EXPORT-LED GROWTH STRATEGY: TOOL FOR ECONOMIC DEVELOPMENT IN INDIA

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ABSTRACT

India is the major world exporter and adopted the globalization policy since 1991. The Government of India has taken various policies and measures for promoting exports to become competitive enough in today's globalized world. Lots of issues and factors are required to take into account while exporting. The success of exports depend on the planning and adopting the suitable strategy that could increases profit and economic growth. The present study is an attempt to analyze the various export promotion schemes of India to find out their effectiveness. After study, researcher came to know that India has done very well in exports and has taken export-led growth strategy as tool for economic development. It is concluded that despite the good performance of India's exports there are some weaknesses in its export promotional scheme. Researcher has given some suggestions and recommendations that can redesign the India's export promotion programs that will helpful in increasing the capacity of India in exports..

***Keywords**: Globalisation, India, Export-led growth, Export promotion programs.*

Introduction:

Globalization is a process of removing barriers across national borders for trading and investment. It expands the economic activities between nations, increases economic openness, open up markets for foreign players and create economic interdependence between countries. Globalization is facilitating companies for selling their products to many countries across the border. It is not only the exchange of products and finance, but also transforms ideas and cultures that affect our jobs, culture and relationships with one another. Globalization directly produces an effect on export led growth that compels the countries creating strategies related to export promotional programs. Therefore, the majority of countries are widely adopting export – led growth achieving sustainable growth and development. Globalization combines the economies of the world through unrestricted trade, financial hours and having the same exchange of knowledge and technology. It also gives the advantage of free inter-country movement of labour. Globalization removes the constraints to the entry of multinational companies across the border allowing them to enter into foreign collaborations and to set up joint ventures abroad. Now days, the export promotion is being taken as an important component of their economic policies. For that reason, the government of various countries are focusing on export promotion programs and creating the strategies of export-led growth. Export-led growth is an economic strategy of accelerating exports implemented by developed or developing countries. This strategy is used to get comfortable position in the world economy for the exports and aim to obtain hard currency to import goods and services at lower prices somewhere else. Exporting is an activity of trading something out of the country that makes it most important part of international trade. Although, the expansion of exports accelerate economic growth, but many developing countries that come after export-led policies practically have low growth rates. This shows the need of good tactics for export promotion programs that could spur the economic growth of the country. As we know, India has significant place in the international market and contributing to the majority of exports globally. Therefore, government of India is proposing excellent export promotional programs and trying to make them successful. India as an emerging economy needs to be cover with strong statistical calculation for getting self-reliant place in this global world. Undoubtedly, India has potential to survive in the global market but requires more effort of utilizing its unlimited resources and availability of cheap labour. Exports include certain policies that either keep safe domestic products from foreign competition or artificially excite export of particular domestic products. For that reason of complex process, the government of India is concentrating on these barriers and implementing strong export led growth strategy that could accelerates export as well as economic growth.

Literature Review:

Several empirical studies have done by various researchers to find out the casual relationship between exports and economic growth in India. It is important to see whether exports cause growth and export promotion through policies increases growth or not in India up to the 1960s, the import substitution policy had been followed by India. The failure of import substitution in the late 1960s compelled to move on an export-oriented strategy. There are large empirical literature have been examined to study the impact of export led growth in India. Little et al. (1993; p. 118) indicate that export performance does not affect the economic growth of the country. Dhawan and Biswal (1999) look closely at the period of 1961-93 and discover that growth in exports had caused by growth in GDP. Nidugala (2000) found the important role of exports in accelerating GDP growth in the 1980s. Anwer and Sampath (2000) examined the period of 1960-92 and found the co-integration of exports and economic growth in India. Ranjan Kumar Dash (2009) found that the liberalization of trade policies is helpful in sustaining economic growth and exports cause growth in India. Jim love and Ramesh Chandra (2000) tested the export-led growth in South Asia and showed the existence of export-led growth in India. Servaas Storm (1995) reveals the contribution of exports in the acceleration of GDP growth. Urvashi Dhawan and Bagala Biswal (1999) points out that the adoption of export promotion strategies will increase the economic growth of India in future.

