IMPORT AND EXPORT TRADE CONTROL

Export is accorded national priority by every nation – be it a developed, developing or an underdeveloped economy. That is why export is said to be the driver of economic growth and development. There has been a paradigm shift in the perception of exports being only a source of earning foreign exchange for an economy to a source of creating employment opportunities by making optimal use of natural resources that an economy is endowed with.

Why Exports?

Export is an engine of economic growth and development. It not only facilitates optimal use of natural resources for accelerating industrialization process and job creating thereby raising the standard of living of the people, but also earns the much needed foreign exchange to foot the import bill.

Forms of Exports

Export in simple terms means transportation of goods and services out of the national boundaries – boundaries could be land, sea & inland water, rail or air – for purposes of trade. Exports from a country can broadly be categorized in two categories i.e., "Physical Exports" and "Deemed Exports". Physical exports mean goods that leave the shores of a country through any of the routes referred to above after going through the laid down policy and procedures of a respective country. Deemed exports refer to the supplies made to domestic units in the projects funded by international agencies notified by the respective country. In this case the goods do not leave the boundaries of a nation.

In the Indian perspective, foreign trade – export and import – is governed by various Acts, most importantly, The Foreign Trade Development and Regulation Act, 1992 repealing the Export-Import Trade Control Act 1947, that define exports as 'leaving goods the shores of country through any of the above modes'. Section 2 of the Indian Customs Act, 1962 (and Customs Tariff Act 1975) also has defined exports that says, 'export goods are the goods that are taken out of India' and are termed into broad two categories viz. Physical Exports and Deemed Exports.

Other principal Acts governing foreign trade include:

- The Central Excise Act 1944 and Central Excise Rules 2001
- The Foreign Exchange Management Act 1999
- Export (Quality Control And Inspection) Act 1963

Export Import Trade Control

The prime objective of Export Import Trade Control by any nation is to protect its domestic economy through framework of its Foreign Trade Policy. In Indian perspective, the Foreign Trade Policy of India enforces Export Trade Control on account of security, public health, public morals, exhaustible resources and environment grounds.

These controls are classified as:

- Prohibited Lines, Restricted Lines, Reserved for STEs Lines.

- Restrictions fall under two Categories

    - General Trading Items - Export Facilitation Committee considers applications for license for these items.

    - Dual Use Items (SCOMET items) – Special provision for these items under WMD Act, 2005, license considered by Inter Ministerial Working Group

Apart from the above controls, an entrepreneur intending to get into an export import business is required to obtain an IEC (Importer Exporter Code) No. from Directorate General of Foreign Trade, Department of Commerce, MOCI, New Delhi. For obtaining IEC No., one is required to submit an application form in ANF 2A to the Regional Office of DGFT falling under the jurisdiction of his registered firm. IEC No. can also be obtained online from DGFT. The documents to be submitted along with the application form include: Request for IEC on firm's letter head; copy of PAN No; Passport size photographs; Banker's certificate (specimen attached with ANF 2A from); a D.D for Rs 250/- drawn in favour of DGFT.

Pattern of India's Foreign Trade

At the time of Independence India had a comfortable level in the world economy in terms of foreign exchange reserves that were to the tune of sterling balance Rs 17.36 billion and its share in the world merchandise exports at 2.5 per cent in 1948. Like any other newly independent country, India too had development plans to accelerate its industrialization through optimal use of natural resource base and create employment opportunities. As such the policy emphasis in the initial years of its Independence was on import substitution rather than on export growth for fulfilling the development needs through Five Year Plans. Thus by the mid of Second Five Year Plan the foreign exchange reserves of the country got reduced to sterling balance of Rs 1.86 billion. In spite of the tight import control measures taken thereafter the imports were still higher during the Third Plan, and as such steps were taken to promote exports prominent among them being Rupee Payment Agreements, export incentives, import entitlements, and establishment of a host of export promotion organizations. Since exports continued to be less than imports, rupee was devalued by 36.5 per cent in 1966. Adoption of an Export Resolution in 1970 was a step in the right direction to give boost for increased exports.

