into with the objective o rationalisation of the existing structure of CCS fo different groups of commodities.

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Chapter   1

Cost of Export Incentives to Exchequer

Currently, a major focus on the trade policy of India is centered on th issue of cost incurred by the public exchequer in promoting export (see, fo example, Bagchi, 1982; Datar 1989; Kelkar, 1980; Verghese, 1978 and Wolf 1982). Various export promotion efforts have been viewed with scepticism a export performance in terms of volume as well as foreign exchange earning doe not appear to have improved much even after following a liberal policy wit respect to incentives as well as exchange rates. Therefore, the recent debat on the performance of export is largely narrowed down to the question whethe the subsidy provided is excessive or not.

Regarding the magnitude of export subsidy to be given, there is n unanimous conclusion in the existing studies. One set of findings seems t suggest that export subsidies have gone up to the upper end of the scale a they are 40 to 70 percent of the value of export (see, for example, Bagchi 1982; Government of India, 1977). On the other hand, studies opposing th excess subsidy argument, point out that the market price of domestic input going into export production are much higher in comparison to the c.i.f prices and the official exchange rate understates the valuation of foreig exchange earned by an exporter (see, for example, Kelkar, 1982).

Such differences in the conclusions, drawn by studies, arise due to th base on which the cost of export incentive is calculated. For instance, it i necessary to distinguish between the cost of incentive to the public excheque and to the economy. Studies considering the latter aspect take into accoun the domestic resource cost of the export earning, while the revenue outgo fro the Government budget due to export promotion policy draws the attention c studies looking at the former aspect. Opinion on the appropriate methodolog for determining optimum cost that the economy should bear for export differ and the debate on this point is not yet settled. However, the acceleration o

the rate of subsidy and consequent increment of cost borne by the Government is highlighted by many other sources (see, for example, CMIE, August, 1990). It becomes imperative, therefore, to examine the underlying forces responsible for the accelerated growth of export subsidies in recent years.

The present study attempts to examine the export incentives given in the recent years with a view to exploring the possibility of their rationalisation due to rapid change in the exchange rate. The outgo of fund, mainly from the Government budget, is interpreted here as the cost of export promotion. Thus the `cost' of subsidies is defined in the narrow sense. Such a view of the export incentive is open to criticism on analytical ground as cost due to incentives have also to be examined from the point of view of domestic resource cost.

The overvalued currency argument articulated in some existing studies does no longer appear to be a major problem for exporters as was the case a few years back. The movement of nominal as well as real effective exchange rate, as brought out in a recent study (Datar, 1989), shows that the value of rupee has been depreciating increasingly after 1983. An evaluation scheme that incorporates the effects of exchange rate movements on the subsidy given to Indian export must be considered to understand the present scenario in the export sector.

Export Promotion and Budgetary Expenditure

Expenditure incurred by the Central Government due to export promotion schemes has grown at a faster rate after 1985. The share of this component in the total subsidy provided by the budget has grown at the rate of 12 per cent per annum during 1985 to 1990 as opposed to a declining share during 1981 to 1984 (Table 1.1). The share of export promotion in the total budgetary expenditure has also registered a growth of 17 per cent per annum in contrast to the negative growth during the first half of 1980s.

The increasing trend of budgetary expenditure on export promotion in the recent years can be attributed largely to the Cash Compensatory Support (C.C.S) that aims at compensating the exporter for other domestic taxes not covered by duty drawback provisions. Examination of its growth rate for the period 1985 to 1990 reveals that CCS payments grew at the rate of 30 per cent per annum while the first half of the 1980s had seen a negligible growth only.

Burden borne by the Public Exchequer

The evaluation of cost to the exchequer in relation to benefits accrued to exporters is shredded with many conceptual as well as empirical problems. Costs of earning foreign exchange are more clearly seen by considering the domestic resource cost involved. While such a method has conceptual advantages, difficulties are encountered in making the policy operational (Bagchi, 1982). On the other hand, paucity of data on all benefits accruing to exporters from subsidies very often restricts the sphere of assessment to three major items - duty drawback, cash compensatory support and import replenishment licence. So quantification of the burden on public exchequer can be interpreted only as a broad indicator. Despite this limitation, the following trends of cost to the exchequer are of interest for the evaluation of export policy.

Table 1.2 shows that the burden to the public exchequer due to export incentives has been accelerating in recent years. As may be seen, the proportion of budgetary expenditure due to market development assistance and duty drawback combined in the total value of export has been growing at a much faster rate since 1985 as compared to the earlier years. While the growth registered by this component of cost was 4 per cent per annum during 1985 to 1989, it grew at a lower rate of 3 per cent per annum during 1975-1982.

The magnitude of burden registers a much higher growth rate when the value of imports allowed against exports is excluded. It may be seen from Table 1.3 that budgetary expenditure on export promotion as a proportion of domestic value added (i.e., value of export minus value of import licences

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issued against export) registers a growth of 9 per cent per annum during 1985-89. This rate, however, could be an overestimate and some discount is necessary to draw any inference on the growth of effective subsidy (see, for details, Bagchi, 1982). Nevertheless, as the burden in terms of total value of export, ignoring licences mentioned above, had grown at 4 per cent, the cost may be growing at a higher rate compared to the export earning.

The movement of budgetary expenditure on export promotion is examined above by taking together market development assistance and duty drawback. Out of these two components, the impact of duty drawback in determining the direction of budgetary expenditure does not appear to be very strong. Examination of the expenditure in the form of duty drawback as a proportion to total export does not show any significant trend. While the presence of fluctuations makes it difficult to arrive at a definite conclusion on its general direction, data indicate a declining, though not significant, rate of growth in the 80s.

In contrast to duty drawback, the expenditure on market development in relation to value of export has accelerated in the second half of the 80s. It has grown at the rate of 7 per cent per annum during 1985-89, while a declining growth was discernible in the preceding period (1981-84). Thus this component seems to have led to the acceleration of budgetary expenditure on export promotion after 1984.

As pointed out above, the attention drawn by the cost of export promotion basically emanates from the unsatisfactory export performance. It is, therefore, necessary to understand the basic structure of Indian vis-a-vis world export and to identify the forces that constrain export performance of the country. At another level, it will be worthwhile to assess some of those factors that might have led to rapid rise in the budgetary expenditure. The probable influence of recent changes in exchange rates on the major incentives such as CCS is expected to throw some light on the costs of export incentive.

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Table 1.1

Share of Export Promotion in Budget Expenditure

(Rs. crore)

	Subsidy for export promotion	Total subsidy	Total Budget expenditure	Share of export promotion in total subsidy	Share of export promotion in Budget exp.
	1	2	3	4=(1/2)	5=(1/3)
1973	66	360.9	8130.8	0.18	0.01
1974	88	419.2	9784.9	0.21	0.01
1975	161	469.7	12036.5	0.34	0.01
1976	269	947.0	13150.1	0.28	0.02
1977	347	1171.6	15376.0	0.30	0.02
1978	261	1018.8	17516.7	0.26	0.01
1979	361	1543.0	17787.0	0.23	0.02
1980	399	2028.0	22056.0	0.20	0.02
1981	477	1941.0	24383.0	0.25	0.02
1982	477	2262.0	29687.0	0.21	0.02
1983	463	2902.0	34055.0	0.16	0.01
1984	518	4208.0	41678.0	0.12	0.01
1985	605	4929.0	49619.0	0.12	0.01
1986	788	5579.0	60327.6	0.14	0.01
1987	960	6279.0	66166.0	0.15	0.01
1988	1391	7790.0	75783.2	0.18	0.02
1989	2089	10676.9	87695.3	0.20	0.02
1990	2316	10623.7	94706.5	0.22	0.02

Note : i) Data for 1989 & 1990 given above
relates to revised and budget
estimates respectively.

Sources: i) Bagchi (1982);
ii) Budget Papers,
Government of India.

ii) Budget Expenditure refers to total of Revenue
and Capital Expenditure.

Table 1.2

Trend of Export Incentives

(Rs. crore)

	Market Dev. assistance	Duty Drawback	CCS	Value of import against export	Value of export	Total subsidy	Net domestic value added	Share of subsidy in export	Share of Subsidy in Net Domestic Value added
	1	2	3	4	5	6=(1+2)	7=(5-4)	8=(6/5)	9=(6/7)
1973	62.4	42.30	55.18	151.25	2523	104.70	2371.75	0.04	0.0441
1974	76.4	60.00	66.82	166.40	3329	136.40	3162.60	0.04	0.0431
1975	148.3	82.00	136.09	237.20	4036	230.30	3798.80	0.06	0.0606
1976	239.6	120.00	276.62	415.51	5142	359.60	4726.49	0.07	0.0761
1977	324.4	133.00	311.33	741.39	5408	457.40	4666.61	0.08	0.0980
1978	375.2	150.00	358.92	1096.70	5726	525.20	4629.30	0.09	0.1135
1979	360.9	152.00	344.16	1089.90	6418	512.90	5328.10	0.08	0.0972
1980	399.1	164.00	376.46	1422.00	6711	563.10	5289.00	0.08	0.1065
1981	476.9	192.07	452.48	1762.90	7806	668.97	6043.10	0.09	0.1107
1982	477.0	194.13	449.75	1963.50	8803	671.13	6839.50	0.08	0.0981
1983	463.0	191.05	430.12	2294.50	9771	654.05	7476.50	0.07	0.0875
1984	518.0	240.64	487.75	2786.10	11744	758.64	8957.90	0.06	0.0847
1985	605.0	263.20	566.73	2848.59	10895	868.20	8046.41	0.08	0.1079
1986	788.0	299.94	731.12	3553.03	12452	1087.94	8898.97	0.09	0.1223
1987	962.0	423.63	901.81	4952.10	15674	1385.63	10721.90	0.09	0.1290
1988	1386.0	478.86	1194.41	8488.97	20302	1864.86	11813.03	0.09	0.1583
1989	2089.0	543.05	1775.00	9775.03	27681	2632.05	17905.97	0.10	0.1470
1990	2316.0	628.63	2095.00	NA	NA	2944.63	NA		

Note: i) Data for 1989 and 1990 given above relate to revised
and Budget estimates respectively.

Sources: i) Government of India, 1984 for years
1973 to 1979.
ii) Government of India. Budget papers.
iii) CMIE ,1990.

Chapter   2

Performance of Indian Export

Overall Export Trend

India has an insignificant share of less than one per cent in the world export.   Even with such a low share, the striking feature to be marked is its declining trend.   With a share of 0.55 per cent of the world export in 1989, it remains lower than that of 0.65 per cent recorded in 1970.   A search for any sign of improvement over this period shows that India's exports have had a marginal upward movement after 1985.   This is evident from Table 2.1, which summarizes the share.   India's share has gone up consistently from 0.43 per cent of the world export found in 1986.

Revealed Comparative Advantage

India's export performance in recent years is examined in the following. The Revealed Comparative Advantage (RCA) measure (see, Balassa, 1967) is adopted to assess the movement of trade flows and to identify the pattern of comparative advantage of the exported commodities.   For the present study, the RCA is,

$$RCA_{ij} = \frac{X_{ij} / \sum x_{ij}}{\sum_{j} x_{ij} / \sum \sum_{ij} x_{ij}}$$

where

RCA_{ij} = Value of revealed comparative advantage of commodity i in country j

X_{ij} = commodity i exported by country j

$\sum x_{ij}$ = sum of commodities exported by country j
$_i$

$\sum_j x_{ij}$ = sum of commodity i exported to the world market by all j

$\sum_i \sum_j x_{ij}$ = sum total all exported commodities in the world market.

When the value of RCA is greater than unity, it is assumed that the country j has revealed comparative advantage in commodity i.

Examination of the ratios presented in numerator and denominator of RCA would be useful to gauge the character of the commodity i in the world trade. The denominator gives the share of commodity i in the world market. *Ceteris Paribus*, a rising share of the commodity would show its faster rate of growth in comparison with other traded commodities. Thus the movement of product share over time may be used to identify the product groups that will be demanded increasingly in the world market. The ratio given in the numerator, on the other hand, shows the importance of a commodity in a country's export. When it belongs to the commodity group whose demand is growing at a faster rate in the world market, a country can push up the export by increasing the market share of that group.

Table 2.2 presents the value of revealed comparative advantage indices of India's exports for the recent years. It can be seen from the table that India's advantage lies in primary and traditional exports. The value of RCA has remained greater than unity in items like rice, coffee and tea, spices, unmanufactured tobacco, iron ore and concentrate, leather and leather products, textile yarn, fabrics made up of cotton, pearls, precious and semi-precious stones and articles of apparel and clothing accessories. From among these items, the value of RCA has not only remained greater than unity but also grown over time in the group under metalliferous ores as well as articles of apparel and clothing accessories. The export of some non-traditional items like organic chemicals and manufactured metal seems to have got advantage with the passage of time and the value of RCA has grown up. In particular, the RCA of organic chemical, although it remained less than unity until 1986, has recorded a significant growth over time. Mention may be

made of pearls, precious and semi-precious stones where India has revealed comparative advantage. The value of RCA in this group has been greater than one upto 1984. After this, however, non availability of comparable data precludes the examination of RCA of this group. Without any significant factor that may lead to complete reversal of this trend, it is presumed that India's advantageous position in these items continues as before.

It may be worthwhile to point out that items like artificial resins and plastic materials have RCA that is less than unity. But the value is approaching towards unity over time.