Research Gap:

We can see that a number of works has been done in the context of export and export-led growth. Some researchers viewed that export led growth hypothesis belongs to India while some researchers found the casualty from exports to GDP seems to be a short run period but gap exists in terms of evaluation of export promotion programs of India. Hence, in the present study the Researchers make efforts to analyze the export promotion programs of India to find out its strength and weaknesses.

Objectives of the Study:

The main aim of the study is:

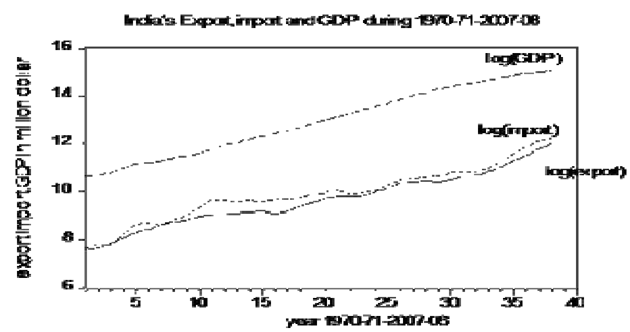
1. To reveals the presence of export-led growth in India.
2. To evaluate the export promotion programs of India.
3. To finds out the strengths and weaknesses of the export promotion programs.

Export-led growth:

Export-led growth is a strategy of promoting exports production. The developing countries use this economic strategy to find comfortable position in the world economy for a particular type of export. Export-led growth strategy is implemented to gain hard currency for importing of commodities manufactured at cheaper rates somewhere else. Therefore, most of the developing countries are shifting towards export-led growth strategy. This strategy facilitates export expansion leads for creating economies of scale, improving production efficiency, employment generation, capital formation and better resource allocation.

Export and export policy is the engine of economic growth of the country that introduce new technologies, stimulate demand, encourage savings and accumulates capital. Moreover, exporting is not an easy task but needs to take important decisions and requires proper planning. For that reasons, government of emerging countries like India, adopts strategy that could encourage and support export production in the country.

Export-led growth in Indian economy:



Source: http://varanasiview.blogspot.com/2010/02/is-india-export-led-growth-economy.html

Several economists have explored the consistent economic development of India with service-led growth. Presently, service sector provides more than 50% of GDP that include infrastructure, trade and communication. Among these, trade sector leads by export, which referred as the engine of economic growth and main component of globalization. Therefore, Indian government increasing foreign demand for exports and earning foreign exchange by issuing suitable export policies. The economists state that during 1968-2006, India's GDP per year increased to 0.6399% by 1% increase in export leads and increased to 0.6927% by 1% increase in import leads. This reveals that trade is essential for accelerating economic growth and India's GDP growth rate can promote by increasing exports. Next thing that shows the positive sign of India towards globalization is FDI inflows. During 1990-2006, FDI inflows affected Indian export that shows the positive relation of exports with FDI inflows. However, globalization favours the economic growth and stimulates export but it requires suitable export promotion policies for accelerating GDP growth rate.

Export Promotion Programs in India:

Export promotion is an action plan of promoting export of the country's existing production. The sustainable export growth is very important for accelerating GDP, employment and removing poverty. Therefore, the government makes different policies, programs and activities for increasing export sales of the country. The emerging countries like India are not able to increase their export volume on their own because of lack of knowledge about international marketing. For that reason, Government provides business communities which need support in various ways to encourage export growth.
Following are the various export promotion schemes introduced by the government of India:

Advance license scheme:

This scheme permits duty free import of inputs utilizing in the export products after making normal allowance for wastage. Advance license issues for physical exports, intermediate supplies and deemed exports.

Export promotion capital goods (EPCG) scheme:

This scheme permits import of capital goods for pre-production, production and post-production at 5% customs duty without CVD and special custom duty. The capital goods include tools, spacers, jigs, fixtures, moulds and clues. This relaxation has allowed for specific categories such as agro units, BIFR, SSI etc.

Duty Free Replenishment Certificate (DFRC):

The certificate is issued for importing inputs to use in the manufacture of goods without payment of basic custom duty after completing exports.

Duty Entitlement Passbook (DEPB):

It is an export incentive scheme and issued after exports. This scheme entitle exporter for a duty credit as a specified percentage of FOB value of exports. The rates of DEPB are calculated based on FOB value or value cap whichever is lower. DEPB scheme encourages exporters for diversification and for promoting exports of new products.

