Foreign Trade-I

No country is self--sufficient in all the goods and services that it requires. It has to depend on other countries for what it lacks. For example, India depends on other countries for crude oil, edible oil, pulses and so on. That is, we import them. Similarly, India has many surplus items- both goods and services that it can export to other countries. For example, agricultural goods, software services and so on. The exports and imports that a country makes together make up its foreign trade. If exports are more than imports, it is called trade surplus and if imports are more, it is called trade deficit. India almost every year since Independence had a trade deficit.

Exports are foreign exchange earners. They stabilise and strengthen the exchange rate, if they grow. They may be necessary for some imports- for example, jems and jewellery industry imports stones and carves them into jewelry in India. Exports make the domestic economy efficient as international market requires high quality low price goods and services.

Imports are important for exports, domestic capital formation and consumption. They make domestic producers competitive.

India's Exim policy: Its evolution and Content

India's external trade has evolved and witnessed many changes since Independence in 1947. Soon after Independence, the Government followed a policy of protectionism and so import substitution was the norm.

The import substitution policy followed during the restrictive phase gave way to a new phase of trade reforms after mid 1980s aimed at easing trade restrictions to promote economic growth and competitiveness. The pace of change in India's external trade policy and practices gathered real momentum in the 1990's. A slew of reforms were launched which included liberalization of imports. Today, except for a handful of goods disallowed on environmental, health and safety grounds and a few others that are canalized (bulk imports through designated agencies like STC) such as fertiliser, cereals, edible oils and crude, all goods can be imported without a license or other restrictions. Tariff reforms have also been addressed in a more systematic manner with across the board reduction in peak rates rather than selective exemptions. The peak rate of customs duty has been consistently brought down with the aim of converging it with the ASEAN levels. Today it is 10% . The reduction helps in making domestic economy competitive and helps imports for exports.

One of the instruments of shaping the country's trade dynamics is the Foreign Trade Policy. The bold Foreign Trade Policies (FTP) of 2004-09 and 2009-14 recognised that trade is not an end in itself but its primary purpose is to stimulate greater economic activity and employment generation. The FTP identified certain thrust sectors having prospects for export expansion and potential for employment generation. These include: (i) Agriculture; (ii) Handlooms & Handicrafts; (iii) Gems & Jewellery; and (iv) Leather & Footwear. Accordingly, specific policy initiatives for these sectors have been announced in the various "Annual Supplements" to the FTP every year.

The growth performance of trade is a reflection of the trade policies of the Government. Initially, with restrictive trade policies India's share in world export declined continuously from 2.2% in 1948 to 0.42% in 1980. After implementation of a series of trade reform measures India's share in exports rose. Today India has a share of 2% of global trade(2014) In addition, diversification of exports to high growth locations in Asia, CIS countries, Africa and Latin America through special trading arrangements has given an added fillip to export growth.

Besides trade policy , another initiative of the government is to give a fillip to exports has been the introduction of Special Economic Zones (SEZs) .SEZ Act, 2005 .was intended to instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime. The main objectives of the SEZ Act are

- generation of additional economic activity
- promotion of exports of goods and services
- promotion of investment from domestic and foreign sources
- creation of employment opportunities
- development of infrastructure facilities

India's foreign trade 2013-14

India exports registered double-digit growth in the second half of 2013, lowering substantially the current account deficit (CAD), a big worry for the policymakers, and boosted hopes of revival in the economy.

Due to sluggishness in the global economy, notably Europe and the US, India's merchandise exports growth was mostly in the negative zone in the first half the year. However, since July it has **seen a significant turnaround** and registered a healthy double-digit growth, except in November, when the shipments were affected by strikes at ports. In July, exports jumped 11.64 per cent after declining by 4.56 per cent in the previous month year-on-year.

Growth surged to a two-year high of 13.47 per cent in October. A sharp depreciation in the value of the rupee during that time helped in growth in shipments, which helped the sluggish economy.

"Indian **exports is leading the economy** contributing to 70 per cent of the growth of GDP in the July-September quarter," Federation of Indian Export Organisation (FIEO) said.