Some of the reasons for enormous increase in imports could be cited as (i) large volume of food imports (ii) large import of capital equipment due to increase in the tempo of development effort (iii) increasing requirements of maintenance imports (iv) heavy increase in defence imports, and (v) increase in import prices.

On the other hand reasons for slower growth in exports include (i) stagnant agricultural production (ii) reduction in exportable surplus due to (a) increased utilization of exportable raw materials at home (b) increase in domestic incomes, and (c) increase in population (iii) intensification of inflationary pressures – inflation makes domestic goods less attractive for foreign importers (iv) increased competition from China, Pakistan and Japan (v) static demand for some of the staple export items (vi) development of synthetic substitutes for some of the major export products like jute (vii) fierce competition in world trade in cotton textiles (viii) attempts on the part of developed countries to protect the stagnant sectors of their economy and on the part of the developing countries to protect their infant industries, and (ix) reduction in export prices.

The pattern of India's Foreign Trade from 1949-50 to 2011-12 is given in the following table:

Pattern in India's Foreign Trade

Value: USD Million

Year	Exports	Imports	Balance of Trade
1949-50	1,016	1,292	-276
1950-51	1,269	1,273	-4
1960-61	1,346	2,353	-1,007
1970-71	2,031	2,162	-131
1972-73	2,550	2,415	+135
1976-77	5,753	5,677	+76
1980-81	8,486	15,869	-7,383
1990-91	18,143	24,075	-5,932

1999-2000	36,822	49,671	-12,849
2000-01	44,560	50,536	-5,976
2004-05	83,536	111,517	-27981
2005-06	103,091	149,166	-46,075
2006-07	126,414	185,735	-59,321
2007-08	163,132	251,654	-88,522
2008-09	185,295	303,696	-118,401
2009-10	178,751	288,372	-109,621
2010-11	251,136	369,769	-118,633
2011-12	304,624	489,181	-184,557

Source: Based on DGCI&S data, Department of Commerce, Ministry of Commerce & Industry, New Delhi

An analysis of the above table reveals that India's exports have grown significantly from USD 1.016 billion in 1949-50 to USD 304.624 billion in 2011-12. As against this import into the country has risen more than exports from USD 1.292 billion to USD 489.181 billion during the same period. Another important feature is that except for the years 1972-73 and 1976-77 when a surplus trade of USD 135 million and USD 76 million was recorded India's balance of trade has been negative throughout.

The main reasons for the high growth in exports during these years were (i) emergence of new markets in oil-rich countries due to oil boom (ii) higher unit value realization due to commodity price boom (iii) opportunities created by oil crisis due to increase in prices of petroleum-based products and the increased competitive capacity of natural products like leather, cotton textiles and jute manufactures (iv) recession in domestic market (v) increase in project and turnkey exports (vi) virtual devaluation of rupee due to its link with sterling upto 1975, and (vii) relative price stability in India.

The setback to the export growth rate in 1977-78 and thereafter could be attributed to: (i) deliberate policy of restricting or banning the exports of mass consumption items (ii) decline in overall import demand in developed countries due to low level of activity (iii) protective measures adopted in developed countries thereby affecting India's exports of textiles, garments, shoes, iron-ore and leather (iv) decline in unit value realisation of key export commodities (v) rising domestic demand of exportable items like steel and cement (vi) infrastructure problems at domestic front like power shortage, transport bottleneck, labour strikes, and port congestion (vii) mounting inflationary pressure in the country (viii) stoppage of crude exports after April 1985 due to establishment of domestic refining capacity, and (ix) an overall decline in construction contracts secured by India because of (a) emergence of intense competition (b) long drawn Iran-Iraq conflict (c) fall in OPEC oil revenues, and (d) foreign exchange problems faced by many African countries.

Direction of India's Exports and Imports

Over the years India's reliance of exports to a few markets has reduced gradually and the focus has now been on new emerging markets of Africa, CIS, Latin American Countries, Middle East, and ASEAN region.

India's top export markets for India in 2011-12 were UAE, USA, China P RP, and Singapore.

The top five import markets include: China P RP, UAE, Switzerland, Saudi Arab, and USA.