In contrast to the above commodities, the advantage, which India had in some other items, seems to have declined. The commodities like meat and meat preparations, cereals, vegetables and fruits, tobacco manufactured, essential oil and perfume materials and fabrics woven of man made fibres that had registered greater than unity value of RCA in the early 1980s, have declined subsequently to the lower side of the scale.

It may be noted that Indian exports have not recorded any significant advantage in the engineering products. Except manufactured metal n.e.s., other exported items of the group have RCA of less than unity. Besides, a commonly observed feature of this group is declining rather than increasing RCA over time.

As pointed out above, the character of Indian export in recent years can be assessed by examining the ratios presented in numerator and denominator of the RCA index. Use of the ratio given in the denominator would show the importance of a commodity in the world trade. If the share of these important category of commodities rises in the total exports of India, it can be said that the country's export is likely to have a dynamic character.

Table 2.3 summarizes the share of different commodities in the world trade. It can be seen from the table that commodities with relatively faster growth of demand in the world market are engineering and chemical goods,

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manufactured leather, cotton textiles, fabrics of man made fibres, fish and fish preparations, spices, manufactured tobacco and articles of apparel and clothing. The share of these commodities is growing over time indicating their increasing weight in the world trade.

In contrast to these, most of the items belonging to the group of primary products have registered a declining share in the world trade. The commodities such as rice, cereals, oil seeds, tea, unmanufactured tobacco, metalliferous ores and iron and steel have either a stagnant or a declining share.

From the above discussion, it can be said that India has revealed comparative advantage in many commodities that have a declining share in the world trade. Items such as rice, tea, unmanufactured tobacco and metalliferous ores belong to this group. It is not impossible for the country to push up the export of these commodities further due to its comparative advantage. However, their declining character in the world trade will be a bottleneck in comparison with the commodities whose share is growing rapidly.

There are commodities in the export basket of India whose shares in world trade are growing and these have revealed comparative advantage as well. But the country has not been able to consistently increase their export. Items such as spices, manufactured leather, cotton textiles, coffee and coffee substitute, feeding stuff for animals and manufactured tobacco come under this category. The share of these commodities in the total exports of India shows, more often than not, a declining trend during the 1980s.

Export performance of India, therefore, can be inferred to be better only in a few commodities. Articles of apparel and clothing is the only commodity group that has recorded increasing share in world trade as well as Indian export basket during 1980 to 1987. The export of fish and fish preparations can be added to this group on the basis of their similar

performance. As pointed out above, organic chemicals, artificial resins and plastic materials have shown better performance although RCA of these commodities remains less than unity.

On the basis of revealed comparative advantage analysis, it can be said that the incentive package has not been able help in increasing the Indian export significantly. As will be seen subsequently, the major export incentives of India are designed to help the manufactured exports. These commodities, as seen above, have not registered any perceptible trend. The reason behind such unsatisfactory performance needs to be probed into and the policy must be changed to create an environment of increasing the competitive strength of these commodities. As these categories of products have an increasing demand in the world market, India would be in a better position to improve its export performance. The role of policy variables like exchange rate needs to be examined from this perspective. Other important factors such as scale of production, technological upgradation and other institutional bottlenecks must also be considered simultaneously.

Table: 2.1

Share of Indian Export in World Export

EXPORT

(in million Dollars)

YEAR	WORLD 1	INDIA 2	Share 3=(2/1)*100
1970	313706	2026	0.65
1975	875500	4355	0.50
1980	1989867	8378	0.42
1981	1976733	8373	0.42
1982	1845641	8807	0.48
1983	1811600	8713	0.48
1984	1904600	9874	0.52
1985	1926536	8750	0.45
1986	2117343	9187	0.43
1987	2341700	11375	0.49
1988	2686200	13313	0.50
1989	2891700	15821	0.55

Source: i) Government of India,'Economic Survey'
         ·ii) I.M.F.,'International
             Financial Statistics' 1990.

Table: 2.2

Revealed Comparative Advantage Index of Different Commodities Exported by India

DIV.	GROUP		1980	1981	1982	1983	1984	1985	1986	1987
01		MEAT AND MEAT PREPARATIONS	0.89	0.92	1.20	1.25	1.18	0.73	0.60	0.36
03		FISH, CRUSTACEANS AND MOLLUSES	4.69	5.21	7.41	6.42	5.37	6.00	5.73	4.51
04		CEREALS AND CEREAL PREPARATIONS	1.14	2.15	0.90	0.67	0.53	0.34	0.55	0.43
	042	RICE	8.73	16.62	7.84	6.22	4.08	3.18	4.44	4.20
05		VEGETABLES & FRUITS	2.56	2.80	1.92	0.99	2.11	1.43	1.29	0.91
06		SUGAR, SUGAR PREPARATIONS AND HONEY	0.68	0.79	3.91	2.56	1.38	0.53	0.48	0.26
07		COFFEE,TEA COCOA,SPICES MANUFACTURED	9.44	10.16	6.92	5.27	4.63	5.21	6.21	4.80
	071	COFFEE AND COFFEE SUBSTITUTES	4.96	4.82	3.56	2.20	1.62	3.02	3.36	2.54
	074	TEA AND MATE	65.82	66.34	47.99	36.65	27.59	29.11	35.57	29.66
	075	SPICES	34.56	25.94	17.36	23.03	17.27	19.13	39.12	20.67
08		FEEDING STUFF FOR ANIMALS	3.77	3.77	5.10	3.50	2.88	2.90	3.27	2.63
12		TOBACCO AND TOBACCO MANUFACTURED	5.64	7.64	3.30	3.11	2.16	2.10	1.62	1.31
	121	TOBACCO UNMANUFACTURED	10.48	13.32	5.27	5.08	3.12	4.03	3.43	3.15
	122	TOBACCO MANUFACTURED	1.21	1.73	1.25	1.13	0.98	0.28	0.29	0.20
22		OILSEED AND OLEAGINOUS FRUITS	0.75	1.01	0.23	0.20	0.34	0.20	0.18	0.16
28		METALLIFEROUS ORES AND SCRAP	3.65	3.07	5.92	4.78	4.22	6.32	6.62	5.20
	281	IRON ORE AND CONCENTRATES	14.98	11.26	18.88	16.79	10.18	20.69	21.51	18.19
51		ORGANIC CHEMICALS	0.13	0.13	0.15	0.15	0.13	0.17	0.27	1.41
52		INORGANIC CHEMICALS	0.40	0.52	0.39	0.26	0.28	0.24	0.26	0.25
53		DYING TANNING & COLOURING MATERIALS	1.93	1.79	0.89	0.91	0.88	0.97	1.24	1.34
54		MEDICINAL & PHARMACEUTICAL PRODUCTS	1.86	1.83	0.46	0.59	0.54	0.70	0.60	0.48
55		ESSENTIAL OILS & PERFUME MATERIALS	2.67	4.20	0.90	0.94	0.85	0.95	0.79	0.62
57		EXPLOSIVES & PYROTECHNIC PRODUCTS	0.38	0.32	0.58	0.32	0.30	0.26	0.26	0.16
58		ARTIFICIAL RESINS & PLASTIC MATERIAL AND CELLULOSE ESTERS & ETHERS	0.03	0.03	0.05	0.04	0.05	0.07	0.05	0.04
59		CHEMICAL MATERIALS & PRODUCTS n.e.s	0.12	0.16	0.16	0.14	0.12	0.16	0.14	0.12
61		LEATHER, LEATHER MANUFACTURES AND DRESSED FURSKINS	16.12	16.73	13.54	11.08	10.53	14.93	12.77	12.17
	611	LEATHER	23.79	21.95	17.12	13.08	12.28	17.49	15.33	14.20
	612	MANUFACTURES OF LEATHER OR OF COMPOS LEATHER n.e.s etc	15.10	22.27	16.75	15.06	13.44	18.95	16.33	16.70
	613	FURSKINS, TANNED OR DRESSED SKIN etc	0.15	NA	NA	NA	NA	NA	NA	NA
65		TEXTILES YARN, FABRICS,MADE UP ARTICLES n.e.s & RELATED PRODUCTS	5.56	5.42	3.99	3.59	3.30	4.28	3.98	4.27
	652	COTTON FABRICS WOVEN	12.57	12.74	3.97	4.28	6.25	7.85	5.99	7.10
	653	FABRICS WOVEN OF MAN MADE FIBRES	1.12	0.96	0.48	0.37	0.40	0.57	0.33	0.33
	654	TEXTILE FABRICS WOVEN,OTHER THAN COTTON OR MAN MADE FIBRES	15.20	13.36	12.31	9.06	6.67	9.45	9.10	7.73
	667	PEARLS, PRECIOUS & SEMI-PRECIOUS STO	7.41	12.58	16.99	19.45	16.88	NA	NA	NA
67		IRON & STEEL	0.30	0.26	0.27	0.25	0.24	0.29	0.18	0.27
69		MANUFACTURE OF METALS n.e.s.	1.42	1.47	1.56	1.54	1.42	1.27	1.10	1.09
71		POWER GENERATING MACHINERY & EQUIPME	0.59	0.67	0.37	0.30	0.31	0.27	0.27	0.22
72		MACHI. SPECI. FOR PARTICULAR INDUSTRT	0.26	0.34	0.20	0.17	0.23	0.20	0.20	0.21
73		METAL WORKING MACHINERT	0.48	0.51	0.31	0.22	0.25	0.28	0.24	0.14
74		GENERAL INDUSTRIAL MACHINERY & EQUIP	0.27	0.29	0.30	0.25	1.36	0.27	0.23	0.21
75		OFFICE MACHINERY & ADP EQUIPMENT	0.02	0.02	0.12	0.18	0.24	0.18	0.17	0.11
76		TELECOMMUNICATION & SOUND RECORDING AND REPRODUCING APPARATUS & EQUIPMENT	0.10	0.06	0.05	0.04	0.03	0.03	0.04	0.02
77		ELECTRICAL MACH. APPARATUS & APPLIAN	0.44	0.49	0.27	0.27	0.00	0.18	0.16	0.14
78		ROAD VEHICLES(INCL. AIR CUSHION VEHI	0.39	0.35	0.17	0.13	0.03	0.11	0.10	0.08
79		OTHER TRANSPORT EQUIPMENT	0.18	0.12	0.33	0.73	1.07	0.77	0.05	0.01
84		ARTICLES OF APPAREL & CLOTHING ACCES	4.33	5.10	5.38	4.61	3.96	5.16	5.35	5.34

