

CHAPTER - 1

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Exports play a critical role in a developing economy, as a catalyst of economic development. By extending the product markets beyond the national boundaries, exports enables it to take the advantage of economics of scale and there by make optimum use of its resources. More importantly, it provides dependable inflow of foreign exchange, very essential for financing the import of modern technology, which is the king-pin of national prosperity. Almost all governments of the world follow an active policy of promoting exports of which financing of exports is one of the important policy planks. However, very little attention is paid to export financing by researchers. This study is an humble attempt to conduct an indepth inquiry into export financing in India as a tool of export promotion.

In a study of 'The relation of Exports and Economic Growth' conducted for a group of 50 countries by R.F.Emary, it was found that higher rate of economic growth tended to be associated with a higher rate of export growth. The study also revealed that a significant co-relation exist between exports and GNP, and that the real GNP per capita recorded an increase of 1 percent for every rise of 2.5 percent in exports.¹

Countries which have excelled themselves in growth league by and large have a dynamic export sector. Often an expanding export trade has proved to be a stimulating factor in country's developmental process. History is full of examples. Britain is a classic illustration where export of wool and later textiles speared off the industrial revolution in the 19th century. Later,

when the country's economy was at low ebb, the discovery of North Sea Oil, its fast exploration and exports set off a remarkable change in the economy of the country. Japan's rapid development is yet another proof of the export sector being major propulsive factor. More recently exports made salient contribution to the growth of Taiwan and Korea. For a country like India which is committed to economic development, the stimulus for development come mostly from within. But with the economy closely involved with the world economy and financial institutions, foreign trade assumes special significance. Foreign trade in general and exports in particular play a strategic role in India by acting as a catalyst for technological updating and production at lower costs. The foreign exchange requirements of a country like India arise to a considerable extent from the large imports of capital goods for development projects. To pay for imports, country requires foreign exchange and this can be met with by either external sources in the form of foreign loans or by way of more and more exports.

Right from the inception of economic planning in India, export promotion has been a top priority area for the government. An active export policy has been pursued for providing various incentives and supports to exports. On July 30, 1970, parliament passed the Export Policy Resolution which emphasised the need for developing exports, to reduce India's dependance on foreign assistance. The resolution laid stress on the strengthening and expansion of credit facilities for exporters. Further the Trade Development Authority was set up in Public sector to assist

promotion of export trade of India. It has started functioning from February 13, 1971. Its primary purpose is to help the export of particular products and to facilitate the import of necessary materials with that objective. Thereafter, number of measures were introduced from time to time to boost the exports.

In view of the very crucial role of exports in the Indian economy, they are given utmost priority by the State in the foreign trade policy. Right from the First five year plan, exports were given prime importance in State policy.

Indian Exports in the global Scenerio

The performance of Indian exports in the world scenerio is indicated by the ratio of Indian exports to the world exports. The relavant data for the period 1950 to 1987 is presented in Appendix-I. The growth of Indian exports (6.4 per cent) was much lower than the growth in world exports (10.45 per cent) during 1950 to 1987. As a percentage of global exports Indian exports declined from less than two per cent to around one per cent between 1950 and 1960, and further to less than half per cent in 1987. Hence, it is pertinent at the present juncture that the tool of export credit should be used as a catalyst for inducing growth in exports for carving out an increasing share of India in the growing cake of World exports.

Export Finance

Finance is life-blood of any trade, whether domestic or international. Exports, being a part of international trade is no exception. Hence, any effort to promote exports must have the vital ingredient of credit. As part of export promotion measures,

Government of India has taken steps for extension of financial assistance to exporters on liberal terms and at concessional rates of interest. Banks, being the main source of finance are encouraged in several ways to extend export finance. Though export credit forms only 5 percent to 6 percent of total bank credit in India, and is not formally categorised as a priority sector credit by Reserve Bank Of India, it is of great significance, since credit is being extended to one of the vital sectors of the economy that stimulates the process of economic development. In order to induce the banks for extending more liberal finance, various facilities are created. These include cheap export refinance by Reserve Bank of India (RBI) and Export Import Bank of India, (Exim Bank), interest subsidy by Government of India (through RBI) and credit guarantee coverage facilities by Export Credit and Guarantee Corporation (ECGC). Export finance is broadly classified into two categories, depending upon at what stage of export the finance is extended namely :

1. PRE SHIPMENT FINANCE
2. POST SHIPMENT FINANCE

Financial assistance extended to the exporters prior to the shipment of export of goods falls within the scope of preshipment finance. Financial assistance extended after the shipment of goods falls within the scope of post shipment finance. Export finance is a concessional and liberal finance specifically serving a vital national cause. Hence, a banker extending such sensitive finance is expected to be prudent and judicious. Further, the export finance is related to external sector of the economy and hence is subject to higher risk and several

additional rules and regulations to be followed in comparison with the inland trade. Thus it casts an additional responsibility on the lending banker. In view of the typical nature of export finance, government has issued the following guidelines to banks:

1. Export finance proposals should be disposed of expeditiously, so that timely and adequate credit is made available to exporters.
2. Banks should adopt flexible approach to export lending and norms of lending. At the same time, it is their responsibility to see that exporters do not misuse this concessional and liberal finance. It should be strictly PURPOSE ORIENTED AND NEED BASED.
3. Whenever a bank is considering export finance facilities, it should view the entire gamut of export activity/transaction and sanction adequate facilities required at both pre & post shipment stages. Provision of any pre shipment facilities in isolation from post shipment operations and requirements should not be resorted to. Preferably, all required facilities should be considered at the same time as a package deal. This is in view of interwoven relations and regulations.
4. Banks must keep in view past performance and future potential of exporters while assessing the credit proposal. In case of new exporters, their experience in domestic market in dealing with relative commodities and other background factors must be taken into consideration.
5. Banks must keep a close watch on the end-use of finance and timely fulfilment of export orders.