The trade deficit, difference between exports and imports, declined to $6.8 billion in September from the high of $20.1 billion registered in May. For the first eight months of the current financial year, the deficit declined to $99.9 billion from $129.2 billion recorded in the corresponding period of last year. Deficit is expected to remain in the range of $140-150 billion for the financial year ending March 2014 as compared to $190.90 billion registered in the previous year. The first eight months of this fiscal has witnessed a nearly 23 per cent decline in the cumulative trade deficit, which will considerably ease the pressure on the current account deficit and in turn make the rupee more stable. The value of India's merchandise exports was $203.98 billion in the April-November period of 2013, compared to $191.95 billion in the corresponding period last year, registering a year-on-year growth of 6.27 per cent.

However, imports in the first eight months of the current fiscal declined by 5.39 per cent to $303.89 billion as compared to $321.19 billion recorded in the same period last year. The lower trade deficit has helped curb the current account deficit that had spiralled to a record high of $88.2 billion or 4.8 per cent of the country's GDP in the financial year ended March 2013.

The current account deficit dropped to $5.2 billion or 1.2 per cent of GDP in the July-September quarter of the current year, 75 per cent lower From $21 billion or five per cent of GDP, recorded in the corresponding quarter of last year.India's current account deficit is expected to come down to $40 billion or 2.2 per cent of the GDP in the financial year 2013-14.Imports have come down largely due to a series of steps taken by the government to lower gold and oil demands.

Services sector exports

Services sector in India has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows and FDI inflows. Services sector is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector.The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry. One of the key service industry in India would be health and education. They are vital for the country's economic stability. A robust healthcare system helps to create a strong and diligent human capital, who in turn can contribute productively to the nation's growth.

The Services sector has matured considerably during the last few years and India has a distinctive role to play in services sector especially among the fast growing developing countries.

It is interesting to note that India's share of services exports in the world exports of services, which increased from 0.6 per cent in 1990 to 1.0 per cent in 2000 and further to 3.3 per cent in 2011, has been increasing faster than the share of merchandise exports in world exports. Services exports amounted to a meagre US$ 8.9 billion in 1997, but over the years services exports have grown substantially rising to US $ 110 billion in 2010. During April-July period of financial year 2013-14, the cumulative services receipt (exports) has amounted to US $50.93 billion.

Some of the salient features of the Services sector in India are:

- Contributes around 60% to the GDP of the country, 35% to employment, 25% to total trade, around 40% to exports, 20% to imports and accounts for more than 50% of FDI into the country.
- The Services sector in India has in general grown at a rate higher than the overall GDP growth rate. For the period 2001-11, services sector in India grew at a Compound Annual Growth Rate (CAGR) of 9.2% 1.
- The same story is reflected in the trade figures also. The export of services has been growing at a CAGR of 23.4per cent during 2000-01 to 2010-11 compared to the merchandise exports which grew at a CAGR of 18.6 per cent during the same period .

In 2012, India was amongst the top ten exporters and importers of commercial services with 3.4% share of world exports and 3.0% share of world imports. Despite such encouraging trends in India's services exports, it is generally observed that the exports basket of India's services sector is not well diversified, neither in terms of services categories nor the markets served. It must be noted that India has export potential in many of the skill-based and labour-based services. Besides software, tourism and travel related services and transport services, the services which are particularly important for India are: professional services, R & D services, consultancy services, printing and publishing services, telecommunication services, construction services, educational services, some financial services and entertainment services. Besides, India has a great potential to be an outsourcing destination for many of the above services.

Under the Foreign Trade Policy, 2009-14, services exporters are eligible for many sops: service exporters shall be entitled to duty credit equivalent to 10% of the foreign exchange earned by them in the current financial year.

Four awareness programmes were undertaken in 2011-12 -- one each in North, East, South and Western regions of the country, the Western regional programme would give special reference to entertainment and distribution sector, the South to education sector, East to environmental and health care service sector and North special reference to Hotel and Tourism related service sector.

Every sector was badly affected in the recession and only the services sector like food, travel and hospitality saw good growth and sustained the economies of many nations.

SEZs

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, Special Economic Zones Act, 2005, was made.

The main objectives of the SEZ Act are:

a) generation of additional economic activity.
b) promotion of exports of goods and services;
c) promotion of investment from domestic and foreign sources;
d) creation of employment opportunities;
e) development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for:

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification

Incentives and facilities offered to the SEZs

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax(done away with)
- External commercial borrowing by SEZ units upto US $ 500 million in a year
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act(done away with recently)
- Exemption from dividend distribution tax(done away with. Read ahead).
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act). 2013

The government will soon notify the Special Economic Zones (SEZ) reforms which seek to ease land requirement norms and provide for an exit policy. The government had announced these reforms in the supplementary Foreign Trade Policy (FTP).