Deemed Export Duty Drawback:

This scheme relates those exports, which don't need to leave the country and paid in Indian rupees. Duty drawback scheme allows refund of duties, which are paid on raw materials used in the production of goods for exports. Deemed exports provides drawback for the purpose of deemed exports because of all industry rate, brand rate and special brand rate.

Special Economic Zone Scheme:

The scheme has a very simple and transparent policy with minimum paper work for promotion of exports. SEZ areas are open for the foreign countries manufactures and companies to establish their manufacturing countries. The SEZ units are allowed for manufacturing of goods, rendering of services, processing, assembling, production, trading, remaking, reconditioning etc. and permits duty free import of goods. The SEZ units have an advantage of importing and exporting through airport, port, ICD, CFS, courier word, post parcel and land custom station.

Export Oriented Unit (EOU) Scheme:

This scheme creates additional production capacity that is helpful in boosting exports of the country. The EOU can obtain locally without payment of duty all types of goods and permits for importing of goods that are present in the restricted list of EXIM policy. The EOUs are licensed initially for five years that can be extended to another five years by the development commissioner. The EOUs are also allowed to export all products except prohibited items in ITC (HS).

Electronics Hardware Technology Park (EHTP):

The EHTP scheme is confined for one sector i.e. electronic hardware. It is unique in its nature and a 100% export oriented scheme for the units, which manufacture electronic hardware equipments in India. The EHTP units are eligible for taking the benefits of tax holiday, clubbing of Net foreign exchange (NFE) and 100% foreign equity.

Software Technology Park Scheme or Bio-Technology Park Scheme:

The STP scheme provides facilities to IT industry for their development and gives services for 100% exports in the form of physical exports by using data communication links. An Indian company, subsidiary of foreign company and branch office of foreign company can become a STP member and can avail the advantages of custom duty exemption, excise duty exemption, central sales tax reimbursement, corporate tax exemption on 90% export turnover and sales in domestic tariff area up to 50% of the FOB value of permissible export.

Free Trade and Warehousing Zone (FTWZ) Scheme:

As per the SEZ scheme, a foreign company can store its goods in Indian warehouse and can later sold it to its Indian customers whenever it receives the orders. The goods are allowed to keep in warehouses of FTWZ for two years. The scheme facilitates duty free import of all goods except prohibition items and allows re-exporting without any restrictions. This scheme generally provides infrastructure facilities for warehousing of goods to make Indian into a global trading-hub.

Served from India Scheme (SFIs):

The scheme confines to the all service providers except hotels, restaurants and other service providers in tourism sector. The service providers are entitled for duty credit scrip that may be use for duty free import of capital goods.

SFI scheme has made by the government with an aim of accelerating growth in export of service.

Target plus Scheme:

The star export houses are eligible for availing the benefits of Target plus Scheme. The star export houses are defined by the government as manufacturer exporters, EOUs, service providers, AEZ's, SEZs, EHTPs, STPs and BTPs who are categorized according to their total FOB export performance during the current plus previous three years. The scheme allows high performing export houses for a duty credit based on incremental exports, which should be higher than the fixed target of annual export.

Vishesh Krishi Upaj Yojna Scheme:

The exporters of vegetables, flowers, fruits and their value added products are entitled for duty credit scrip, which is equivalent to 5% of the FOB value of exports that uses for duty free import of inputs or goods including capital goods. This scheme simply allows import of inputs or goods against export of some agricultural products for increasing the exports of such products.

Assistance to States for Infrastructure Development of Exports (ASIDE):

The government in the Department of Commerce has formulated this scheme so as to involving the state governments in promoting exports. The scheme provide funds to state government in order to utilize for developing infrastructure such as creating new state level export promotion industrial zones, setting up of Inland container depots, development of minor ports, stabilizing power supply etc. as notified by department of commerce.

The Market Access Initiative (MAI) Scheme:

Under this scheme, the financial assistance is given to export promotion Councils, Registered Trade Promotion Organization, Department of Central Government and Organization of Central or State Governments for promoting exports of the country. The scheme provides fund for marketing project abroad, capacity building, support for statutory compliances, project development and market studies or survey.