Realising the need of providing timely and adequate finance for growth of exports, Government of India, appointed five expert committees during the decade of 1960s for providing policy guidelines. The Cheblani committee in its report of 1964 stated that export credit accounted for only 1/6 of total bank credit. They recommended a substantial increase in this ratio. The Yoshiaki Toda committee reporting in 1969, recommended reduction in the cost of Export credit mainly by reducing the discount rate of R.B.I. for refinancing export credit. It also suggested a reduction in premium rates of ECGC guarantees.

One of the recent research works conducted by Dr.M.T.Kaul titled, "export credit and credit Insurance in India"², at Punjab University Chandigarh points out some important limitations in the field of export credit. It concluded that export credit has been inadequate in relation to its demand. Commenting on the procedures followed in granting of such loans, he observed "can not be said to be wholly rational and the documents needed by banks in the case of short term export credits are large in numbers."

The export credit provided by banks increased from Rs.321 crores to Rs.3134 crores between 1969-70 to 1986-87. In spite of the steep rise in export credit, its share in total bank credit disbursed in the country, declined from 8.08 percent in 1969-70 to 6.71 percent in 1987-88 and further to 5.56 percent in 1987-88. This ratio indicates that export sector is receiving relatively lesser attention of the banks, in spite of several concessions and facilities provided by State and the Reserve Bank

of India.

The ratio of export finance to the volume of exports went up from 23 to 26 percent between 1968-70 and 1979-80 and marginally declined to 24.87 per cent in 1987-88. Thus this ratio has been more or less stagnant over the last two decades indicating that export finance has failed to give quantitative boost to the exports.

Rationale

In view of the declining trend of the ratio of export credit to total bank credit and the stagnancy of the ratio of export credit to total volume of export, there is a critical need of an in depth probe into the export finance policy, procedures and behaviour. This study examines all these aspects of export finance in India with a view to comeup with findings and suggestions having policy implications for giving a big push to the exports through credit. The focus of inquiry is on how to improve the efficacy of export credit as a tool of export promotion, in the context of a developing economy.

Objectives

This is an analytical study of the export financing policy and the growth, and distribution pattern of export credit provided by Indian banks.

The specific objectives of the study are as follows :

1. To examine the importance and bring out the role of export finance in promotion of exports from India.
2. To critically examine the export credit policy of Indian banks.
3. To make a comparative study of the export credit policies

of U.S.A., U.K., West Germany, Japan and India.

4. To examine the role of Export Import Bank of India in promoting export finance.
5. To measure the growth of exports in India.
6. To examine the distribution pattern of export finance, bank groupwise and bankwise.
7. To examine the commoditywise distribution of export credit during the study period with a view to finding out the extent to which the 'thrust' areas (as listed by the government of India) have benefitted.
8. To highlight the problems faced by banks in financing the exporters.

The growth trends are worked out for the period 1950-51 to 1988-89 and the study of distribution pattern of export credit relates to the 1980 to 1988.

Methodology

The growth trends are analysed using the statistical technique of compound growth rate based on three years moving averages. The bankwise and commoditywise distribution pattern is examined by applying the statistical technique of coefficient of rank correlation and simple percentages.

The comparative study of export credit policy of India with four developed countries viz. U.S.A., U.K., West Germany and Japan is based on the descriptive analysis around selected policy planks.

The chapter on Problems faced by the practical bankers in the field of export credit is based on the information collected

through practical experience and in sight aquired over a period of more than ten years in the field.

Study period and data sources

The growth trends in export finance are measured with reference to the period 1969 to 1987. The distribution pattern of export finance is analysed with reference to 1980 to 1987 as data for the earlier period are not available.

The relavant secondary data is collected from report on Currency and Finance by Reserve Bank of India. The bankwise data in collected from Financial Analysis of Banks by Indian Banks' Association. The primary data on commoditywise distribution of export finance related to the period 1987 to 1989 is collected from the records of the bank office of nationalised bank.

The main theme and significance of the study

. The growth in export credit has failed to keep pace with both the growth in exports on one hand and total bank credit on the other. In future, if export credit is to serve as a stimulus for inducing export growth, then it is pertinent at this juncture to find out the short comings in the financial system and the problem areas which constrain its growth and minimise the effic~~acy~~acy of export finance as a tool of export promotion in India. This is precisely what the present study strives to achieve both through policy analysis and empirical analysis of export finance in India.

Chapter Scheme

The desertation is divided in to seven chapters. The first chapter introduces the main theme of the inquiry followed by

methodology used, data sources and chapter scheme. The second chapter reviews the export financing policy of India and presents a comparative analysis with the policies of developed countries. The third chapter presents an empirical analysis of the growth trends in exports and export finance in India. The fourth chapter analyse the distribution pattern of export finance according to types of credit, bank groups, individual banks and commodities. The fifth chapter presents detailed discussion of the practical problems and difficulties experienced by banks at the branch level in transacting business of export finance. The sixth chapter analyse the various export finance schemes of the Exim Bank and its operations. Lastly, the overall findings of the research inquiry are presented followed by suggestions for improving the efficacy of export finance as a tool of export promotion in India.

References

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2. Kaul M.T. (1988), 'Export Credit and Credit Insurance in India', Unpublished thesis, Punjab University, Chandigarh, PP-119.