Table: 2.3

Share of Different Commodities in World Trade

DIV.	GROUP		1980	1981	1982	1983	1984	1985	1986	1987
01		MEAT AND MEAT PREPARATIONS	0.0090	0.0096	0.0098	0.0094	0.0087	0.0081	0.0090	0.0098
03		FISH, CRUSTACEANS AND MOLLUSES	0.0062	0.0067	0.0072	0.0074	0.0072	0.0073	0.0089	0.0101
04		CEREALS AND CEREAL PREPARATIONS	0.0211	0.0219	0.0191	0.0210	0.0160	0.0168	0.0136	0.0123
	04	RICE	0.0022	0.0027	0.0020	0.0019	0.0017	0.0014	0.0012	0.0009
05		VEGETABLES & FRUITS	0.0121	0.0127	0.0131	0.0318	0.0147	0.0070	0.0078	0.0089
06		SUGAR, SUGAR PREPARATIONS AND HONEY	0.0081	0.0081	0.0068	0.0066	0.0063	0.0052	0.0053	0.0048
07		COFFEE,TEA COCOA,SPICES MANUFACTURED	0.0111	0.0087	0.0091	0.0101	0.0119	0.0102	0.0120	0.0095
	071	COFFEE AND COFFEE SUBSTITUTES	0.0065	0.0046	0.0052	0.0056	0.0078	0.0058	0.0075	0.0051
	074	TEA AND MATE	0.0008	0.0008	0.0007	0.0008	0.0012	0.0009	0.0007	0.0007
	075	SPICES	0.0005	0.0005	0.0005	0.0005	0.0006	0.0005	0.0006	0.0006
08		FEEDING STUFF FOR ANIMALS	0.0052	0.0055	0.0055	0.0062	0.0063	0.0044	0.0050	0.0050
12		TOBACCO AND TOBACCO MANUFACTURED	0.0036	0.0041	0.0044	0.0043	0.0044	0.0040	0.0040	0.0043
	121	TOBACCO BNMANUFACTURED	0.0017	0.0021	0.0023	0.0021	0.0024	0.0020	0.0017	0.0016
	122	TOBACCO MANUFACTURED	0.0019	0.0020	0.0022	0.0021	0.0020	0.0021	0.0023	0.0027
22		OILSEED AND OLEAGINOUS FRUITS	0.0048	0.0051	0.0050	0.0051	0.0053	0.0041	0.0037	0.0038
28		METALLIFERODS ORES AND SCRAP	0.0152	0.0134	0.0122	0.0131	0.0121	0.0117	0.0106	0.0108
	281	IRON ORE AND CONCENTRATES	0.0033	0.0034	0.0035	0.0034	0.0044	0.0032	0.0030	0.0029
51		ORGANIC CHEMICALS	0.0160	0.0161	0.0165	0.0179	0.0191	0.0190	0.0193	0.0214
52		INORGANIC CHEMICALS	0.0078	0.0076	0.0080	0.0084	0.0084	0.0085	0.0085	0.0085
53		DYING TANNING & COLOURING MATERIALS	0.0040	0.003	0.0039	0.0042	0.0040	0.0041	0.0050	0.0057
54		MEDICINAL & PHARMACEUTICAL PRODUCTS	0.0070	0.0071	0.0076	0.0079	0.0078	0.0082	0.0099	0.0104
55		ESSENTIAL OILS & PERFUME MATERIALS	0.0038	0.0039	0.0039	0.0040	0.0041	0.0042	0.0047	0.0053
57		EXPLOSIVES & PYROTECHNIC PRODUCTS	0.0003	0.0004	0.0004	0.0004	0.0003	0.0004	0.0004	0.0006
58		ARTIFICIAL RESINS & PLASTIC MATERIALS	0.0137	0.0124	0.0128	0.0140	0.0144	0.0147	0.0169	0.0196
9		CHEMICAL MATERIALS & PRODUCTS n.e.s	0.0080	0.0077	0.0081	0.0083	0.0086	0.0086	0.0093	0.0101
61		LEATHER, LEATHER MANUFACTURES	0.0030	0.0028	0.0029	0.0029	0.0034	0.0033	0.0036	0.0044
	611	LEATHER	0.0017	0.0016	0.0018	0.0019	0.0023	0.0022	0.0024	0.0028
	612	MANUFACTURES OF LEATHER OR OF COM.	0.0005	0.0005	0.0005	0.0005	0.0006	0.0006	0.0006	0.0008
	613	Furskins,tanned or dressed etc.	0.0008	NA	NA	NA	0.0005	0.0005	0.0007	0.0008
65		TEXTILES YARN, FABRICS,MADE UP	0.0246	0.0245	0.0239	0.0247	0.0252	0.0249	0.0277	0.0306
	652	COTTON FABRICS WOVEN	0.0033	0.0032	0.0032	0.0034	0.0036	0.0035	0.0040	0.0045
	653	FABRICS WOVEN OF MAN MADE FIBRES	0.0047	0.0050	0.0047	0.0049	0.0049	0.0050	0.0057	0.0059
	654	TEXTILE FABRICS WOVEN,OTHER THAN	0.0016	0.0016	0.0016	0.0017	0.0017	0.0018	0.0019	0.0021
	667	PEARLS, PRECIOUS & SEMIPRECIOUS STONE	0.0093	0.0063	0.0061	0.0065	0.0065	NA	NA	NA
67		IRON & STEEL	0.0343	0.0334	0.0330	0.0301	0.0324	0.0317	0.0303	0.0305
69		MANUFACTURE OF METALS n.e.s.	0.0185	0.0189	0.0194	0.0184	0.0174	0.0170	0.0185	0.0195
71		POWER GENERATING MACHINERY & EQUIPMENT	0.0180	0.0182	0.0196	0.0192	0.0227	0.0200	0.0211	0.0227
72		MACHI. SPECI. FOR PARTICULAR IND.	0.0294	0.0303	0.0297	0.0263	0.0250	0.0284	0.0313	0.0336
73		METAL WORKING MACHINERY	0.0079	0.0072	0.0066	0.0058	0.0057	0.0066	0.0082	0.0085
74		GENERAL INDUSTRIAL MACHINERY & EQP.	0.0299	0.0299	0.0297	0.0280	0.0267	0.0280	0.0312	0.0336
75		OFFICE MACHINERY & ADP EQUIPMENT	0.0124	0.0148	0.0167	0.0210	0.0256	0.0278	0.0307	0.0356
76		TELECOMMUNICATION & SOUND RECORDING	0.0135	0.0198	0.0197	0.0216	0.0238	0.0246	0.0270	0.0604
77		ELECTRICAL MACH..APPARATUS & APPLIA	0.0306	0.0315	0.0333	0.0364	0.0381	0.0393	0.0441	0.0503
78		ROAD VEHICLES(INCL. AIR CUSHION VEH	0.0640	0.0657	0.0684	0.0712	0.0067	0.0816	0.0918	0.1117
79		OTHER TRANSPORT EQUIPMENT	0.0208	0.0250	0.0273	0.0269	0.0259	0.0170	0.0229	0.0235
84		ARTICLES OF APPAREL & CLOTHING ACCESSR	0.0163	0.0168	0.0175	0.0178	0.0201	0.0201	0.0237	0.0241

Chapter 3

Recent Features of CCS and IMPORT Licences

Section - I

Trend of CCS

It has been noted earlier that CCS is the largest single item of subsidy
in the budget extending direct support to Indian export. Broadly, factors
taken into account in fixing up the rates of CCS are to neutralise the
difficulties faced by an exporter due to i) indirect taxes on inputs, imported
or domestically purchased, which remain unrefunded after duty drawback, ii)
freight disadvantages and iii) cost of developing new markets as well as
products. Special assistance to certain commodities is also given through
CCS, the list of which is decided keeping in view the broader socio-economic
objectives (see, Government of India, Ministry of Commerce, Annual Reports).

Payments under CCS have been growing in absolute terms since its
introduction. From a cost of Rs. 29.77 crore in 1968-69, it has reached the
level of Rs. 1194.41 crore in 1988-89. The increasing expenditure finances,
on average, several exported items that are added to the existing list of CCS
almost every year (see, Government of India, Ministry of Commerce, Annual
Reports).

Seen in terms of a cost-benefit framework, the rising cost due to cash
compensation must have a commensurate increasing benefit to the economy from
export sector. It will, therefore, be pertinent to formulate a working
hypothesis envisaging a direct relationship between incremental benefit and
increase in cost.

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In this perspective, it will be worthwhile to point out that the ultimate objective of providing cash compensation to exporters is to enhance the competitive strength of Indian exports by neutralising some disadvantages faced by it due to factors like domestic taxation. Obviously, it should be viewed as a short run measure to overcome the 'teething' problem of the Indian export. With the improvement of competing capability, exporters' dependence on cash compensation should be reduced. In other words, the cost to the public exchequer due to export incentives like CCS should have a declining trend. With this in view, the recent trend in per unit cost of CCS with respect to some commodity groups is examined in the following. The direction of change in the cost is expected to throw some useful light on the evaluation of policy followed with respect to CCS.

Distribution of Cash Compensation

Distribution of cash compensation among the broad commodity groups is examined below to identify the major beneficiaries of the scheme.

Engineering goods, as a group, turn out to be the largest recipient of cash compensation over years. Table 3.1, which gives the percentage distribution of the payment through CCS, suggests that the group has a share of about 30% of the total disbursement in the year 1988-89. In the preceding period, except for 1987-88, the share was higher than 34%. Other important groups, seen in terms of cash compensation, are cotton textiles, leather goods, chemical goods, processed food and woollen carpets. But their shares remain much below the share of engineering goods.

Though the largest among commodity groups, the movement of the share of engineering goods indicates a declining trend. As may be seen from the table, its share was approximately 43% of the total during 1983-84 but declined subsequently to reach below 30% in the later part of the 80s. Besides this group, the share of cash compensation also suggests a declining trend in products such as woollen carpets and coir products.

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In contrast to the above groups, chemical products, leather goods, cotton textiles and marine products have an increasing share of cash compensation. For example, the share of cotton textile has increased from 9.09% in 1983-84 to 17.54% in 1988-89.

The change observed above in the share of cash compensation of different commodity groups is due to a combination of differential export performance and policy decision to change the rate of CCS. Examination of the declining share of engineering goods in total cash compensation indicates the effects of both bad export performance and reduction of the rates of CCS. It may be recalled that the share of engineering products in the total export of India has declined in the recent years. An ad valorem rate such as CCS, would then yield less cash subsidy for the group. Examination of the rate of CCS, as fixed by the Government, also reveals that some engineering goods have been given cash compensation at a lower rate compared to the earlier years.

Rate of CCS

The rate of cash compensation, as seen from payments made to exporters and f.o.b value of export, reflects the cost borne by the exchequer in earning one rupee from the export sector. Some emerging features of CCS rate in the recent years are given in Table 3.2.

Data suggest that engineering goods are the costliest items of foreign exchange earning. This group claims 15 paise per rupee of export earning during the year 1988-89. The corresponding cost for commodity groups such as chemical, leather and cotton textile is worked out to be 8, 10 and 6 paise respectively.

Although the costliest, the trends registered by CCS rate of engineering goods is declining over time. As may be seen from the above table, the rate of CCS for this group was 23 paise in 1986-87 from which there was a decline in the succeeding two years. Such a tendency is also observed in marine products and plastic goods.

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In contrast to the above groups, chemical products, cotton textiles and leather goods have an increasing rate of cash compensation in the recent years. For example, the group constituted by cotton textiles records a consistently increasing rate from .03 in 1983-84 to .06 in 1988-89. Since the increasing cost to the exchequer may be caused by such groups, there is a need for a closer scrutiny of the payment of CCS in these categories of commodities.

Another feature to be noted in CCS rates for different commodities presented above is the wide variation across the board. Per rupee of export earning costs as much as 15 paise in engineering goods while similar cost for a marine product is only 2 paise during the year 1988-89. While variation in the rate of CCS in different categories of commodities can exist due to differential characteristics like differences in local taxes and price elasticity of export demand, it is difficult to find out the rationale of allowing subsidy with such wide difference among exported commodities.

Effective Rate of CCS

The rate of CCS given above does not show the effective cost of earning foreign exchange. The net foreign exchange earned from various export items needs to be considered for examining the effective cost to the exchequer. The value of import licences issued to registered exporters of different commodity groups is deducted from their respective f.o.b. values to derive the net foreign exchange earning. The rate of CCS worked out from net foreign exchange earning is called the effective rate of CCS in the present study and commodity group-wise information is presented in Table 3.3.

With the consideration of effective rate of CCS, the cost to the exchequer per unit of foreign exchange earning registers a significant rise in commodity groups such as engineering and man made fibres. For engineering goods, the Government seems spending as much as 25 paise per rupee of export earning. In comparison with the rate of CCS considered earlier, it is seen

now that the cost has gone up one and a half times. It may, however, be gratifying to note that the cost of foreign exchange earning of these items follows a declining trend.

The declining cost of net foreign exchange earning in engineering goods is also accompanied by a rising trend in commodity groups such as textiles, leather products and coir products. The increasing trend of cash compensation noticed at the aggregate level may be due to these products.

The above discussions highlight the trends of CCS rates in a few commodities exported by India. There are indications that the movement of cost incurred by the Government to earn foreign exchange is not declining across the board. While a high cost foreign exchange earner such as the engineering group shows a declining trend of the rate of CCS, other groups such as cotton textiles, leather and chemicals record an increasing trend.

Section - II

Trend of Import Licences issued

The trade policy of India provides special facilities to exporters for importing inputs at world prices. The rationale of this provision stems from the domestic policy that intends to raise the cost of general imports by imposing a tariff. Prevalence of import controls, in general, also, make it difficult to get the supply of raw materials for production when the domestic substitutes are not easily available. Exporters overcome such obstacles, principally, through import replenishment (REP) licences. These licences are related to f.o.b value of exports and allow the exporter to import certain restricted raw materials and components upto a specified percentage of the predetermined items of exports. Usually the importer pays the normal custom duties on these imports but claims refund of the amount paid through duty drawback scheme. The import licences can be put into two broad categories: i) There are REP licences issued to registered exporters after exports have been shipped. So, at least a part of the import of these categories of licences

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may not be required for production by the exporter to whom they are issued. In that event, the REP licence entitlement can be legally sold in the open market. As long as the imported material is scarce in the domestic market, the transferable REP licences can be sold at higher prices. The exporter, therefore, has an incentive to enter into transactions related to REP licences. During the 1980s, premiums attached to the REP licences declined substantially. The probable reason of this declining trend could be attributed to the relaxation of the severity of import controls in the recent years. ii) The other category of licences are duty free advance licences and imprest licences. These are issued in anticipation of export production and are non-transferable.

Import licences issued to registered exporters in recent years show that the demand is increasing for duty free advance licence categories. Table 3.4, which summarises licences issued to registered exporters during 1985-86 to 1989-90, clearly depicts the emerging trends. It can be seen from the table that REP licences that are issued after the shipment of export, i.e., the first category described above, had a share of 45 per cent in 1985-86. But there is a decline of this share that reached up to 28 per cent by October, 1989. In contrast, the non-transferable advanced licences, the second category discussed above, has registered an increase in the total shares.

Distribution of Import licences

The value of licences issued to registered exporters constitutes a major cost of foreign exchange earning. If the performance of the export sector is to be improved, the cost incurred due to import has to be minimised. In this connection, it will be useful to examine the recent trend recorded by import licences.

Distribution of different licences issued to registered exporters of some broad commodity groups is examined below to point out the major imports.

The commodity group that constitutes the gems and jewellery is seen to be the largest claimant of licence in recent years. Table 3.5, which depicts the distribution of licences issued to registered exporters of various commodity groups, shows that the group has a share of 62 percent of the total value in the year 1989-90. In the preceding three years of 1989-90, the share of gems and jewellery is recorded to be marginally higher. The domestic resource cost of this group, however, is observed to be at a lower side. Therefore, the higher import claim of the group should not be mixed up with other categories of exports. Other important groups, seen in terms of the licences demanded, are engineering and chemicals. But shares of these two remain much below the level of gems and jewellery group.

The movement of share of licences in many commodity groups suggests a declining trend in recent years. The share of engineering goods, leather goods and sports goods etc. may be seen in this connection. The import component of chemical groups does not conform to the declining trend and may be increasing in recent years.

