

TABLE 1
India's Foreign Trade (Rs in millions)

Year	Exports	Imports	Balance of Trade
1986-87	124,520	200,960	-76440
1987-88	157,410	222,440	-65030
1988-89	203,020	277,140	-74120
1989-90	276,810	357,140	-80330

Note: The current exchange rate is hovering around Rs 18 per US \$1.

It is in this scenario of increasing trade deficit that the GOI considered various options to improve the balance of trade position. Export incentives, subsidies, income tax exemptions on total export earnings and export duty reductions were only a few of the new policy directions.

1.2 Directional Change

A significant change in the past about 18 months, however, took the form of what has come to be known as "Countertrade" obligations in global tender notices envisaging that at least a part, if not the whole, of the imports of capital goods and project equipment or other raw materials be tied to the purchase of Indian export goods — in other words, the imports be paid for by exports to a certain degree.

1.3 GOI Policy

There is, as yet, no official GOI policy on countertrade apparently because it would violate GATT Regulations. However, the GOI's own trading arms — the STC and MMTC as well as other undertakings such as ONGC and OIL — have been insisting on countertrade against their own imports for GOI. For example, import of edible oil from Malaysia by the STC was partly tied to countertrade. Gradually, the range of imports covered by countertrade widened even to include defence equipment (Bofors). Quickly, however, traders' ingenuity short-circuited GOI aim of boosting exports and earning critically-needed foreign exchange when they resorted to tying up existing exports to countertrade deals! Thus, the purpose of the new direction — the achievement of additionality of exports and increasing foreign exchange earnings — was hardly realized. Therefore, most recently, the GOI has directed its trading arms that they certify only proven additionality of exports to qualify for export incentives including duty and tax concessions.

2. HOW IT WORKED

2.1 Bulk Imports

Almost half of India's imports were bulk goods such as edible oil, petroleum and oil lubricants, fertilizers, steel, non-ferrous metals, gems, etc. These were exclusively canalized through the GOI's two giant trading arms — STC and MMTC — whose total annual turnover was in the order of \$4 billion as well as the Indian Oil Corporation (IOC). These arms were given freedom to enter into countertrade — reciprocity trade — keeping commercial interests in view. They seized this freedom to claim that part of their foreign exchange needs for bulk imports were met by their own foreign exchange earnings by way of exports through countertrade!

The following table provides data on India's bulk imports for 1987-88 and 1988-89.