The Market Development Assistance (MDA) Scheme:

The exporting units, which are registered as SSI or member of EPC or have aggregate exports of Rs. 2 crore and above or comes under SSI-MDA can avail the benefits of MDA scheme. This scheme encourages exporters to reach and develop overseas market by offering funds for study tours abroad, trade delegations, publicity, participation in international tours etc.

Export Promotion Organizations:

The government of India has established various institutions to assist the export trade sector. These organizations do not directly involve in trade activity but they provide organizational support to the exporters and help them to promote their export business.
Following are the export promotion organizations that are running by the government of India and promoting exports throughout the country.

Export Promotion Council:

The Export Promotion Council (EPC) is the non-profit organizations, which have been set-up by the government to promote exports of the country. EPC provides useful information offers professional advice, organize visits of delegations for their members and develop the communication between exporting community and the government. There are various members of EPC in India as follows:

i) Engineering Export Promotion Council (EEPC)
ii) Sports Goods Export Promotion Council (SGEPC)
iii) Electronics and Computer Software Export Promotion Council (ESC).
iv) Gems and Jewelry Export Promotion Council
v) Council for Leather Exports (CLE)

Federation of Indian Exports Organization (FIEO):

It is an apex body of various export promotion organizations and institutions. This non-profit organization has been set-up by the Ministry of Commerce, Govt. of India. The efforts of all organizations for export promotion are coordinated by FIEO. It provides common services and market information for the benefit of exporters. Indian goods get wide publicity through FIEO across the border. It also arrange meetings, seminars regarding export trade and act as registering authority for export houses.

Export Credit Guarantee Corporation of India Limited (ECGC):

It is another export promotion organization, which is managed by Board of Directors consisting RBI, insurance, banking, exporting community and representatives of government. The main aim of setting-up this organization is to cover the risk of exporting on credit to strengthen the export promotion drives of India. The organization helps Indian exporters by offering insurance protection, providing guidance, useful information, assist in recovering bad debts and obtaining export finance.

Agricultural and Processed Food Products Export Development Authority (APEDA):

It is an independent organization, which coordinates in activities with state government, horticulture board and research institutes in order to increase the exports of agricultural products. It builds the relationship between Indian agricultural producers and the global markets. APEDA provides financial assistance for strengthening market intelligence, quality up gradation, infrastructure development, research and development, human resource development, upgrading meat processing facilities and packaging quality development.

Director General of Foreign Trade (DGFT):

The foreign trade policy or EXIM policy is implemented by DGFT for promoting Indian exports. DGFT is playing an important role in the promotion of export activity in India by introducing various schemes and guidelines, granting exporters Importer code number, regulating transits of goods while trading, granting permission of free exports, controlling DEPB rates and promoting trade with neighbour countries.

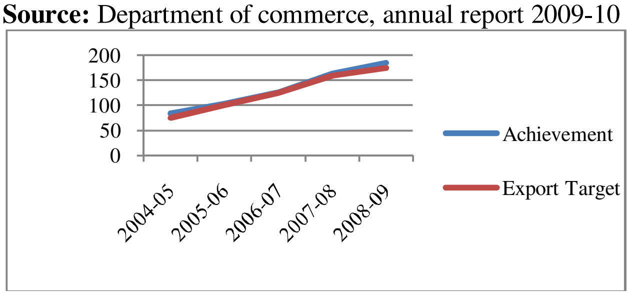
India's Export Performance:

According to latest WTO data (2009-10), India's exports has attained a level of US $ 185.3 billion in the year 2008-09 and recording a growth of 13.6% against the growth rate of 29.1% during the previous year. The merchandise exports have registered an average annual growth rate (AAGR) of 23.9% from the year 2004-05 to 2008-09, which has increased by a lower AAGR of 14.3% in preceding five years. Indian exports have done very well during the last five-year period i.e. 2004-08. In fact, Indian has increased its share in the world merchandise exports from 0.8% in 2004 to 1.1% in 2008. Even, India has shown remarkable dynamism by improving its rank in the leading exporters in the world trade from 30th in 2004 to 27th in 2008.