Rate of Import Licences Issued to Registered Exporters

To have a better understanding of the import intensity of Indian exports, the rate of import licences per unit of f.o.b value of export is examined in the following. The movement of the cost of import in different commodity groups will be suggested by such an exercise. It may be useful to point out that the f.o.b value used for deriving the rate of licence refers to exports inclusive of export obligation. The duty free advance licences issued to exporters has a condition. Exporters are required to export a predetermined quantity within 18 months of availing themselves the facility of advance licence. It is not clear if there is a monitoring mechanism to verify the fulfillment of export obligations. In case, obligations are not met by some exporters, the f.o.b. value taken for calculating the rate of licence would be lowered. As a result, rates given in the table would have an upward bias.

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Table 3.6 shows that there are many items whose import intensity is much higher than others. Gems and jewellery items, on the first look, appear to be the costliest in the lot with 68 paise spent on import through import licences per rupee of export in 1988-89. The domestic resource cost of this group is, however, pointed out to be fairly small and hence need not be considered costliest for the economy. The import cost for commodity groups such as leather goods and cashew kernels is much lower with 15 and 10 paise respectively. Seen in terms of import licences issued per rupee of export earning, other costlier commodities are plastic, stainless steel, man made fibres, natural silk fabrics and garments, engineering and chemical goods. On the average, the country had to spend 43 paise on import licences per rupee of export during 1988-89.

Examination of the rate of import licences in recent years shows that cost is increasing in items such as chemicals, plastics, natural silk, stainless steel, gems and jewellery and man made fibres. For example, the chemical goods have imported 40 paise worth of inputs and components per rupee of export during 1988-89 while it was 35 paise only in 1984-85. From among the groups having higher rate of imports through REP licences, engineering goods have a declining tendency of importing raw materials and components. The rate of import licence of this group is 0.40 in 1938-89 that has come down from a higher rate of 0.51 in 1984-85.

It appears from the above discussions that the cost of subsidisation through import licences issued to registered exporters is not increasing rapidly in recent years if the group under gems and jewellery is ignored in the analysis. There are goods such as engineering and chemicals and man made fibres that have a substantial demand for import licences but lower than that of the group under gems and jewellery. On the average, the import cost through import licences issued to registered exporters remains 36 to 43 rupee per Rs.100 of export.

A major purpose of examining trends of CCS and import licences was to understand the nature of cost incurred by the Government for export promotion. It was found that the Government policy with respect to both these subsidies has succeeded in establishing a declining trend of cost in some commodity groups. However, the rate of CCS as well as import licences issued to exporters varies across the board with a wide range. It would, therefore, be appropriate to examine if there could be still some scope for reducing the existing levels of cost borne by the public exchequer by rationalising the existing structure of CCS and import licences. It may be pertinent to point out that in considering these, the present study has a limited objective of examining the revenue loss to the Government due to export promotion.

On the question of scope of rationalising the prevailing import licences it can be said that some exporters may be in a position to reduce the import content of their products. But others like diamond exporters may not be able to do so. The system of duty drawback of the country makes imported inputs cheap and thus has a tendency to make exporters bias towards imported inputs.

Table 3.1

Percentage Distribution Of CCS Paid

	COMMODITY/YEAR	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1	ENGINEERING GOODS	42.66	43.39	34.72	36.08	28.08	29.59
2	CHEMICAL GOODS	7.95	8.51	6.76	7.54	8.30	10.20
3	PLASTIC GOODS	0.79	0.79	1.30	0.28	0.32	0.34
4	SPORTS GOODS	0.72	0.88	0.63	1.05	0.42	0.41
5	PROCESSED FOOD	6.48	8.49	8.79	8.86	10.22	8.60
6	FLAX YARN	N.A	N.A	0.02	0.03	N.A	N.A
7	WOOLLEN CARPET	11.66	14.43	11.26	10.20	10.99	8.43
8	LEATHER GOODS	11.63	16.26	13.67	13.24	14.06	13.09
9	WOOLLEN GOODS	0.31	N.A	0.12	0.16	0.31	0.93
10	JUTE GOODS	2.64	4.84	4.35	3.34	2.98	2.13
11	COIR PRODUCTS	0.23	0.32	N.A	0.26	0.19	0.18
12	INSTANT TEA PRODUCTS	1.11	1.96	2.28	1.20	N.A	N.A
13	RAYON FABRIC/SYN. GARMENTS	N.A	N.A	3.50	4.13	6.72	5.35
14	COTTON TEXTILES	9.09	N.A	10.84	11.19	15.64	17.54
15	MARINE PRODUCTS	N.A	N.A	N.A	N.A	0.51	1.18
16	SILK GOODS/NATURAL SILK	4.50	N.A	1.75	2.38	1.25	2.02
17	INSTANT COFFEE	0.24	0.13	N.A	0.07	N.A	N.A
	TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: Government of India, Ministry of Commerce.

Table 3.2

Rate of CCS for Selected Commodities

COMMODITY/YEAR	1984-85	1985-86	1986-87	1987-88	1988-89
1 COTTON TEXTILES		0.0337	0.0375	0.0437	0.0566
2 JUTE GOODS	0.0575	0.0927	0.1000	0.1104	0.1063
3 LEATHER GOODS	0.0910	0.0990	0.1048	0.1012	0.1048
4 CHEMICAL GOODS	0.0714	0.0758	0.0944	0.0933	0.0793
5 ENGG GOODS	0.1839	0.2028	0.2327	0.1684	0.1493
6 RAYON FABRIC/SYN.GARMENTS				0.1882	0.1282
7 WOOLLEN GOODS				0.0384	0.1349
8 COIR PRODUCTS	0.0464		0.0559	0.0597	0.0703
9 MARINE PRODUCTS				0.0087	0.0235
10 SPORTS GOODS		0.1064	0.1499	0.1166	0.1159
11 PLASTICS GOODS		0.0738	0.0684	0.0520	0.0321

Note: The rate given above is (CCS/FOB value of export)

Table 3.3

Effective Rate of CCS for Selected Commodities

COMMODITY/YEAR	1984-85	1985-86	1986-87	1987-88	1988-89
1 COTTON TEXTILES	NA	0.0377	0.0418	0.0553	0.0759
2 LEATHER GOODS	0.1062	0.1147	0.1184	0.1168	0.1233
3 CHEMICAL GOODS	0.1095	0.1201	0.1524	0.1571	0.1337
4 ENGG GOODS	0.3720	0.3365	0.355	0.2635	0.2506
5 RAYON FABRIC/SYN.GARMENTS				0.2873	0.2254
6 WOOLLEN GOODS				0.0477	0.2026
7 COIR PRODUCTS	0.0539		0.0637	0.0673	0.0950
8 MARINE PRODUCTS				0.0109	0.0243
9 SPORTS GOODS		0.1229	0.1852	0.1397	0.1486
10 PLASTICS GOODS		0.1045	0.1106	0.0931	0.0686

Note: EFFECTIVE RATE OF CCS=CCS/(FOB Value of Exports - Licence issued).

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Table 3.4

Category-wise Value of Import Licences
(Issued to Registered Exporters)

(Rs. Crore)

	1985-86	1986-87	1987-88	1988-89	1989-90 (upto Oct.1989)
1 Advance licences	435.22	418.15	896.39	1616.24	1278.65
2.Special Imprest licence	374.5	470.44	328.83	729.26	314.81
3.Pass book		24.9	82.46	178.84	100.96
4.Imprest licence	662.92	868.56	1507.37	2482.18	2583.55
5.Additional Licence	98.72	154.85	188.57	522.48	431.96
6.REP	1277.22	1616.12	1984.5	2939.97	1789.64
Total	2848.58	3553.02	4988.12	8468.97	6499.57
Share of (1 to 4)	0.5170	0.5016	0.5644	0.5912	0.6582
Share of (6)	0.4484	0.4549	0.3978	0.3471	0.2753

Sources:- i) ASSOCHAM BULLETIN
ii) Government of India, Ministry of Commerce.

Table 3.5

Percentage Distribution Of Imports Licences
(Issued to the registered exporters)

Commodity/Year	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
ENGINEERING GOODS	36.52	29.30	27.66	21.63	23.11	19.2¶
CHEMICAL GOODS	7.79	7.28	7.76	8.52	8.89	13.37
PLASTIC GOODS	1.16	0.93	0.95	0.77	1.15	1.03
LEATHER & LEATHER PRODUCTS	3.68	4.43	2.72	3.79	3.20	2.50
SPORTS GOODS	1.65	0.19	0.15	0.13	0.11	0.14
FISH & FISH PRODUCTS	2.97	2.67	2.54	2.67	1.46	1.84
PROCESSED FOOD	3.07	2.75	2.13	1.39	2.76	2.65
HANDICRAFTS	1.97	2.99	1.74	1.57	1.23	1.21
CASHEW KERNELS	1.44	1.01	0.76	0.87	0.26	0.30
TOBACCO & TOBACCO MFG.	0.26	0.21	0.16	0.20	0.28	0.18
WOOLLEN CARPET, RUGS, DRUGGESTS	2.39	2.17	1.76	1.29	1.45	1.19
WOOLLEN TEXT. HOSIERY & MIXED FABRICS	0.27	0.48	0.35	0.31	0.29	0.41
COIR PRODUCTS	0.10	0.07	0.10	0.05	0.13	0.0€
COTTON TEXTILE	1.82	1.89	1.66	3.34	3.50	1.46
READYMADE GARM.(OTH. THAN NAT. SILK)	7.06	5.38	6.22	6.33	5.18	5.57
NATURAL SILK FABRICS/GARMENTS)	1.72	2.06	1.73	1.89	1.63	1.45
STAINLESS STEEL PRODS	0.52	1.65	0.67	0.22	0.62	0.34
GEMS & JEWLLERY	56.98	59.14	65.18	63.55	62.76	62.55
CINEMATOGRAPH FILMS	0.31	0.44	0.04	0.05	0.28	0.0€
NON-CELLULOSIC TEXTILES	0.53	0.14	0.11	0.30	0.04	0.04
CELLULOSIC TEXTILES	0.55	0.74	0.18	0.47	1.42	2.5€
MIXED BLENDED	0.36	0.22	0.24	0.94	0.55	0.0€
MISCELLANEOUS	3.41	3.17	2.84	1.37	2.80	1.4€
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: Government of India,
Ministry of Commerce.

Table 3.6

Import Intensity of Eligible Export

Commodity/Year	1984 85	1985-86	1986-87	1987-88	1988-89	1989 9
1 ENGINEERING GOODS	0.51	0.40	0.34	0.36	0.40	0.37
2 CHEMICAL GOODS	0.35	0.37	0.38	0.41	0.41	0.40
3 PLASTIC GOODS	0.43	0.29	0.38	0.44	0.53	0.39
4 LEATHER & LEATHER PRODUCTS	0.14	0.14	0.11	0.13	0.15	0.11
5 SPORTS GOODS	0.17	0.18	0.19	0.16	0.22	0.22
6 FISH & FISH PRODUCTS	0.15	0.15	0.15	0.18	0.18	0.19
7 PROCESSED FOOD	0.14	0.11	0.08	0.08	0.15	0.10
8 HANDICRAFTS	0.32	0.45	0.31	0.28	0.33	0.30
9 CASHEW KERNELS	0.13	0.13	0.09	0.10	0.10	0.10
10 TOBACCO & TOBACCO MFG.	0.03	0.03	0.04	0.06	0.20	0.06
11 WOOLLEN CARPET, RUGS, DRUGGESTS	0.24	0.23	0.18	0.15	0.23	0.16
12 WOOLLEN TEX. HOSIERY & MIXED FAB.	0.25	0.46	0.27	0.19	0.33	0.29
13 COIR PRODUCTS	0.14	0.14	0.12	0.11	0.25	0.17
14 COTTON TEXTILE	0.12	0.11	0.10	0.21	0.26	0.12
15 READYMADE GARM.(OTH.THAN NAT. SILK)	0.24	0.18	0.20	0.20	0.23	0.19
16 NATURAL SILK FABRICS/GARMENTS)	0.35	0.37	0.38	0.35	0.43	0.41
17 STAINLESS STEEL PRODUCTS	0.43	0.63	0.53	0.53	0.55	0.47
18 GEMS & JEWLLERY	0.74	0.77	0.76	0.75	0.69	0.65
19 CINEMATOGRAPH FILMS	0.27	0.41	0.25	0.35	0.10	0.21
20 NON-CELLULOSIC TEXTILES	0.31	0.24	0.22	0.40	0.34	0.25
21 CELLULOSIC TEXTILES	0.35	0.48	0.18	0.32	0.42	0.39
22 MIXED BLENDED	0.48	0.53	0.36	0.34	0.47	0.33
23 MISCELLANEOUS	0.52	0.40	0.36	0.41	0.68	0.07
TOTAL	0.39	0.37	0.36	0.38	0.43	0.35

Note: Import Intensity given above refers to
(Licence issued to registered Exporters)/
(FOB value of Export including Export obligation).

Chapter - 4

Exchange Rate and Export Performance

Theories of international trade highlight the close association between the regime of exchange rate and export performance. Following the tenets of these theories, presumably, the impact of exchange rate on the export performance of India has been scrutinized since the 1960s (see, for example, Bhagwati and Srinivasan, 1975 and Joshi and Little, 1987). There is a strand of thought which points out the effect of overvalued currency on the export performance of India (see Bhagwati and Srinivasan, 1975). On the other hand, with the operation of a more flexible exchange rate policy with effect from 1975 and accelerated devaluation of rupee in more recent years, attempts have been made to estimate its increasing impact on the Indian exports (see, for example, Datar, 1989 and Chakravarty, 1987). Thus, the basic objective of these studies, it appears, is to find a satisfactory answer that would help in following an exchange rate policy to overcome problems of country's exports in the international market.