Once a major attraction for investors, SEZs lost sheen following imposition of MAT (Minimum Alternate Tax) and DDT (Dividend Distribution Tax), besides the global slowdown.

The government had taken note of the fact that there are acute difficulties in aggregating large tracts of uncultivable land lying vacant, to set up SEZ.

For multiproduct SEZ, minimum land requirement has been brought down from 1,000 hectares to 500 hectares and for sector-specific SEZs, it has been brought down to 50 hectares.

Also, there would be no minimum land requirement for setting up IT\ITES SEZs, besides easing of minimum built up area criteria.

The 170 functional SEZs have attracted an investment of over Rs 2.36 lakh crore and exports from them totalled Rs 4.76 lakh crore in 2012-13, a growth of over 2,000 per cent over the 7 years period. So far, the government has notified about 390 SEZs in different parts of the country.

India's trade reforms since 1991

One of the major dimensions of the economic reforms undertaken since 1991 was globalizing Indian economy of which liberalization of foreign trade is a central aspect. The following reforms were made

- Devaluation of the currency in 1991 to boost exports
- Rupee convertibility on the trade account since 1992 to incentivize exporters
- Cutting down the peak customs duty that stood at above 300% in 1991 to 10% in 2009 to import goods and services primarily for facilitating exports
- Simplification of procedures
- SEZs
- FTAs/Cepa/Ceca/BTIA
- WTO-led schedule for global trade integration
- Incentives for exporters like interest rate subsidy(subvention) etc
- Sector specific packages
- diversification

The effect is that exports have registered remarkable growth; created employment; given the country adequate forex; made the economy competitive; brought in FDI etc.

Export promotion strategy

The target is to double the country's merchandise exports in dollar terms over the next three years (2011-12 to 2013-14) from US $ 246 billion in 2010-11 to US$ 500 billion in 2013-14.To realize this, exports have to grow at a compound average growth of 26.7 % per annum.

The overall strategy to realize this goal is :

Product Strategy

1. Build on our strength in sectors with great growth potential engineering goods basic chemical industries and organic and inorganic chemical industries pharmaceutical industry (including biotech) electronics
2. Promote light manufacturing exports with high value addition leather products and textiles
3. Encourage high employment generating sectors gems and jewellery agricultural products

[illegible] Strategy

[illegible] markets in Asia (including ASEAN), Africa and Latin America. Open up new [illegible] both in terms of markets and new products in these new markets Retain presence and market share in our "old developed country markets"; Move up the value chain in providing [illegible] in these old developed country markets.

Technologies and R&D

Areas that hold out promise for high technology exports:

- Pharmaceuticals
- Electronics
- Automobiles
- Computer and software based smart engineering.
- Environmental products; green technology and high-value engineering products.
- High end areas in electronics, aerospace, and engineering products.

Building a Brand Image

- thrust for quality upgradation.
- expanded certification of export products encouraged, where needed.
- Brand India promotion campaign for key export products

Essential Support

Essential policy support needed to realize the ambitious export targets for 2013-14 and beyond is:

- Stable policy environment: Continuation of existing incentive schemes
- Preferential access to new markets: putting in place conducive trading arrangements
- Reduction in transaction costs: Implementation of recommendations of Task Force
- Substantial step up in overall Plan support
- Priority strengthening of trade related infrastructure

Non Traditional Export Markets

The Government of India has identified non-traditional export markets under the Focus Market Scheme and Market Linked Focus Product Scheme in the Foreign Trade Policy. The details of these markets are as below:

1. Focus Market Scheme (FMS):

Under the FMS in the Foreign Trade Policy, fifty two (52) African countries, thirty one (31) Latin American countries, ten (10) Commonwealth of Independent States-Central African Republics, five (05) East European countries, eleven (11) Asia-Oceania block countries and one (01) Asian country have been notified for benefit on exports of all products.

2. Market Linked Focus Product Scheme (MLFPS):

Under the MLFPS in the Foreign Trade Policy, several non-traditional export markets in Africa, Middle East Asia, East Asia, Latin America, Central Asia such as Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Cambodia, Vietnam, Qatar, Singapore, Bahrain, Kuwait, Bangladesh, Philippines, Saudi Arabia, Iran, Korea PR, Japan and China have been notified for benefit on exports of select products. The list is expanded in the 2012 Supplement.