Compositions of India's Trade

There has been a remarkable shift in the composition of India's trade since independence. India which was a net supplier of raw materials till 60s has now emerged on the world map as supplier of value added and high-tech products. India's perception among the world's business community, as a land of elephants and snake charmers, has totally changed with the milestones achieved in the area of ICT, automobiles, gems & jewelry, light engineering goods, readymade garments, drugs & pharmaceuticals, etc.

The top five export commodities in 2011-12 have been Petroleum (Crude & Products), Gem & Jewelry, Transport Equipment, Other Commodities, and Machinery & Instruments; while top five imports were Petroleum Crude & Products, Gold, Electronic Goods, Pearls, precious & semi precious stones, and Machinery except electric and electronics.

Summing Up

Exports is an engine of economic growth for every nation, as it facilitates use of unexplored natural resources a country is endowed by nature resulting in creation of enormous employment opportunities and raising the standards of living of the people. Besides, it helps in earning foreign exchange to facilitate imports of modern technology coupled with the scarce resources for the development of economy. There has been a paradigm shift in the policies directed towards export growth and the pattern of trade since independence. The major shift that has taken place on the policy front over the years is from highly controlled and regulated environment to open and liberal policy regime. As a result India's share in the global merchandise exports that witnessed a drastic fall in 1992 at 0.4 percent from 2.5 percent in 1948, has now risen to 1.86 percent in 2010. Various reform measures introduced since 1991 has facilitated India to stand at 6 and 19 place among the Leading Exporters of Commercial Services & Merchandise Goods respectively in 2011.

The recent developments at international and national levels viz the global financial crisis beginning from USA in 2008, followed by EURO Zone crisis, demand contraction in overseas markets, depreciation in rupee, etc have largely affected the export sectors of emerging economies like India. The performance of India's exports during April-August 2012 was reckoned at USD 120 billion against USD 127.6 billion in the previous year witnessing a decline of around 6 percent. On the import front a decline of 6.23 percent has been recorded at USD 191.1 billion from USD 203.8 billion during the same period.

Efforts are being made to bring in various reforms to boost export sector so as to meet the export target of USD 350 billion and USD 400 plus billion fixed for FY 2012-13 and 2013-14.

MODEL MULTIPLE CHOICE QUESTIONS FOR TRAINING MODULE ON EXPORT TRADE CONTROL FOR OFFICERS OF RBI

Tick the right answer:

1. To start an Export Import Venture, an entrepreneur is required to obtain IEC No. from:

   a) Export Commissioner
   b) Department of Foreign Trade
   c) DGFT
   d) RBI
   e) Foreign Trade Development Centre

2. India's share in Global Merchandise exports during 1948 was:

   a) 1.5 per cent
   b) 2.5 per cent
   c) 0.5 per cent
   d) 0.9 per cent
   e) None of the above

3. Rupee for the first time got devalued in:

   a) 1970
   b) 1965
   c) 1966
   d) 1991
   e) None of above

4. The Export Trade Surplus was achieved by India during:

   a) 1949-50 and 1952-53
   b) 1991-92 and 1992-93
   c) 2005-06 and 2007-08
   d) 2009-10 and 2010-11
   e) None of above

5. Value of India's Merchandise Exports in US Dollar terms during 2011-12 was to the tune of:

   a) 185 billion
   b) 246 billion
   c) 285 billion
   d) 310 billion
   e) None of above

6. Foreign Trade Policy of India is formulated and implemented by:

   a) DGCI&S
   b) FIEO
   c) RBI
   d) Planning Commission
   e) None of above

7. Planning Era in India commenced with launch of First Five Year Plan in:

   a) 1948
   b) 1950
   c) 1956
   d) 1991
   e) None of above

8. India ushered into Liberalisation era in:

   a) 1947
   b) 1975
   c) 1985
   d) 1991
   e) None of above

9. To overcome BoP crisis in 1990, India had to mortgage _____ tonnes of gold with Banks of England:

   a) 36.5 tonnes
   b) 40.0 tonnes
   c) 46.9 tonnes
   d) 51.5 tonnes
   e) None of above

10. India's rank among World Leading Exporters of Merchandise Goods in 2011 stood at:

   a) 26
   b) 19
   c) 12
   d) 6
   e) None of above