On the theoretical plane, depreciation of the value of Indian rupee is expected to push up the quantity of export. The route through which it is expected to operate is the relative cheapness of Indian export in the international market. Examination of the quantum index of Indian export in recent years, records a perceptible increase. While it grew at the rate of 5 per cent per annum, during 1970 to 1984, the rate registered during the subsequent period, 1985-1988, is significantly higher. The quantum index of some commodities such as cotton textiles, engineering goods and cashew exported by India that recorded a declining trend in the first half of 1980s (see, Chandhok, 1989), may have shown, improvement, though marginal, during 1985-88.

The growth of quantum index during a period of depreciation in the value of rupee, could result in a faster improvement in the competitiveness, given the other factors influencing export. A recent study, however, points out that in terms of competitiveness, many third world countries have surpassed India. It is observed, for example, that the recent changes in the exchange rate has helped India in improving the competitive position over countries like Japan, United States, Sri Lanka, Singapore and U.K.. But there are indications that it could not gain advantage over Thailand, Malaysia, Bangladesh, Pakistan, Columbia and Brazil (see, World Bank, 1990).

The evaluation of export performance of India in recent years, therefore, necessitates a detailed examination of the movement of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER). While NEER shows the change in average exchange rate of India, REER records the change in competitiveness in the export market. This approach is adopted by some recent studies (see, for example, Datar 1989) to assess the performance of export sector.

Nominal and Real Exchange Rate

Often the movement of exchange rate is examined through nominal and real terms. The index of NEER traces the change of average exchange rate of a country by considering its exports share with the trading partners as weight. For example, NEER of India is derived by considering its export share with ten major trading partners as weight (see, Joshi, 1984). When the relative price movement of India against its trading partners is adjusted, REER is derived from NEER. REER index suggests the change in competitiveness of Indian exports. Table 4.1 gives these indices by following the methodology of Joshi (1984). The trade shares of ten major trading partners of India used by Joshi (1984) are used for deriving the indices of the above table.

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The value of Indian rupee has depreciated considerably in recent years. In nominal terms, the depreciation occurred at the rate of 12 per cent per annum during the period 1985-90. This rate is higher than its preceding period's, indicating the acceleration in the rate of depreciation. It may be noted that the appreciation of the value of rupee can be seen in 1980 and 1981 only. The table shows that the index was 116 in 1980 which rose from a lower level of 113 in 1979. The succeeding year records an upward shift of NEER to reach 117 after which there was a consistent decline.

In real terms, rupee has depreciated consistently since 1983. The value registers a declining rate of 7 per cent per annum during 1983 to 1990. The preceding period records very often an appreciation of the value of rupee in real terms. As seen above in the case of nominal exchange rate, the real effective exchange rate also registers upward movement in 1980 and 1981 after which it started declining. The competitiveness of Indian exports should show its impact clearly after this point of time.

The relative price of India has moved up consistently since 1982. This trend can be seen from Effective Relative Price (ERP) in the above table. The price index with NEER has determined the trend of REER given in the table. As the relative price of India and the index of NEER changed at the rate of 5 and 12 per cent per annum respectively during the post-1985 period, it can be said that Indian exporters have not only been fully compensated for the price rise but have also gained substantially from the recent exchange rate policy. The profitability of export in recent years should have increased in comparison with the earlier period due to the change in exchange rate policy.

Impact of Exchange Rate on Exports

The impact of exchange rate on the export of India has been tried to be examined in the following by relating export to REER. The depreciation of the value of rupee in real terms, as indicated by REER, is expected to make exports more attractive in the world market. In the estimated equation, therefore, exports should show an inverse relationship with REER.

The estimation of export function, which incorporates the above relationship, has been attempted by many studies in the 1980s (see, for example, Chakravarty, 1987; Datar, 1989; Goldar, 1989 and Rao, 1982). Out of these, the study by Datar (1989) covers the export upto 1987 and therefore evaluates the performance upto most recent years for which data are available. It will be useful to summarise briefly the main findings of this study. Datar (1989) considers size of world export market, REER, export incentive and a variable representing supply side shock in the domestic economy to assess the export performance at the aggregate level. An important finding of the study is that of changes in the real exchange rate significantly influencing exports. But the elasticity of exports with respect to REER is low. Observing the positive impact of world exports on the level of Indian exports, the study inferred that a contraction of the former may neutralise the favourable effect of depreciation in real exchange rate of the rupee. The study also finds a significant influence of incentives on exports that didn't come up in some of the other studies. The present study follows an estimation procedure similar to that of Datar (1989). It, however, extends the evaluation from an aggregate level of export to the major commodity groups such as cotton textiles, leather, chemicals and engineering. A major concern of the present exercise is to examine the impact of incentives, besides REER, on export performance. Since it was noticed earlier that CCS given to exporters is growing at a higher rate in the post-1985 years an attempt has been made to examine its impact on exports of above mentioned groups.

Getting a consistent data series on exports is a major problem even when the level of disaggregation is confined to broad commodity groups. When world and Indian exports of above mentioned commodity groups are to be examined, one may have a data series upto 1987.

The experimentation with three sets of equations with different combinations of explanatory variables shows that REER has significant influence on the export of India. The impact of incentives combined and CCS in particular, is not consistently significant across the board. Similarly world exports do not have consistently significant influence on exports of corresponding goods from India. The estimation of the regression equation, in log form, with export of India as the dependent variable and world export, CCS and REER as explanatory variables, for example, does not show significant impact of CCS on commodity groups such as engineering, chemicals and leather goods. The world export of chemical goods has a significant influence on the export of corresponding goods from India. But similar results do not appear for engineering and leather goods.

Incorporation of the data of post-1987 period was expected to help in understanding the impact of accelerated depreciation of the value of rupee on export performance. The above equations with 1987 as the terminal year might not be capturing the effect of accelerated decline of REER that came about after 1987. Results above also indicated an inconsistent influence of incentives and of world exports on different commodity groups. With a view to have a better picture, an equation with REER and time trend as the explanatory variables and exports from India as the dependent variable was estimated. In this formulation, the inclusion of a time trend in the equation was expected to bring together the influences of other explanatory variables omitted from the equation. The equation obviously, might not produce efficient estimates of coefficients due to incomplete specification. It was, however, expected to serve the purpose of getting the inverse relationship between REER and export verified for four commodity groups, viz., cotton textile, leather, chemicals and engineering goods upto 1989.

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Table 4.2 summarises results of above mentioned equation in different product groups. It is apparent from the table that REER is inversely related to exports of different commodity groups. Thus a decrease in REER index, i.e., depreciation of the value of rupee is associated with an increase in the Indian exports. Although the magnitude of coefficients may not be accurate for reasons spelt out above concerning the specification of the equation, the elasticity of rupee value of export with respect to REER seems to be 0.73. This co-efficient, therefore, suggests a lower elasticity of Indian exports than was observed by Datar (1989). The influence of REER on different commodity groups exhibits a variation. While the elasticity of leather, chemicals and engineering goods remains greater than one, the corresponding co-efficient is less than one in cotton textiles. The lack of adequate response of cotton textile exports to depreciation of the value of rupee may be due to better competitive position of India's competitors. The existence of quota system in these categories of exports also may be an important factor in determining the buoyancy.

Results of the regression analysis indicate that Indian export responds positively to changes in the real effective exchange rate. However, the response differs from commodity to commodity. It may, therefore, be necessary to extend the export incentive package only after taking into account the performance of each commodity to changes in exchange rate.

It has been observed earlier that India should try to increase the export of those commodities that are increasingly demanded in the world market. A few items of Indian exports in the commodity groups such as engineering, chemicals, and leather have responded favourably to the recent changes in exchange rates. These are also found among the fast growing commodities in the world trade. Special attention could perhaps be paid on some of these to increase the present share.

The inverse relationship between the value of export and the exchange rate observed above can be used to have some idea on the relative profitability of exports in recent years. The necessity of providing subsidies to exporters may also have to be re-examined if export profit has gone up due to rapid devaluation.

Section - II

Growth of F.O.B. and Domestic Prices

A strong case can be made for reducing the level of subsidy when the export profit exceeds the corresponding profit in the domestic market. Data on the movement of profitability between domestic and export market, however, are not available for the recent years in India. A study conducted by the Industrial Credit and Investment Corporation of India (ICICI) analyses the profitability, contrasting domestic and export markets, from a sample of textile and engineering firms for year, 1974-75, 1979-80 and 1980-81. The study concludes that compared to domestic sales the export profitability is not attractive without incentives. For almost all product groups, domestic profitability is higher than that of the exports. In particular, profits from export have been negative before duty drawback and CCS (ICICI, 1985).

It is difficult to find out if the situation prevailing upto 1980-81 has changed in the later part of the 1980s to contest the findings of ICICI study. The depreciation of the value of rupee during this period, nevertheless, has made the Indian export relatively cheaper in the international market and improved the competitive position of exporters. Thus the relative profitability of Indian exports might have increased. Without profitability data, some emerging tendencies of profit related variables can be seen to have some broad idea on the export sector of India. In the following, the growth of domestic price and f.o.b. price of export is compared by taking some selected commodities. A faster rate of growth of the f.o.b. prices compared to that of the domestic would be helpful to have some idea on the probable change in the direction of export profitability.

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As mentioned above the price comparison is undoubtedly a very crude measure for drawing any inference on the profitability positions of domestic and export markets. A heroic assumption like indifferent cost per unit of production in these markets would remove a part of the incomparability This apart, the difference in quality of products sold in domestic and export markets affects the price.

Price differences between domestic and export markets should not exist in perfectly competitive market conditions. Usually export price (i.e., f.o.b. price of export) inclusive of incentives is expected to be equal to the domestic price to satisfy price equality requirement. However, after relaxing the assumption of 'perfect competitive market condition', one cannot rule out the continuation of price differentials between domestic and export markets. Factors like possession of market power by a producer and quantitative restrictions on imports will have a bearing on the price determination. A near monopolistic position of a producer, for example, allows determination of quantity and price in domestic and export markets. This behaviour is in contrast to the situation when the supplier is a price taker in the international market. The import requirements of producing a commodity, on the other hand, compel a producer to obtain import licence, which has the condition of export obligation. The registered exporters who obtain various categories of import licences come under this category. When import licences of these specific categories are obtained, the producer must export the required proportion of a commodity even when the sale in domestic market fetches a higher price than that of export market.

It may be seen from Table 4.3 that the growth f.o.b. price is higher than that of the domestic price in most commodities considered. The growth of f.o.b. price in certain cases has registered a significantly higher rate of growth than that of the domestic prices. Such commodities may have favourable export markets compared to others. The table, as may be seen, gives comparable growth rates for 1982 to 1985, 1985 to 1987 and 1987 to 1989. In these points of comparison, the f.o.b. price, in general has registered a

higher rate of growth. While it is difficult to establish whether profit of export sector is growing over time, the advantage that it may be having over the domestic market cannot be denied.

The table considers the growth of f.o.b. prices with and without the inclusion of subsidies. The growth rate of f.o.b. price 'with subsidy' is lower than that of 'without subsidy'. This feature shows that there is a conscious attempt by the government to bring down the dependence of exporters on major subsidies like duty drawback. As observed earlier, the rate of CCS also has been fixed at a lower level in certain categories of commodities. Since the f.o.b. price registers a higher rate of growth than the domestic price even with the lower level of duty drawback and CCS, there may be still some scope of lowering the level of compensation in specific commodities.

Products included in the above table for comparing the growth of domestic and f.o.b. prices do not constitute the samples drawn from a population at random. These commodities, therefore, do not have the representative character. The main criterion in their selection has been availability of quantity and price data from the secondary sources rather than any statistical principle. Therefore, the growth of domestic and f.o.b. prices recorded above have to be interpreted with caution. With these limitations, there seems to have been some evidence that merits reconsideration of export subsidies extended at present. Particular attention could be paid to refrigerators, sewing machines, ceiling fans, motor cars and buses, electric lamps and air conditioners in the engineering group. Items like paints, varnishes and enamels of chemical products may be requiring less subsidy. Woollen yarns, leathers and coir mats have gained advantage in export compared to their domestic market and subsidies extended to such categories of exports may be re-examined.

Domestic & Foreign Trade Prices

1. Domestic prices in Table 4.3 refer to the wholesale prices as reported in "Revised Monthly Wholesale Price Index of India." The component of excise duty is deducted from the wholesale price of concerned commodity to make the data comparable with the value of f.o.b price. To eliminate the yearly fluctuations, the wholesale prices are averaged by taking the data for 24 months i.e., 1980-81 and 1981-82 and the same procedure is adopted for domestic prices for 1985-87.

2. Foreign Trade prices refer to the f.o.b prices and represent the average price of different countries for Indian goods as reported in "Monthly Statistics of Foreign Trade of India." The prices, 1980-82 and 1985-87, refer to the average prices derived in the same way of the domestic average price. The price for 1988-89 on the other hand refers to the average price for three months only viz., April, May and June of 1988-89 due to the non-availability of comparable data.

The table above shows the growth rates of domestic price and f.o.b price over various periods, viz., 1980-82 to 1985-87 and 1980-82 to 1987-88 etc. For the calculation of growth rates, the compound growth rate formula has been considered.