Export Target and Achievement during the last five years

Years	Achievement	Export Target
2004-05	84	75
2005-06	103	100
2006-07	126	125
2007-08	163	160
2008-09	185	175

Source: Department of commerce, annual report 2009-10



Source: Department of commerce, annual report 2009-10

An export target of US $ 200 billion was set for 2008-2009 but due to the global slowdown in the second half of the year, it was later revise downward to US $ 175 billion. India attained remarkable achievement during the recession period with exports reaching US $ 185.3 billion in 2008-09 that is the exceeded target by 5.9%.

Export, Imports and Balance of Trade:

The following table details the year wise import, export and balance of trade in crores during 2004-2010.

Value in Rs. Cr.					
Year	**Exports**	**Growth rate (%)**	**Imports**	**Growth rate (%)**	**Balance of Trade**
2004-05	375340	27.9	501065	39.5	-125725
2005-06	456418	21.6	660409	31.8	-203991
2006-07	571779	25.3	840506	27.3	-268727
2007-08	655864	14.7	1012312	20.4	-356448
2008-09	840755	28.2	1374436	35.8	-533680
2009-10	563304	-13.7	927969	-17.6	-364665

Source: DGCI & S, Kolkata.

The following table reveals the year wise exports, imports and balance of trade in US $ billion during 2004-2010.

Value in Rs. Cr.					
Year	**Exports**	**Growth rate (%)**	**Imports**	**Growth rate (%)**	**Balance of Trade**
2004-05	83.5	30.9	111.5	42.7	-28.0
2005-06	103.1	23.4	149.2	33.8	-46.1
2006-07	126.4	22.6	185.7	24.5	-59.3
2007-08	163.1	29.1	251.7	35.5	-88.6
2008-09	185.3	13.6	303.7	20.7	-118.4
2009-10	117.5	-20.5	193.8	-23.6	-76.2

Source: DGCI & S, Kolkata

Exports:

According to the tables, exports experienced high growth during the first half of 2008-09 but started reducing during the subsequent months because of economic slowdown. Exports increased by 48.1% during 2008-09 (Apr-Sep) registering significant growth and decreased by (-) 14.7% during 2008-09 (Oct-March) significant negative grown. Anyhow, in spite of deteriorate in the second half of the 2008-09; exports attained an overall growth of 13.6% for the year.

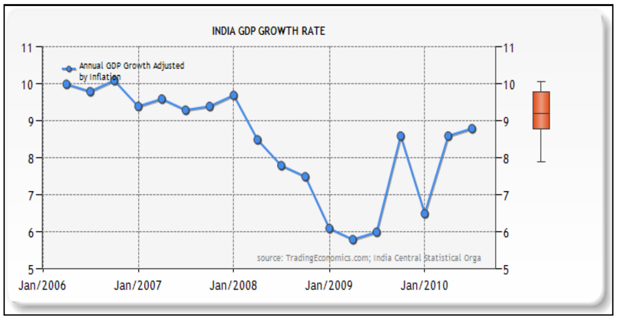
Imports:

The progressively increased imports during 2008-09 was US $ 303.7 billion in comparison of US $ 251.6 billion during 2007-08 that recorded a growth of 20.7% in $ terms.

Trade Balance:

The estimated trade difficult in 2008-09 was US $ 118.4 billion as against US $ 86.6 billion during 2007-08. The value of exports was estimated at US $ 117.6 during 2009-10 (April-December), which is a decline of 20.3% in US $ term over the similar period of the previous year. The value of imports for the year 2009-2010 (April-December) was US $ 193.8 billion which is also a decline of 23.6% in US $ terms over the corresponding period of the previous year.
It can be concluded from the above details that the phase of global slowdown has not produced an effect on India's export as much as other economies of the world. Despite, there is a decline in our exports has seen since October 2008 that resulted negative growth during 2009-10 but gradually, it has entered in the positive phase from the month of November 2009.

