A ANALYTICAL STUDY OF TRADE REFORMS IN INDIA

Dr. Shivdatt A. Vibhute, Associate Professor &Head, Faculty of Commerce, N.S.B. College, Nanded [M.S.]

Abstract: The present research article analyses the trade reforms done in India which brought the vital change in Indian trade sector. The policy of economic liberalization was put into operation with effect from 1991. A highly crucial aspect of economic liberalization is the liberalization in the field of foreign trade. Two basic components of the import policy of the government of India before 1991 were import restriction and import- substitution.

Objective of the Study:

The present paper studies following objectives

1- To study the backdropof trade reforms in India.

2- Toemphasize thefeatures of trade reforms in India.

Data Collection:

Present research article is based on secondary data which is collected from various reference books, websites.

Introduction:

The policy of economic liberalization was put into operation with effect from 1991. A highly crucial aspect of economic liberalization is the liberalization in the field of foreign trade. Two basic components of the import policy of the government of India before 1991 were import restriction and import- substitution. The stiff restrictions remained applicable upon imports until 1977-78. The trend towards import liberalization appeared during 1980's. In that decade, the imports of raw materials and capital goods were liberalized and import facilities were offered to registered exporters and export and business houses. The policy of import substitution, of course, rendered some help in industrial diversification but the cost of import substitution to the economy had been overlooked. The range of import-substitution remained extremely restricted. This policy promoted the domestic production of luxury goods and not that of the development goods. Industries were protected through high tariff walls. The monopolies gained much strength. The excess capacity emerged in several industries. There appeared serious distortion in prices. The import restrictions and inward-looking trade policies failed to ensure enlargement of exports.

With the object of promoting exports, some policy measures had been adopted even before 1991. They included removal of restrictions on exports, reduction in export duties, subsidization of exports, institution of organizations in the public sector to enlarge exports, devaluation of rupee in 1966, encouragement to production for exports and upgradation of technology in export industries. These measures, however, failed to induce any appreciable rise in the exports of primary products and non-traditional items. The bottlenecks in increasing production and making technical innovations in the export industries could not be overcome effectively. The country had to face the unprecedented economic crisis in 1989-90 and 1990- 91. The deficit in trade balance reached the highest level. The balance of payments problem became very acute on account of sharp increase in oil prices due to Gulf war, fall in invisibles, drying up of foreign exchange receipts and external debt problems and servicing thereof. The balance of payment deficit had reached up to the level of Rs. 17,639 crores in 1990-91. It was -3.1 percent of country's GDP in that year. In such dire circumstances, IMF put much pressure upon the government to introduce structural reforms in the economy.

The main features of trade sector reforms introduced by the government after 1991 were as under:

(i) Removal of Quantitative Restrictions on Imports:

Prior to trade reforms, there was much complexity in the import policy on account of the existence of different categories of importers, diversities in import licenses and varied ways of making imports. A step was taken in the direction of simplification and liberalization of imports. In March 1996, import restrictions were removed off 6161 tariff lines. In 2000-01 and 2001-02, quantitative restrictions were removed in the case of 714 and 715 tariff lines respectively. This process continues through regional agreements with SAARC and ASEAN countries.

(ii) Reduction in Import Tariffs:

In connection with the aim of liberalization of imports, the government attempted to proceed in accordance with the recommendations of the Chelliah Committee for the rationalization of tariff structure in the country. In the 1993-94 Budget, the government of India reduced the peak rates of import duty from 110 percent to 85 percent. Subsequently, the government continued to scale down the peak rates of import tariffs in phases. At present, the peak rate of import duty on non-agricultural goods is only 10 percent.

(iii) Convertibility of Rupee on Current Account:

An important reform in the direction of liberalization in the fields of trade and payments was related to the convertibility of rupee with other currencies. The partial convertibility of rupee was introduced in 1992-93. The full convertibility of rupee on current account was introduced in 1994-95. Consequently, the exchange rate of rupee no longer remained pegged. It became a market- determined rate.

The government adopted a more cautious approach in respect of convertibility of rupee on capital account. It was decided that the convertibility of rupee on capital account would be introduced in a phased manner. A considerable progress in this regard has already been made.

(iv) Decimalization:

The government had set up prior to 1991, the organizations like State Trading Corporation and Metals and Mineral Trading Corporation in the public sector. The imports and exports of several products used to be canalized through them. 20 of the import items and 16 of the export items out of them were decimalized by the government in August 1991. The decimalization process remained continued in the subsequent years.

(v) Concessions and Exemptions:

In order to liberalize imports and to promote exports, the government extended a number of tax concessions and exemptions during the 1990's.