F.o.b (inclusive subsidy) refers to the f.o.b value plus the export subsidy of the particular commodity given as CCS and duty drawback. Data source for these rates is Anita Kumari, " Export Incentives" Vol. I & II.

Table 4.1

Nominal and Real Effective rates of rupee

Year	NEER	REER	ERP
1970	159.4210	125.8427	78.9373
1971	156.3973	125.6386	80.3329
1972	145.0210	122.3583	84.3728
1973	133.7037	117.7267	88.0504
1974	130.8293	121.1107	92.5715
1975	124.6657	111.5327	89.4654
1976	122.9049	100.1010	81.4459
1977	121.9613	100.1400	82.1080
1978	116.4981	92.0868	79.0458
1979	113.7253	91.7868	80.7093
1980	116.8470	100.8928	86.3461
1981	117.1204	105.2315	89.8490
1982	116.8315	102.1144	87.4031
1983	113.5901	104.5311	92.0248
1984	107.4128	103.3025	96.1733
1985	100	100	100
1986	80.6637	87.8735	108.9381
1987	70.3361	81.0934	115.2942
1988	62.9844	77.0290	122.2985
1989	56.9732	72.1549	126.6470
1990	50.4946	65.2008	129.1244

Note : i) NEER> Nominal Effective Exchange Rate
REER: Real Effective Exchange Rate
ERP: Effective Relative Price

ii) The Percentage Country weights are U.S. 25.5,
Japan 20.5, U.K. 14.5, Germany 12, Italy 5.5,
Netherlands 5.5, France 5, Belgium 5, Switzerland 3.5,

Data Source : International Financial Statistics.

Table 4.2

Results of Estimated Equations for Indian Exports (1977 to 1989)

Commodity Group		Constant (C)	Trend (T)	LREER	R-BAR Squared
1.	Cotton Textile	7.2409	0.1433 (14.0705)	-0.0093 (-2.6135)	0.9727
2.	Leather Goods	12.2115	0.1231 (11.1103)	-1.4616 (-4.2438)	0.9676
3.	Chemical Goods	9.4183	0.1900 (9.2956)	-1.0397 (-1.6357)	0.9409
4.	Engineering Goods	16.7973	0.0490 (2.9198)	-2.2365 (-4.2900)	0.8619
5.	Total Exports	11.7699	0.1082 (10.9555)	-0.7279 (-2.3697)	0.9590

Note :
1. The results given above are estimated by the equation
   log y= a + b1t + b2logREER + e
2. Figures in Parentheses give t-value
3. Statistical significance refers to 5% significance. except for Chemical goods for which it is 10% significance level.

Table 4 3
Growth Rate of Domestic and F O B Prices

	1988 02 TO 1985 87			1988 02 TO 1987 88			1988 02 TO 1988 90			1985 87 TO 1987 88			1985 87 TO 1988 88		
COMMODITY GROUPS	DOMESTIC	F O B (INCL SUB)	F O B (EXCL SUB)	DOMESTIC	F O B (INCL SUB)	F O B (EXCL SUB)	DOMESTIC	F O B (INCL SUB)	F O B (EXCL SUB)	DOMESTIC	F O B (INCL SUB)	F O B (EXCL SUB)	DOMESTIC	F O B (INCL SUB)	F O B (EXCL SUB)
ENGINEERING GOODS															
1	5 06	4 37	4 94	5 24	2 66	2 66	5 98	4 96	4 26	3 24	2 58	2 13	2 77	9 45	7 4
2	1 33	8 42	8 74	3 24	7 30	7 30	3 61								
3	16 52	6 41	7 96	12 27	11 73	13 22	10 90	9 56	10 97	11 88	22 36	22 66	7 87	12 65	13 2
4	4 87	22 98	23 18	4 90	16 01	16 08	5 48	16 76	18 25						
5	8 54	3 41	4 04	1 12	3 21	3 09	8 98	4 23	5 49	2 38	0 98	1 84	1 33	4 44	6 5
6	5 81	3 84	8 84	4 28			5 41			8 08			4 37		
7	3 56	15 76	15 97	3 90	10 11	9 66	5 18	13 87	13 28					5 82	
8	4 88	6 69	7 89	5 66	6 84	5 92	8 84								
9	1 89	9 03	9 23	2 18	4 63	3 73	5 29	12 11	11 37	2 57	-9 68	-12 78	18 96	14 89	11 6
10	6 24	6 64	7 38	5 68	8 69	9 48	5 95	16 28	11 21	1 16	10 38	10 85	3 36	14 17	15 :
11	5 41	9 91	10 68	5 21	10 61	11 28	5 70	9 20	16 01	1 99	7 20	7 20	4 23	4 68	5 2
12	8 83	8 19	8 54	0 52	12 42	14 44	1 41			3 80	16 95	26 36	5 13		
13	3 49	4 25	4 58	0 62	2 01	2 01	1 46			8 84	18 02	18 56	11 60		
14	4 38	1 86	2 42	3 53	5 92	5 57	3 16			0 72	23 57	23 85	0 29		
CHEMICAL PRODUCTS															
15	8 77	3 61	4 22	1 50			2 98			2 95			6 49		
16	5 87	2 95	2 73	6 13	13 73	13 51	7 78			3 80	43 75	43 74	8 95		
17	3 99	1 14	8 87	4 69	3 62	2 11	6 07			4 39	9 47	4 84	8 21		
18	7 89	9 15	10 36	11 48	8 15	9 81	10 59	10 09	11 39						
19	5 53	9 97	11 84	5 18	11 84	11 85	5 60	10 28	10 04	1 57	11 24	5 78	3 85	7 35	3 1
WOOLLEN GOODS															
20	8 75										14 78	23 47		6 09	9 :
21	-8 83	10 45	8 92		5 97	5 49		0 04	-1 68						
LEATHER PRODUCTS															
22	5 31	4 34	4 52	3 79	8 10	9 36	5 62	9 48	10 67	-2 45	15 64	19 78	4 34	16 96	19 5
23	8 24	3 70	3 85	0 49	6 34	7 52				-2 39	11 21	15 88			
PLASTIC MATERIALS															
24	5 18	2 42	4 16	7 01	-9 85	-12 49	0 09			8 96	35 34	44 51	9 82		
25	4 22	7 69	9 18	8 30	-8 81	-8 81	8 45			16 79	-22 17	-25 17	14 31		
26	7 58			9 40			8 18			18 25	13 61	15 90	6 72		
MAN MADE FIBRES															
27	6 75	5 18	4 89	4 06	7 94	7 94	3 84	11 98	11 76	-5 52	12 30	13 21	-3 46	22 24	22 .
COIR PRODUCTS															
28	8 88	8 34	6 84	1 37			1 42			2 41			2 19		
29	8 48	3 57	3 49	7 78			7 04			3 78			1 88		
PRIME IRON & STEEL															
30	25 88	2 04	2 15		4 52	5 21					9 87	12 07			
31		7 86	7 42		14 46	14 49					30 74	29 56			

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Table 4.8

Rates of Export Incentives

COMMODITY GROUPS		1982-83			1985-86			1987-88			1989-90		
	CCS	REP	DUTY DRAW BACK	CCS	REP	DUTY DRAW BACK	CCS	REP	DUTY DRAW BACK	CCS	REP	DUTY DRAW BACK	
ENGINEERING		% fob	BACK			BACK			BACK			BACK	
GOODS	1	15	5	0.00	15	0.00	2.15	15	0.00	6.00	15.00	15.00	6.00
	2	15	5	3.00	15	0.00	1.50	15	0.00	3.00	15.00	30.00	3.00
	3	5	0	0 max of 100/Piece	0	7.00	3.50	3	0.00	3.00	0.00	15.00	2.00
	4	12.5	5	1.50	12	0.00	2.00	0	0.00	1.50	0.00	12.00	3.00
	5	12.5	25	13.00	12	20.00	3.05 max of 20 /Pak	12	20.00	7.00	10.00	25.30	6.00
	6	0.0	20	20.00	0	30.00	0.00	3	30.00	0.06	0.00	30.00	0.00
	7	17.5	5	3.00	17	0.00	2.15	20	0.00	4.00	20.00	15.00	4.00
	8	17.5	5	3.00	17	0.00	2.15	20	0.00	0.00	20.00	15.00	5.00
	9	17.5	5	3.00	17	0.00	2.15	20	0.00	0.00	20.00	15.00	7 max of 15000/Piece
	10	15	5	9.00	12	0.00	5.00	12	0.00	5.00	10.00	15.00	5.00
	11	15	5	7.00	12	0.00	5.00	12	0.00	5.00	10.00	15.00	5.00
	12	7.5	0	Rs 15/100 piece	0	7.00	Rs 15/100 piece	0	7.00	Rs6 10/100 piece	5.00	0.00	Rs5 10/100 piece
	13	15	5	3.00	15	0.00	1.50	15	5.00	3.00	15.00	10.00	3.00
	14	15	5	3.00	12	0.00	2.15	12	0.00	3.00	12.00	0.00	3.00
CHEMICAL PRODUCTS													
	15	5	10	10.00	0.00	10.00	3.00	9.00	10.00	0.00	5.00	15.00	0.00
	16	10	20	0.00	9.00	25.00	0.65/litre	10.00	25.00	0.80/kg	12.00	25.00	0.80/kg
	17	5	30	3.55/litre	5.00	30.00	0.20/litre	0.00	30.00	0.70/litre	5.00	30.00	0.70/litre
	18	12.5	10	5.00	5.00	6.00	5.00	5.00	6.00	2.00	5.00	6.00	2.00
	19	10	2.50	38/qut	0.00	3.50	44.50/qut	10.00	3.50	0.00/kg	12.00	3.50	0.00/kg
WOOLLEN GOODS													
	20	7.5	20	Rs10/kg	7.00	15.00	Rs33.34/kg	10.00	15.00	15.5/kg	10.00	20.00	21/kg
	21	7.5	20	Rs10/kg	7.00	15.00	Rs36.94/kg	10.00	15.00	15.5/kg	10.00	20.00	23.5/kg
LEATHER GOODS													
	22	7.5	5	2.50/kg	7.00	6.00	2.55/kg	0.00	6.00	Rs3/kg	0.00	6.00	2.50/kg
	23	7.5	5	2.50/kg	7.00	6.00	2.55/kg	0.00	6.00	Rs3/kg	0.00	6.00	2.50/kg
PLASTIC MATERIALS													
	24	0.00	2.5	Rs0.75/kg	0.00	3.50	3.75/kg	0.00	3.50	6.20/kg	0.00	3.50	6.60/kg
	25	7.50	10	Rs0.75/kg	0.00	10.00	3.75/kg	0.00	10.00	6.20/kg	0.00	10.00	6.00/kg
	26	1.50	20	Rs0.75/kg	7.00	20.00	3.75/kg	0.00	20.00	6.20/kg	0.00	20.00	6.60/kg
MAN MADE FIBRES													
	27	15	10	0.00	15.00	10.00	10.00	15.00	10.00	0.00	15.00	0.00	10.00
COIR PRODUCTS													
	28	7.5	10	1.00/sqm	10.00	10.00	1.00/sqm	10.00	10.00	3.00	10.00	30.00	3.00
	29	7.5	10	1.60/sqm	10.00	10.00	1.60/sqm	10.00	10.00	3.00	10.00	30.00	3.00
PRIME IRON & STEEL													
	30	7.5	70 M	605/ton	5.00	10.00	Rs1000/ton	5.00	10.00	0.35/kg	10.00	10.00	0.90/kg
	31	10	10 M	300/ton	10.00	10.00	300/ton	10.00	20.00	0.95/kg	0.00	20.00	0.90/kg

Note : In respect of certain items where the rates are not clearly
shown and could not be ascertained that the rate is zero. The
rates applicable to the nearest in the product group have
been taken into account. The items are Woollen products, Poly
vinyle Chloride acid and Galvanised pipes.

Source : Panari, Anita. 'Export Incentives' Vol 1 and 2

Chapter 5

Export Incentives and Exchange Rate

The level of incentive enjoyed by exporters through different subsidy schemes is considered in the following. In particular an attempt is made to gauge their dependence on incentives in view of the recent change in the exchange rate.

The rationale of providing subsidies to Indian exports is well documented (see, for example, Bagchi, 1982; Bhagwati and Srinivasan, 1975; Kelkar, 1980, ICICI, 1985 and World Bank, 1990). There is, however, no unanimous view on the extent of export subsidisation. One influential section of studies on exportability of products highlights the negative effective protection, which Indian exports face; various subsidies provided are viewed as the degree to which export incentives neutralise the effective protection enjoyed by the input industries. A major lesson drawn from these exercises, therefore, is centred around the theme of incentives not fully offsetting the cost disadvantage and profit margins available from exports mostly remaining less than that of under free trade (see, for example, ICICI, 1985). On the other hand, another group of studies emphasises the negative foreign exchange earnings from export after considering subsidies given to the sector (see, for example, Verghese, 1978).

The present exercise has a limited objective of assessing the change in relative subsidy requirements of exporters due to rapid decline of the value of Indian currency in the international markets in recent years. Such a development is expected to have a favourable impact on the competitiveness of Indian exports and the relative profitability of the sector may have improved.

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The following part of the chapter is divided into two sections. In section I, levels of incentives enjoyed by Indian exports in recent years is presented. Section II summarises some tentative observations on excessive incentives that might have gone into the export sector due to recent exchange rate movement.