INDIA GDP GROWTH RATE



Source: Trading economics.com, Market watch

Strengths:

1. Many foreign multi - national and medium based firms have come in India to open their manufacturing units, factories and industries in various business fields such as automobile industry, infrastructure, electronics and Information technology etc. These type of investments in India are promised by the Indian government act that the foreign companies can empower all the rights assigned by the government that is been legalized. We come to know that there are no hurdles and barriers for foreign investors
2. Indian exporting laws help and encourage doing exports in the interest of national wealth and individual wealth maximization. Thus, exporter of any kind like farmers or retailers or professional exporters are well informed with the rules and regulations.
3. The exporting schemes and joint exporting agreements between countries has made international relationship firm and for easy functioning of exports and imports between countries.
4. The exporting and investment schemes developed and innovated by the government has helped people to gain jobs of good paid wages and salary and helps in developing underlying areas in India.
5. The commercial import export bank plays a main role in helping exporters to achieve their profit margins and targets and even helps them to build up their business and protects them from fraud and ensures the payment depending on the quality of the product exported.
6. Indian government has provided houses implemented for exporting factors in low level areas and people such as below the poverty line can make their commodities and export through these houses and earn more. They can even start business with such exporting factors.
7. The finance generated by exports all over the world has helped the economy to earn a lot of foreign reserves and helped it to stop itself from borrowing or taking loan from other countries at interest or from the reserve bank of India.
8. India's exports promotion schemes have led India in a new era of globalization and opening its self to the world.
9. Indian investors can start their business abroad without any problems by the promotional schemes.
10. Indian exports have become very stable that during the time of recession the economy was not as hurt as the foreign markets were badly affected.

Weaknesses:

1. The politicians and various ministers in India are corrupted with black money that gets back the Indian economy.
2. Criminal activities that can eat up the economy of India is possible by too much of openness.
3. In governmental bodies time management is not seen in governmental proceedings that causes delays or losses.
4. Free exports and high import tariff would bring in problems in international relationship and importers would be degraded to carry on the functions smoothly.
5. The government of India needs to adopt itself modern methods of technology to carry on the functions and avoids delays and mistakes that directs in losses.
6. Banking for an exporting firm takes a lot of time to process the desired result due to a lot of security measures and procedures.
7. Inspection by the governmental officials will be a main concern for the foreign investors such as ware houses establishments.

Suggestions:

1. India should make sure of its security of borders and should have special inspection undercover officers to check international or domestic threats such as unauthorized or illegal import or export without the government's approval thus such imports and exports would cause a security threat as weapons , drugs , and other banned items to come in and go out.
2. In India, private firms are doing much better in comparison of governmental firms. Therefore, it is recommended that the governmental firm should adopt new methods of technology and should try commentating with the private firm and increase its procedure planning and implementation in order to gain direct profit for the country's currency reserves.
3. In the field of exports, the government of India should implement the method called periodical policy. In this method, policies changes depending on the overall circumstances of a product or commodity been exported to other countries. The data analysis and measurements of level of statistical exports is taken into consideration to verify the level of exports been done. This method is beneficial for exporters of India encouraging them to attract foreign buyers to buy their product or commodities.
4. India should take precautions in building up relations with European Union and other countries. The building of international relationships not only helps our economy to grow but also help our exporters to do more exports and start business in other foreign countries to carry out the imports from India to the rest of the world
5. Governmental firms or private firms should take important steps to maintain quality and quantity check

before exporting the product or commodities. The necessary steps should be taken for matching the requirements of the international community to export a particular product for example automobile pollution preventable standards depending on point's base system.

6. Ware houses in India or any part of the world are considered to be a foreign place thus inspectional governmental officers should be assigned to check up these ware houses for any illegal activities.

Conclusion:

Now, India is one of the fastest growing countries after China because of improving its global position. So many indicators prove India stands in terms of global integration such as flow of FDI into India, increasing exports, interaction of India with the outside world etc. Despite all this, India is least globalised among the major countries. As we know, export is the most important component of globalization and helpful in getting success of being globalised. Therefore, government of India through export promotion programs is focusing the export sector to concentrate more on international trade. The export promotion programs consist of various schemes that make international trade easy such as EPCG scheme, advance license scheme, DEPB scheme, DFRC scheme, EOU scheme, target plus scheme etc. However, there are some weaknesses present in the schemes that should been removed by the government. In addition, export promotion organizations of India are also encouraging international trade by giving opportunities to exporters so as to expanding and diversifying their exports. No doubt, the export sector of India has suffered a lot in the current global economic down turn but has given good performance in exports during the last five-year period I.e. 2004-2008. Moreover, economy of India was stable and did not suffer heavy losses during the global recession and now Indian economy is growing day by day due to increasing exports. This is helpful in concluding that the export promotion programs of India are doing well and make exporters of India to be competitive enough in the area of international trade.

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