Some important concessions and exemptions were:

(1) Reduction in the peak rate of import duty to 15 percent;

(2) Reduction in the rates of duties in the information technology sector upon certain critical imports;

(3) A 10-year tax holiday to the developers of Special Economic Zones (SEZ) for the building up of infrastructure; and

(4) Extension of facilities and tax benefits to the exporters. In addition, the policy of providing tax benefits to information technology, telecommunication and entertainment sectors was adopted by the government.

(vi) Promotion of Exports of Services:

In order to promote the export of services, the Exim Policy 2002-07, announced in March 2003, included several measures. The advance license system was announced for the tourism sector. The firms, under this system, were permitted to make duty-free import of consumable goods and spares up to 5 percent of their average export earnings over the previous three years, provided they were actual uses of the items to be imported.

(vii) Special Economic Zones (SEZ) Scheme:

In March 2000, the government announced the scheme for the establishment of Special Economic Zones (SEZ) for the boosting up of exports. Such zones could be set up

in public sector, joint sector or by the State governments. The essential purposes for setting up the SEZ's were to ensure hassle-free exports and to increase the competitiveness of Indian exports in the international markets. In 2004-05, there were 15 functional SEZ's.

The exports by them in that year amounted to Rs. 18,309 crores. There could be duty-free exports and imports in these zones. The unit's operating in these zones had been granted 100 percent income tax exemption for 5 years. By 2009-10, as many as 580 SEZ's had been given formal approval and 374 SEZ's had been notified. In that year, their exports amounted to Rs. 2, 20,711 crore and their share in total exports stood at 26.1 percent.

(viii) Setting Up of Agricultural Export Zones:

The Exim Policy of 2001 put forward the proposal of setting up of Agricultural Export Zones (AEZ). This scheme was meant for promoting agricultural exports and to organize the export effort on the basis of specific products and specific geographical areas. The scheme assured to provide the latest services related to various aspects of agriculture.

(ix) Export-Oriented Units (EOU) Scheme:

This scheme is complementary to SEZ scheme. It offers more extensive and wide options for the establishment of export-oriented units. These units exported goods worth Rs. 28,896 crore in 2004-05. In 2008-09, exports by them amounted to Rs. 99,688 crore.

(x) Setting up of Trading Houses:

The trade policy of 1991 permitted the export houses and trading houses to import a wide range of products. The trade policy of 1992-97 allowed them the duty-free imports. A new category of trading houses called Super Star Trading Houses was introduced under the 1994-95 trade policy. Those trading houses were included in this category in case of which value of exports over the previous three years average of Rs. 925 crore or in case of which the value of exports in the preceding year amounted to Rs. 1387.5 crore.The government also permitted the setting up of trading houses with 51 percent foreign equity for the expansion of exports. According to Foreign Trade Policy 2004-09, the star trading houses could retain up to 100 percent of their exchange earnings through exports.

(xi) Market Access Initiative Scheme:

In order to promote the sale of products in foreign markets, this scheme was launched in 2001-02. Under this scheme, in-depth market studies are conducted related to the expansion of export of specific products in some selected countries. For generating the demand for domestic products in foreign markets, trade fairs and exhibitions are organized. The publicity campaigns are undertaken in foreign countries. The efforts are made to upgrade the quality of products in accordance with the requirements of the foreign buyers.

Conclusion:

As per above points we can say that Trade reforms has proven very futuristic for the foreign trade. It was also proved helpful to the economic development. This was a highly crucial aspect of economic liberalization is the liberalization in the field of foreign trade. Two basic components of the import policy of the government of India before 1991 were import restriction and import- substitution. This policy promoted the domestic production of luxury goods and not that of the development goods. Industries were protected through high tariff walls. The monopolies gained much strength. The excess capacity emerged in several industries. There appeared serious distortion in prices. The import restrictions and inward-looking trade policies failed to ensure enlargement of exports.With the object of promoting exports, some policy measures had been adopted even before 1991. They included removal of restrictions on exports, reduction in export duties, subsidization of

exports, institution of organizations in the public sector to enlarge exports, devaluation of rupee in 1966, encouragement to production for exports and upgradation of technology in export industries.

References

-International Economics & Trade - India: Foreign Trade Policy. worldbank.org. 2011. Retrieved 20 October 2011.
-Datt, Ruddar; Sundharam, K.P.M. (2009). Indian Economy. New Delhi: S. Chand Group.
ISBN 978-81-219-0298-4.
-Kumar, Dharma (2005). The Cambridge Economic History of India, Volume II: c. 1757–2003.
New Delhi: Orient Longman. ISBN 978-81-250-2710-2.
-Economic reforms in India: Task force report. University of Chicago. 7 February 2009.
- Chakraborty, Subhayan (29 Jan. 2018). Business Standard India. Retrieved 11 February 2018.
-www.indiafilings.com
-www.irswami.com
-www.economicdiscussion.net
-www.en.wikipidia.org