Section-1

Various difficulties associated with the quantification of subsidies emanate, mostly, from the complexity of the Indian export incentive schemes (see, Alexander Committee, 1978; Bhagwati and Srinivasan, 1975; Bagchi, 1982; Verghese, 1978 and Wolf, 1982). Therefore, any attempt to quantify export incentives in India is viewed, at best, as not more than `guess estimates`. Most of the studies examining the incentive question have considered CCS, duty drawbacks, a premium on replenishment licences and interest subsidy from export credit. The treatment of components like duty drawback as export incentive is criticised by some studies (see, for example, Bagchi, 1982) and perhaps could have been excluded from the estimation of an incentive. A common practice of the studies is to assume that all export subsidies go to manufactured exports only.

The present study, following the earlier ones, considers the incentives provided to exporters through CCS, duty drawback, premium on REP licences, interest subsidy on credit for export, tax subsidy on export profit and international price reimbursement (IPRS) on steel and aluminum products. Market premium of transferable licences, just as in earlier studies, remains most difficult to quantify. It also varies from commodity to commodity over time. One significant consequence of the recent changes in trade policy, however, is the declining trend of the realizable market premium on REP licences. Assuming that the present policy on imports continues, the high rate of premium fetched by REP licences in the 1970s is likely to come down substantially and its wide variation across the board will be narrowed down with the general improvement in domestically produced substitutes of imports. Based on some plausible assumptions, and 20% premium on transferable REP

licences, Nayyar (1987) provides their implicit subsidy equivalent in terms of the f.o.b value of export. The subsidy due to premium is worked out to be approximately 3.5% of the f.o.b value of exports eligible for REP facility or 2.3% of the f.o.b value of total exports during the early 1980s. The study conducted by ICICI (1985), takes a 10 per cent premium on eligible REP licences issued for the post-1980 years. Following the assumptions of these, the present study tries to work out the REP premium of the recent years. It is assumed that there would be an average rate of 10 per cent premium on the eligible REP licences issued in 1984-85 and a marginal decline after that. Taking 2.3% of the f.o.b value of manufactured export, similar to the one worked out by Nayyar (1987), the same 10% premium rate on eligible REP licences has been observed. So, the present exercise has taken 2.3% of the f.o.b value on manufactured export as the implicit subsidy due to REP premium in the second half of 1980s. The interest subsidy on credit advanced to exporters by commercial banks and tax subsidy on the profit earned from export are assumed to have implicit subsidy of 0.5% and 0.75% of the f.o.b value (see Nayyar, 1987). The subsidy on account of these two facilities has gone up in the post-1985 period due to increase in the rate of concession (see, for the changes, Government of India, Ministry of Commerce, Annual Reports). So, incentives, estimated with the above mentioned percentages contain an element of downward bias.

The incentives received per unit of net export (i.e., f.o.b value of export minus import licences issued) are seen at three levels of aggregations. First, the rate of incentive with respect to aggregate manufactured export is expected to suggest the benefit exporters get by entering into the trade. Second, the inter-group differences of incentive rates among the broad commodity groups are examined. Finally, the incentive rate of a few selected commodities is presented to assess its movement in recent years.

Table 5.1 presents the incentive rate of the manufactured exports. It shows that exporters of manufactured products get about 35 paise as incentive during 1988-89 per rupee of domestic value added due to export activity. This estimate is lower than the observed rate of the 1970s when average subsidy was worked out to be 50% of the f.o.b value at the minimum.

The present estimates, by linking various incentives to the f.o.b value, succeed in highlighting the movement of incentive rates in the recent years. As may be seen from the above table, the average rate of subsidy given to exporters has moved up consistently from 27% in 1984-85 to 36% in 1988-89.

The rate of incentive differs substantially among the commodity groups. As depicted by Table 5.2, sports goods have the highest incentive rate of 120% in 1988-89, marine products have the lowest with 17% only. The incentive rate with respect to leather and coir products, seems to be at the lower end of the scale while the remaining commodity groups have above 25% of the f.o.b value.

In contrast to the finding earlier that the incentive rate is moving up in the second half of the 1980s as compared to 1984, examination of broad commodity groups does not reveal any consistent trend. The group under engineering goods for example, shows a declining, though not consistent, tendency and chemical goods have a constant rate during 1984-89. To have a clear idea on the incentive rate, above results have been examined with the aid of some individual commodities in the following.

Table 5.3 summarises the incentive rates of a few commodities. The existing evidence shows that the incentive received by most commodities has gone up in 1987-88 as compared to earlier two years (viz., 1980-82 and 1985-87). Commodities such as tractors, refrigerators, motor cars, buses, trucks, air conditioners, varnishes, enamels, woollen yarns and coir mats etc. may be seen to have a higher rate of incentive in 1987-88 as compared to 1980-82. However, there are commodities in the same product groups that have seen a declining rate, mostly, due to either withdrawal or reduction of CCS and duty drawback. The policy that determines the major subsidies by

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considering individual cases may be producing the results observed above in incentive rates at the broad group level. In general, therefore, the tendency of increasing rate of incentive in the later half of 1980s compared to that of its preceding sub-period may not be ruled out.

Section II

The movement of nominal effective exchange rate, effective relative price and incentive levels could be considered to explore the possibility of reducing the burden borne by the public exchequer due to costs of export promotion. As seen above, the index of NEER has been declining at the rate of 12% per annum in the post-1985 period. The index of relative price, on the other hand, has a growth rate of 5% per annum during the same period. Because of these changes, competitiveness of the Indian export shows an improvement in second half of the 1980s. The index of REER, which measures competitiveness, suggests an improvement rate of 7% per annum. The nexus between the incremental incentive rates and the declining value of rupee in the international market due to change in exchange rate, can be established by examining the growth of f.o.b value of Indian exports. The increasing sum of Indian rupees paid per unit of foreign currency is likely to inflate the f.o.b value in rupee terms. Since most of the incentives given to exporters have ad valorem rates, payment will automatically change due to changes in exchange rate.

In deciding the appropriate level of subsidy that should be given to exporters, it will, be necessary to consider the important factors that influence the export performance. Three variables, viz., elasticity of demand, movement of unit price of world exports and unit value of Indian exports in dollar terms are examined in the following to gain some idea on the subsidy requirements of exporters in recent years.

The inelastic demand faced by exporters in the pre-1970 years seems persisting until now (see, for example, Virmani, 1991; Rao, 1982 and Rath and Sahoo, 1990). The demand for some industrial products, however, has responded positively to price changes (see, Rao, 1982) and efforts should be made to evaluate the performance of Indian exports at the level of specific products.

Due to inelastic factor, the demand for Indian exports increases to a smaller extent in response to the decrease in price. The elasticity of Indian exports with respect to changes in REER, as seen in the preceding chapter, is still less than one for the export sector as a whole although, some commodity groups have responded well by registering greater than unity elasticity coeffients. Thus, the devaluation helps in increasing the export of some commodities. But buyers of Indian exports also claim a share of the benefit from devaluation, especially in commodities, which register relatively inelastic coefficients.

Table 5.4 gives the index of unit value and quantum index of exports. It shows that quantum index of Indian exports has registered a higher rate of growth in the post-1985 period. So the supply of exports seems to have increased in recent years. The unit value index of Indian exports in dollar terms, however, has remained almost stagnant after 1985. The rapid depreciation of the value of rupee in recent years may be responsible for such a movement. Seen in terms of comparative gains from the export activity, India remains at a lower end of the scale. The export price of the world is growing at the rate of 9 per cent per annum during this period while the corresponding price of India, as observed above, has almost no growth. These findings, therefore, support the contention that Indian exporters may not be reaping the entire benefit accruing from the devaluation of rupee.

The index of export price of India in rupee terms is also given in Table 5.4. It shows that the export price in rupee terms has grown at the rate of 8 per cent per annum in the post-1985 period. As the wholesale price index of India records a lower rate of growth in the same period, exporters may have gained in comparison with domestic producers.

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The subsidy requirements of exporters can be linked to movements of nominal effective exchange rate and wholesale price index of India. Examination of the growth rates of these two indices would suggest the disadvantage, if any, faced by exporters due to incremental cost of domestic taxes subsequent to inflation. When the rate of depreciation of the value of rupee is faster than the domestic inflation rate, the f.o.b value, in rupee terms, would show a higher rate of growth. In that situation, the cost disadvantage faced by an exporter due to tax paid in excess for domestic inputs may not be as high as the growth recorded by the f.o.b value. That portion of the payment made through CCS, which is intended to cover the unrefunded taxes paid on domestic inputs should not be decided from the f.o.b values.

In the post-1985 period, the growth rate of CCS is higher than the difference of growth between NEER and wholesale price index of India. So the public exchequer may have spent more than the tax neutralising amount of CCS.

The incremental export due to change in exchange rate can be estimated with the help of elasticity of f.o.b value with respect to nominal exchange rates. However, the appropriate choice in estimating the export elasticity is pointed out to be the real exchange rate. It considers the movement of relative price between the trading partners and incorporates the impact of competitive positions of the exporting countries. To estimate the incremental f.o.b value due to change in exchange rates, the present study utilises the elasticities of export with respect to REER given in Chapter 4. As pointed out earlier, these are crude estimates of export elasticities and therefore should be interpreted with caution. Despite these limitations, it will be of interest to see the incremental f.o.b values of some broad commodity groups that are summarised in Table 5.5.

The table summarises results derived by following two steps. First, the percentage change in the f.o.b value of a commodity group due to one unit change in REER is obtained from Table 4.2. Second, change in the f.o.b value

In a particular year due to change of REER is worked out and called incremental f.o.b value of export due to change in REER. The table highlights the increasing level of incremental f.o.b value since 1984-85. However, the level of change differs among the commodity groups.

The payment of extra CCS as well as extra import licences issued to exporters is summarised in Tables 5.6 and 5.7. Looking at these tables, it can be said that change in REER has involved differential increase in cost elements among the commodity groups. In general, the extra cost of CCS due to change in REER does not seem substantial. To derive the non-essential payment of CCS one may apply the difference between unit value of export in rupee terms and wholesale price index of India. As pointed out earlier, these two indices have grown at 12 and 7 per cent respectively. So approximately a five per cent difference may be applied in the estimates of Table 5.6 to get the probable non-essential payment of CCS in recent years. A similar procedure also can be applied to import licences to have a broad idea of benefits reaped by exporters due to change in REER.

To derive the exact amount of non-essential CCS as well as import licences that might have been given to exporters of different commodities, it is necessary to disentangle the effect of exchange rate on quantum as well as export price of exports. In other words, the elasticities of quantum and unit value index of individual commodities with respect to REER need to be estimated. As such an exercise is not attempted at present, the information on the non-essential subsidy payments for individual commodities is not given.

These observations make it necessary to examine the present levels of incentives and form some idea on their magnitude from the point of view of resource cost to the economy. It is also necessary to point out that the economy requires foreign exchange and the export sector of the country has a crucial role to play in this regard. However, it needs to be emphasised that the cost of earning foreign exchange must have an upper limit. By applying the norms of desirable levels of subsidies as found in the calculation of shadow exchange rate, a 25 per cent incentive rate can be set as a limit. Recalling

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that with the present structure of Indian exports, the exporter faces an inelastic demand, some provisions could, perhaps, be made to compensate him for the disadvantages by raising the above mentioned incentive rate to a higher level.

The average incentive rate given to manufactured exports in the recent years is about 27 to 35 percent. These rates have a downward bias due to adoption of lower levels of premium on REP licences and tax subsidy on profits earned. Considering this range as the representative of the incentive requirements of Indian exports, one may set the limit of incentive rate at 30 percent. Specification of this limit would require the reduction of subsidy in commodity groups such as engineering, man made fibres, plastic and sports goods. With a limit of 30 per cent on the net foreign exchange earned from the export of these commodities, the exchequer could have saved Rs. 444 crore from the expenditure on subsidy in the year 1988-89. Extension of this norm to some selected commodities, shows that the reduction of subsidies may become necessary for items such as trucks, buses, enamels, some plastic materials and some items of prime iron and steel.

