

UPDATE

Issue No.1.

Date: 25th April 1998

BJP's "Nationalism" and the Revised Exim Policy

Rhetorics apart, the modified Exim Policy announced on 13th April by the Commerce Minister, Shri Ramakrishna Hegde, can be seen as the first concrete step taken by the new coalition government led by the BJP. It is, so to say, the first concrete proposal for action offered to the nation by the self-proclaimed champions of "nationalism". To those, who reposed their faith in the 'nationalist' BJP, this must have come as a rude shock and they must be really hard-pressed to locate even a modicum of 'nationalism' in this new policy package. For us, on the other hand, it is merely a continuation of the back-door Enron deal of the 13-day Vajpayee government in 1996. We never expected any genuine nationalism from the BJP and its allies and therefore we are neither surprised nor shocked.

But leaving the matter at this would be improper; we must not merely indulge in broad generalizations - we must back up these general propositions with concrete factual analyses. And that is precisely what we plan to do now: take a detailed look at the Export Import Policy (1997-2002) revised with effect from 13th April 1998, i.e. the modified Exim Policy.

Background

The last two years have seen a steady declaration in the growth of exports. Export growth during April-February (1997-98) has been 2.63% in dollar terms over that of the corresponding period in 1996-97. And in 1996-97 the growth was only 4% over the

corresponding figure in the previous year.¹ So, the main thrust of the revised Exim Policy has been the attempt to revive exports growth. But first we must ask, what led to this slowdown in the first place?

Mr. Hegde feels that though there are demand and supply constraints, "the major cause for slowdown has been the erosion of competitiveness owing to a number of factors.' And what are these factors which have adversely affected the competitiveness of India's export sector? "...cumbersome procedures, delays in the realization of pending claims, increased transaction costs, the high cost of export credit, infrastructural constraints and bottlenecks etc.," are what the Minister could identify as the main factors. The policy package, then, would presumably address these problem; so let us take a look at the main features of the revised Exim Policy:

Highlights of Exim Policy

1. EPCG (Export Promotion Capital Goods) threshold limit reduced to Rs. 1 crore for garments, gems and jewellery, sports goods, leather, toys, agro and good processing.
2. 340 items - mostly consumer goods - has been freed from import restrictions.
3. DEPB (Duty Entitlement Pass Book) scheme to continue; 5% Special Customs Duty to be neutralized.

¹ The rate of growth figures for the previous two years are : 1994-'95 - 20.2% and 1995-'96 - 18.4%.

4. Major simplification in issue of licenses, greater flexibility, extensive decentralization of licensing functions.
5. Setting up of private bonded warehouses to import, stock and sell even negative list items to holders of advance license allowed.
6. Anti-Dumping Directorate operationalised in the Ministry of Commerce.²

Rationale for the Main Policy Thrusts

1. It is generally believed that the export sector is an user of high technology and since most of these advanced technologies are not available in the country, they have to be imported.
So, following this logic, enhancing export competitiveness must remove impediments to the easy import of foreign technology. Reducing the EPCG threshold limit to Rs. 1 crore simply means that the benefits arising from the easing of import restrictions on capital good (technology embodied) are now within the reach of the small-scale export units also.
2. Last year, around this time, the UF government had taken the decision to shift 542 items from the restricted list of imports to Open General License (OGL) category. This year, Mr. Hegde, has continued the process by adding another 340 items to the OGL category, moving them over from the restricted list. It is very difficult to see how the easing of import restrictions on consumer goods can enhance the competitiveness of our export sector and therefore we are forced to suggest that this major step seems to be devoid of any economic rationale relating to our export performance. We will have more to say on this later.
3. In many countries of the world, “export products are relieved of all indirect taxes leviable on them in the country of origin and our objective is also to reach this goal”, says the Minister. The continuation of the DEPB

scheme is a step towards that direction. As a further step, neutralization of 5% of the Special Customs Duty will also be ensured this time around. The logic behind this whole move is that the reduction of indirect taxes will increase the profitability of the export products, stimulating more investments and therefore leading to higher export growth. And exports, being a core sector of the economy, higher growth rates in this sector will be of benefit to the whole economy.

4. The steps announced to simplify procedures to obtain export and import licenses, to bring in greater flexibility into the legal structure and to decentralize the licensing functions have come as a response to numerous complaints from the export sector operators that a large and unwieldy bureaucracy leads to an increase in transaction costs and losses due to avoidable delays. The process of computerization of the offices of the DGFT (Directorate General of Foreign Trade), networking of the various offices with the customs, placing the Exim Policy and the Handbook of Procedures on the Internet can all be seen as attempts to simplify the cumbersome procedures and bring in transparency to the operations of the DGFT.
5. The decision to allow the setting up of private bonded warehouses is designed to primarily serve the needs of the small-scale operators in the export business. These bonded warehouses have been allowed to import, store and sell even negative list items to holders of advance license. This will ensure a steady supply of the raw materials needed for export manufacturing activity, thus dealing with supply-side bottlenecks operating on the small-scale players. Larger export units usually have other means to deal with these kinds of supply problems.
6. With the policy of import liberalization being pursued vigorously as part of the post - 1991 “economic reforms” package, there has been an increase in the incidence of

² Business Line, 14th April, 1998.

dumping practices by foreign companies. Flooding of Indian markets with foreign consumer goods have naturally eaten into the market share of domestic procedures. "In order to counter the effect of the unfair trade practice of dumping, the Directorate General of Anti-Dumping and Allied Duties is being strengthened so that effective protections can be provided to the domestic industry."

Now let us try and assess the implications of these policy initiatives on the overall development of the Indian economy and the well-being of its people.

