etc.) were required to be surrendered to the authorised dealers at the free market rate who, in turn, surrendered to the RBI 40 per cent of their purchases of foreign currencies and sold 60 per cent in the free market to all importers and persons travelling abroad. Effective March 1993, the dual exchange rate system was replaced by the UERS (unified exchange rate system). Under this system, the 60: 40 ratio was extended to 100 per cent conversion of the rupee at market rates for all export and import goods only. But the official exchange conversion rate continued for invisible items of current account and all capital account payments. Effective March 1994, the current account convertibility of the rupees was introduced. As a result, relaxations in the exchange control regulations on invisible items were made. Now there are no exchange restrictions on current account international transactions. There is no officially fixed exchange rate of the rupee. However, capital account controls still exist.

External Financing

External financing in the form of loans and grants, both bilateral and multilateral, from Aid India Consortium, loans from the World Bank, IMF, ADB and other international agencies, ECBs, NR deposits, direct and portfolio foreign investment and foreign exchange reserves have been the main sources for bridging the gap in India's BOP.[4]

Export Promotion

Export promotion is an instrument to earn more foreign exchange to bridge the BOP gap. As our exports have diversified considerably over the years, the need is to adopt export promotion measures in keeping with the problems faced by each category of exports. There are some commodities which are subject to demand constraints such as jute, tobacco, tea, etc. They are faced by protectionist policies of the developed countries. There are other items which have supply constraints in the form of high cost of production, competitive prices, low quality, etc. There are numerous and varied products in this category such as iron ore, marine products, engineering and chemicals, sugar, light electricals, plastics, cashews, coffee, products of agriculture and allied activities, etc. Still there are other products which have both demand and supply constraints such as textiles, leather and leather manufactures, carpets, handicrafts and garments. Products with demand constraints need competitive prices based upon incentives, improving their quality, attractive presentation and economies of scale in transactions. On the other hand, the case of exports for which supply is the major constraint, domestic factors like economies of scale in production, transport and quality products in sufficient quantities are more important. One of the weaknesses in our export efforts is marketing. Often exporters miss the opportunity of participating in global tenders because of late receipt of information. Sometimes, changes in policies and procedures in overseas countries do not reach them in time. There is thus the need for an organisation which may provide exporters with the export market intelligence on a regular basis.

For export promotion, a number of measures have been adopted from time to time. These include : (1) a number of organisations dealing with foreign trade with a definite set of objectives; (2) intensive schemes for the import of raw materials, machinery and capital equipment duty free or at concessional rates for export units; (3) fiscal incentives such as duty draw-back and duty exemption scheme, cash compensatory support, and concessions in direct taxes; (4) 100 per cent export-oriented units scheme with duty free imports of capital goods, plant and equipment, raw materials and components, indigenously available capital goods, raw materials, etc., without any central excise duty, and finished products exempt from excise and other duties; (5) special rail and shipping facilities; (6) liberalisation of exports by abolishing and/or reducing export duties on commodities from time to time, granting liberal credit facilities to exporters, etc., (7) formation of Free Trade Zones (FTZ) and Special Economic Zones (SEZ); (8) starting of Export Processing Zones (EPZ), Export Oriented Zone (EOU) and Export Promotion Capital Goods (EPCG) schemes; (9) providing various incentives to Export and Trading Houses and Star Trading Houses; and (10) the establishment of Agricultural Export Zones (AEZ) to promote agri-exports, as announced in the EXIM Policy of 2001-02.

Moreover, "counter trade" is another export strategy whereby payments for the import of various materials and other inputs are made through the export of domestic manufactured goods to the other country.

The problem with our export promotion policy is that there is a plethora of schemes and organisations which lead to unnecessary duplication. Both the Government and the exporting community should devise jointly a dynamic export marketing strategy for various items and sectors. Such a strategy should cover an appropriate marketing mix of proper pricing, competitive production, distribution set-up abroad and overseas promotion.

The need is to have in integrated development plan for exports which should fit in the overall development programme of the country. The export promotion policy should not only aim at increasing foreign exchange earnings but also raising income and employment within the economy.

Besides, the following adjustments are required for a broad-based, rapid and sustained growth of exports : (*a*) Reduction in domestic excess demand and increase in the supply of goods and services for export; (*b*) to further bring down trade restrictions in order to increase competitiveness in international markets; and (*c*) to improve the competitive position of Indian agricultural and industrial products continuously through technological and managerial improvements and to adapt rapidly to changes in international market conditions. This requires the development of capacities for adaptation and innovation.

Import Substitution

Import substitution is another measure to bridge the balance of payments gap. It aims at saving foreign exchange. For almost three decades since the beginning of the Second Plan, import substitution had been the main element in India's Trade Policy. The aim of this inward-looking strategy "was to restrict the availability of luxury consumer goods to the minimum either through domestic production or through imports, and expand the base for capital goods through import substitution so that capacity of the economy to produce both consumer and capital goods at a future date could be very high."[5] Later, the policy of import substitution was extended to consumer goods of all types for export as well. This policy was instrumental in establishing a strong industrial base in the country. But the policy of import substitution was indiscriminate and excessive and led to the development of a number of industries under excessive protectionism which did not conform to the criteria of social essentiality. Further, it led to the production of low quality and high-cost commodities as compared to the imported goods over a period of time that led to a "technological gap" and also resulted in poor export performance. These aspects have been corrected by the outward-looking policy of export promotion and liberalisation since the 1990s.

Conclusion

The success of any policy, whether in the field of export promotion or import substitution depends on the capacity of the economy to increase production for meeting both the domestic requirements as well as international demand. This requires high rate of investment, adequate growth of infrastructure, vigorous resources mobilisation, strict demand management, freeing of exports from restrictions and other regulatory measures including indirect taxation, improvements in productivity and healthy industrial relations. Instead of harping on the slogan "export or perish", India should adopt the slogan "export and flourish" as the guiding principle for the future.

INDIA'S FOREIGN TRADE POLICY

India started its planned development with the emphasis on import substitution from the Second Plan. To implement this strategy, the Government adopted a regime of tight controls on imports in 1959 which included licensing, quotas, banning, etc. of imports and the adoption of some tariff and non-tariff measures for providing protection. This was a policy of "export pessimism" which did not view foreign trade as an engine of India's economic development. From 1962, export promotion measures were introduced alongwith the continuation of import substitution strategies. The system of controls over imports and exports was selective and discretionary rather than across-the-board and relied on quantitative