Table 5.1

Export Incentive

(Rs. Crore)

		1984-85	1985-86	1986-87	1987-88	1988-89
1	DUTY DRAWBACK	240.64	263.20	299.94	423.63	478.86
2	CCS	487.75	566.73	731.12	901.81	1194.41
3	REP PREMIUM	142.83	146.60	179.58	231.75	336.51
4	INTEREST SUBSIDY	31.05	31.87	39.04	50.38	73.16
5	SUBSIDY ON PROFIT	46.58	47.81	58.56	75.57	109.73
6	IPRS	0.23	0.41	0.63	0.54	0.91
7	TOTAL INCENTIVE (sum 1 to 6)	949.08	1056.62	1308.88	1683.68	2193.58
8	IMPORT LICENCES ISSUED	2786.10	2848.59	3553.01	4952.10	8468.97
9	EXPORT MFG.	6210.10	6374.00	7808.00	10076.00	14631.00
10	NET EXPORT MFG. (9-8)	3424.00	3525.41	4254.99	5123.90	6162.03
11	RATE OF INCENTIVE(7/10)x100	27.72	29.97	30.76	32.86	35.60

Table 5.2

Rate of Export Incentive in Different Commodity Groups
(In Percentage)

Commodity	1984-85	1985-86	1986-87	1987-88	1988-89
1 COTTON TEXTILE	NA	30.76	32.36	22.69	28.13
2 LEATHER &LEATHER PRODS	26.21	20.20	21.68	20.78	23.66
3 CHEMICAL GOODS	29.69	26.73	29.27	29.58	29.65
4 ENGG GOODS	66.63	49.63	51.78	42.38	43.54
5 RAYON FABRIC/SYNTHETIC GARMENTS	NA	NA	NA	56.10	58.81
6 WOOLLEN TEXT HOSIERY & MIXED FABRICS	NA	NA	NA	17.23	37.83
7 COIR PRODUCTS	16.48	NA	15.76	16.81	17.84
8 MARINE PRODUCTS	NA	NA	NA	11.78	17.35
9 PLASTIC GOODS	NA	23.48	35.97	31.37	35.81
10 SPORTS GOODS	NA	137.49	53.40	63.93	119.55

Rate of Incentive in Selected Commodities

COMMODITY	1980-82	1985-87	1987-88	1989-90
ENGINEERING GOODS				
1 Wheeled Farm Tractors	0.2749	0.2526	0.3011	0.3072
2 Refrigerators	0.2433	0.2403	0.2597	
3 Type Writer (Ordinary)	0.1812	0.1031	0.0917	0.0925
4 Sewing Machine (Foot Mach.)	0.2012	0.2075	0.1784	0.0939
5 Ceiling Fans	0.3827	0.3392	0.3161	0.2595
6 Transistors	0.3139	0.0870		
7 Motor Cars	0.2696	0.2743	0.3388	0.3426
8 Trucks	0.2696	0.2743	0.3740	
9 Buses	0.2696	0.2743	0.3835	0.3737
10 Three Wheeler	0.2960	0.2618	0.2485	0.2393
11 Motor Cycles	0.2854	0.2510	0.2502	0.2440
12 Electric Lamps	0.1963	0.1976	0.0695	
13 Air Conditioner(Self Cond.)	0.2433	0.2403	0.2747	
14 Cotton Powerlooms	0. 2433	0.2024	0.2344	
CHEMICAL PRODUCTS				
15 Bleaching Powder	0.2061	0.1617		
16 Varnish	0.1694	0.2001	0.2002	
17 Enamels	0.3503	0.3784	0.5873	
18 Soap (Toilet)	0.2339	0.1441	0.1122	0.1122
19 Printing Ink	0.1597	0.0495	0.1605	0.1817
WOOLLEN GOODS				
20 Worsted Weaning Terene Wool		0.4674	0.2497	0.3403
21 Worsted Weaning yarn Count	0.2482	0.3534	0.2784	0.4657
LEATHER PRODUCTS				
22 Tanned Buff Hides	0.1471	0.1366	0.0577	0.0516
23 Goat & kid Skins	0.1410	0.1325	0.0558	0.0641
PLASTIC MATERIALS				
24 Polysterene Moulding Powder	0.2468	0.1293	0.5333	
25 Polyvinyl Chloride (PVC)	0.3017	0.1985	0.3023	
26 Synthetic Resin	NA	0.1744	0.2044	
MAN MADE FIBRES				
27 Polestar Suitings	0.2950	0.3172	0.2950	0.2855
COIR PRODUCTS				
28 Coir Mats	0.2809	0.2581		
29 Coir Matting	0.2394	0.2454		
PRIME IRON & STEEL				
30 Pipes (Galvanised)	0.9764	1.4246	0.4488	
31 Barbed Wire	0.2236	0.1981	0.2214	

Table 5.4

Trends of Quantum & Unit value Indices of Indian Exports

	Index of Export price of India (in Rs.)	Unit value index of export (in $)	Quantum index of India's export (in $)	Unit value index of import (in $)	Index of Export price of World	Quantum index of World's Export
1970	24	39.3	59.1237	44.8	30.8	51.8317
1971	25	40.5	60.0924	43.9	32.7	55.0283
1972	27	43.4	67.8944	44.3	35.8	60.0594
1973	33	52.2	70.8763	56.8	43.9	67.8911
1974	41	62.6	74.5169	87.5	61.8	72.0359
1975	45	66.7	82.0155	106.5	67.3	68.1462
1976	48	66.2	98.4177	103.7	68.2	76.4283
1977	55	77.4	90.7698	94.5	74.1	79.5996
1978	54	82.2	96.5259	105.3	81.5	83.7272
1979	59	90.1	99.5189	136.8	96.7	90.0670
1980	67	105.3	92.0191	147.4	115.8	90.8174
1981	64	92.1	111.1242	114.6	114.3	90.4751
1982	73	96	110.1046	107.4	109.9	86.5323
1983	78	95.7	114.7773	102.8	104.3	89.4017
1984	89	97.3	120.5917	84.7	101.8	96.9658
1985	100	100	100.0000	100	100	100.0000
1986	101	99.2	113.0018	96.9	109.8	100.2738
1987	106	101.1	135.7888	81.9	120.8	107.5133
1988					127.7	116.3582

Data Source: I.M.F., International Financial Statistics.

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TABLE 5.5

Incremental FOB Value of Export due to Change in REER

(In Rs. Crore)

Year	COTTON TEXTILES	LEATHER GOODS	CHEMICAL PRODUCTS	ENGINEERING PRODUCTS	TOTAL EXPORTS
1984-85	0.1623	8.4605	4.0033	21.2183	83.5934
1985-86	0.5119	33.8342	16.0507	68.3598	273.2852
1986-87	2.0294	136.4576	62.7243	258.7603	961.6871
1987-88	1.5672	104.0225	46.7848	195.4624	699.3429
1988-89	1.5069	91.6430	41.7402	168.3652	571.8277
1989-90	2.1826	137.8025	100.9196	334.5481	935.0886

Table 5.6

Extra CCS Paid to Exporters due to Change in REER

(In Rs. Crore)

YEAR	COTTON TEXTILES	LEATHER GOODS	CHEMICAL PRODUCTS	ENGINEERING GOODS	TOTAL EXPORTS
1984-85	NA	0.7699	0.2858	3.9020	3.4718
1985-86	0.0173	3.3496	1.2166	13.8634	14.2156
1986-87	0.0761	14.3008	5.9212	60.2135	56.4655
1987-88	0.0685	10.5271	4.3650	32.9159	40.2370
1988-89	0.0853	9.6042	3.3100	25.1369	33.6418

Extra CCS Paid As a Percentage of Total Export

YEAR	COTTON TEXTILES	LEATHER GOODS	CHEMICAL GOODS	ENGINEERING GOODS	TOTAL EXPORTS
1984-85	NA	1.1683	0.8285	2.2191	0.7118
1985-86	0.0286	4.3958	3.2280	7.1634	2.5084
1986-87	0.0931	14.7888	10.7521	22.8428	7.7232
1987-88	0.0486	8.3133	5.8395	13.0123	4.4618
1988-89	0.0407	6.1506	2.7194	7.1197	2.8166

Table 5.7

Extra Import Licence Issued due to Change in REER
(In Rs. Crore)

Year	COTTON TEXTILES	LEATHER GOODS	CHEMICAL PRODUCTS	ENGINEERING GOODS	TOTAL EXPORTS
1984-85	0.0198	1.2108	1.3923	10.7294	32.5610
1985-86	0.0544	4.6312	5.9295	27.1472	100.9957
1986-87	0.2078	15.6175	23.8698	89.1512	350.6894
1987-78	0.3300	13.8987	18.9923	70.5396	267.4612
1988-89	0.3844	13.7329	16.9650	68.0149	243.6191
1989-90	0.2556	15.3193	40.7894	123.0555	331.6909

Extra Import Licence Issued as a
Percentage of Total Export

Year	COTTON TEXTILES	LEATHER GOODS	CHEMICAL PRODUCTS	ENGINEERING GOODS	TOTAL EXPORTS
1984-85	0.0533	1.6144	0.8758	1.4397	1.1687
1985-86	0.1304	4.7412	3.6974	4.2057	3.5455
1986-87	0.4500	20.6635	11.0564	11.5803	9.8701
1987-78	0.2430	9.0070	5.4752	8.0106	5.4010
1988-89	0.1594	6.2354	2.7739	4.2789	2.8766
1989-90	0.2137	7.4612	3.7210	7.7973	3.3932

Chapter 6

Summary and Conclusions

Of late the issue of increasing cost incurred by the public exchequer for export promotion has become a major concern of the trade policy in India. The perception of overvalued currency, which provided a strong case for extending various subsidies a few years back, does no longer appear to be a major problem for exporters. The movement of nominal as well as real effective exchange rate indicates that the value of rupee has been depreciating increasingly after 1983. An evaluation scheme, that incorporates effects of recent changes in exchange rate on subsidies given to exporters, has to be considered for appropriate policy prescription.

The continuance of exporters dependence on subsidy schemes could be emanating from the unsatisfactory performance of exports. The movement of trade flows in the 1980s suggests that India has revealed comparative advantage (RCA), mostly, in primary and traditional categories of exports. The value of RCA is greater than unity, indicating the advantage shown, in items such as rice, coffee, tea, spices, unmanufactured tobacco, iron ore and concentrate, leather and leather products, textile yarn and fabrics, pearls, precious and semi-precious stones and articles of apparel and clothing accessories. Most of these commodities have a declining share in the world trade. So exporters may have to make special efforts to push up the export of these categories of export. On the other hand, commodities, which have registered an increasing share in the world trade, are not the ones where India has recorded revealed comparative advantage. In most of the engineering and chemical products that have indicated an increasing share in the world trade, Indian RCA remained less than unity.

It appears from an analysis of export performance of India in recent years that the commodities constituting the export basket may be constraining its exports. Therefore, the policy must try to create an environment in which composition of export basket changes in favour of commodities that are increasingly demanded in the world trade. The role of the policy variables like exchange rate and export subsidy needs to be examined from this perspective.

Within the existing subsidy structure, there may be scope to rationalise the incentive rates to scale down the cost to the public exchequer. Examination of the trends of CCS and import licences indicates the following features:-

Our analysis reveals that CCS rates have wide variation among different commodity groups. While some degree of rate differences is necessary to compensate for the disadvantages they face due to local taxes and varying price elasticity of exports, a widely varying rate structure with say, 15 paise CCS for engineering goods and only 2 paise for marine goods may encourage inefficient resource allocation among various export activities. Perhaps a less differentiated CCS rate structure could have been followed without any detrimental effect on exports.

The policy change in recent years appears to have moved in the right direction by effecting a downward adjustment in the rate of CCS for engineering goods for which the cost of export promotion has been high in relation to foreign exchange earning. However, there are other items such as chemical products, cotton textiles and leather goods that have had increasing cash compensation. The extra cost borne by the public exchequer on some of these items needs to be examined to see if it could have been avoided without any detrimental effect on exports.

One of the incentive schemes provided for export promotion consisted of different import licences issued to registered exporters. The demand for different categories of duty free advance licences has grown at an increasing

rate in comparison with the ex-post import (REP') licences. The market premium associated with the sale of the other category of transferable REP licences is largely left to the forces of market to be determined. However, as seen in the case of CCS, the proportion of import licences issued with respect to exports shows a wide variation among different commodities. This feature needs be corrected.

The value of import licences constitutes a major cost of foreign exchange earning. If the performance of the export sector is to be improved, the cost incurred due to import has to be minimised. With the depreciation of the value of rupee in recent years, the movement of the share of import licences shows a declining trend in many commodity groups. The share recorded by engineering, leather and sports goods confirms such a tendency. In order to strengthen this trend, it may be useful to allow the depreciation until the Indian exports attain a competitive edge.

With the accelerated rate of depreciation in the value of rupee in recent years, attention is again focused on it by studies evaluating the export performance. There is evidence to show that the exchange rate has helped in improving the relative performance of Indian exports. The real effective exchange rate (REER) of the recent past has not only fully compensated the cost of price rise but also helped exporters to gain out of devaluation.

   . While changes introduced by exchange rate has helped in improving the performance of exports on the whole, its impact on different commodities is not uniform. The commodity groups such as engineering, leather, chemicals, plastic and sports goods have responded positively to the changes in REER but others have not. Thus incentives schemes, which are of non financial nature may be necessary to improve the performance of some of these commodities.

That the relative profitability of exports in comparison with that of domestic sales could have improved in recent years is indicated by the faster rate of growth of the f.o.b price of some selected commodities. A comparison

of the growth rate of domestic price with that of the f.o.b price reveals that the latter has grown at a higher rate in commodities like refrigerators, sewing machines, ceiling fans, motor cars and buses, electric lamps, air conditioners, paints and varnishes, woollen yarns and leathers and coir products. The subsidy requirement of these categories of commodities, therefore, could be re-examined in the context of their improved competitiveness.

The subsidy requirement of exporters can be evaluated by considering the movement of nominal effective exchange rate, effective relative price and export price of India. Such a scheme essentially helps in establishing the relationship between the incremental incentive rates and the declining value of rupee. The increasing sum of Indian rupees received per unit of foreign currency, because of depreciation, is likely to inflate the f.o.b value in rupee terms. Since most of the incentives given to exporters have ad valorem rates, payment will automatically change due to changes in exchange rates.

The element of CCS as well as import licences, which could be regarded as redundant following the changes in REER does not constitute a significant proportion of total payment of CCS as well as import licences issued to exporters in recent years. It is, however, necessary to look at the levels of all export incentives taken together in relation to domestic resource cost involved in foreign exchange earnings to judge their cost to the economy. Under such considerations, the present level of incentives appear to be on the high side and perhaps could be limited to about 30 per cent of the export earnings to minimise the cost borne by the public exchequer. On the basis of such a tentative norm, it is observed that the rate of subsidy at present may require reduction in commodity groups such as engineering, man made fibres, plastic and sports goods.

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