Implications

What should be immediately clear from the above is the simple fact that there has been no major policy shift in the external sector after the "nationalist" government's coming to power. If anything, the post-1991 "economic reforms" package has been adopted and further developed by this new coalition government led by the BJP; which means that either the UF was also "nationalistic" or the present government is not.

Even at the risk of being repetitive, we must remind our readers that the balance of payments crisis of 1990-91 was triggered off primarily by the sudden and sharp decline of remittances from abroad (mainly from the Indians working in the Gulf region) due to the Gulf war. Of course, the grounds for the crisis had already been created by the decade long fiscal profligacy of the government (especially speeded up after the middle of the 1980s) which was marked by an over-dependence on relatively short term external borrowings to speed up the rate of growth of the Indian economy. That crisis led to the adoption of policy measures, as part of the 'conditionalities' of the multilateral donor agencies, which provides neither a solution to the balance of payments problem nor any hope of sustained economic development within the country in the

long run. The policy package associated with the so-called Structural Adjustment Programme is out and out detrimental to the interests of the vast populace of this country.

The main thrusts of this policy package, especially in the form it has attained after 1993-94, seem to be directed at the following two objectives:

- a) to give up the emphasis on exports and rely on competitiveness for export development by making India much more of an open economy than even many developed economies, and
- b) to rely on capital imports - both long term and short term - to bridge the payments gap on current account generally, and on trade account in particular.³

Within this framework, import liberalization occupies a central place; therefore the mad rush to remove quantitative restrictions on consumer goods, in the fond hope probably that this will lead to a surge in exports. But past experience, an even logic, suggests that nothing of that kind is going to happen. Though undoubtedly, what is going to happen is that imports will keep growing catering to the taste of the upper middle class for foreign goods and the balance of payments situation will further worsen. This then will provide opportunity to go in for another round of external borrowing!

The argument that strengthening the Anti-Dumping laws of the country is going to prevent Indian markets from being flooded with foreign commodities is a naive one. Dumping is a legal offence and the Anti-Dumping laws might be able to prevent this extra-legal flow; but the whole point of import liberalization is to increase the legal flow of foreign consumer goods. And it is this legal flow of consumer goods which, in the main, is going to lead to problems.

The shift from exports to competitiveness in export development, which has been so clearly

³ Alternative Economic Survey 1996-'97., pp.33.

enunciated by Mr. Hedge⁴ during the course of his speech, apart from being in strict conformity with the UF's Exim Policy, has grave implications. As a rule of thumb, the best way to manage one's BOP is to pay for the imports through export earnings; which implies that the total value of imports should be kept commensurate with the total value of exports. The shift from exports to competitiveness in export development is clearly at variance with this simple fact : because, once attention is directed at competitiveness, volume considerations are usually pushed to the background. And then competitiveness requires the necessary adoption of high technology (otherwise how can one compete with the producers of the advanced countries?!) and this requires the import of technology without any aim of indigenous development. The balance of payments suffers on both counts; and further, since the technological gap between the advanced capitalist countries and the "developing" world is a historical given, this kind of policy merely perpetuates that gap through time.

The question of technology is important because once the policy of import liberalization has replaced the policy of import substitution, the possibility of endogenous industrial development is pushed far beyond the horizon of possibilities. It merely strengthens the dependence of the Indian economy on external factors - not merely for bailing it out of crisis situations but also for the course of "normal" development. The lack of the bourgeoisie in India to envisage any kind of endogenous industrial development clearly points to its character being comprador and dependent. Seen in this light, the recent tour of Yashwant Sinha to the US and his pitiable attempts to woo foreign investment clearly highlights the hollowness of the "nationalist" rhetoric of the BJP. It seems to follow, then, that any genuine and viable nationalism cannot take the course indicated and highlighted by the proponents of

cultural nationalism in India, viz., the Sangh Parivar combine.

One last thing should be added before winding up this discussion. The IMF, in its semi-annual World Economic Outlook, has once more forecast on overall slowdown in the World Economy in 1998.⁵

According to the IMF forecasts, the growth of world output in 1998 is going to fall by 1.2 percentage points, or by as much as a quarter of its original estimates. Which means that the advanced capitalist countries will try to aggressively export its products to the developing world, being faced with a glut in their own home markets. Investment decisions under capitalism are made with expectations of the future market conditions in mind; since the world market will shrink due to a slowdown in 1998, the excess products of the capitalist world will be sought to be pushed down the throats of the "developing" world. Hence, in all probability, we can expect a further flooding of the Indian markets with foreign consumer goods. Mr. Hegde's move to ease the import restrictions on consumer goods thus fits snugly into the present structural requirements of world capitalism. Further, the report points towards the dismal scene in the inflow of foreign capital into "developing" countries, which, according to its forecast, is going to go down by as much as 30 per cent in 1998. It seems then that Mr. Yashwant Sinha's efforts in Washington are after all not going to yield the desired results!

To sum up, then, we can say that the changes brought about by the BJP government in the Exim Policy are merely cosmetic changes and the main thrust of the policy package does not deviate from the post-1991 consensus, which, as we now know clearly, is an articulation of the IMF-WB-WTO logic in the Indian context. And this, we must reiterate, militates against any notion of self-reliant growth of the Indian economy with the vast masses as its focus.

⁴ Business Time, April 14, 1998. P.-8.

⁵ The Hindu, April 16, 1998. P.-15.

Update Collective

F-10/12, Malviya Nagar
New Delhi - 110017. (India)
Ph: 6426783 Ph.+Fax: 6237724
Email: delforum@unv.ernet.in