India's External Sector

Post independence, India adopted 'inward looking' strategy of industrialization – led to uncompetitive domestic industrial structure

- Heavily influenced by Soviet planning
- Origins of such trade policy in British colonial policy of laissez faire. Viewed economic trade as 'whirlpool of economic imperialism'
- Nehru believed a powerful state with a centralised planned economy to be essential if the country was to industrialise rapidly. Bombay plan also emphasized on greater role of government and trade protection. Fact that during world wars the economic growth of the country was stronger reinforced belief on trade protectionism.
- The so-called "License Raj" was marked by a maze of import controls, an overvalued exchange rate to facilitate the importation of necessary capital goods, the promotion of heavy industry, selective financial incentives to the private sector, and a large state sector.
- Exports were imp. only to generate foreign exchange and export basket was concentrated on primary products
- Exports were not considered engine of growth
- Imports confined to essential consumer goods, raw materials and investment goods needed for domestic prodn and exports
- Second FYP – significant spurt in import dd and rapid depletion of forex -> BoP crisis in 1957.
    - QRs imposed and continued till 2001 in varying intensity
    - Import tariffs also introduced in 1960s
    - Devaluation of rupee in 1966 as BoP crisis worsened due to wars and economic condition
- Weakness of ISI:
    - India's policy of import substitution was depriving many industries of the required inflow of increasing levels of technology with which to build upon. In fact the lack of competition and mass government subsidies allowed many business and economic inefficiencies to go unchallenged and undisciplined within the economy.
    - This created an environment where in addition to resources not being allocated efficiently, industries were not motivated to continue product development and evolution, and products quickly became vastly outdate
    - Inadequate attention to agriculture sector
- Facts

	Share in world merchandise export		Export plus import/ GDP	
Year	1948	2010	1980	2011
India	2.2%	1.5%	16.6%	55%
China	0.9%	10.5%	22.3%	>70%

- Pre 1990
    - Growth performance during 1980s was better due to depreciation in REER and resumption of world trade
    - Two Committees were set up

Year			

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1984	Abid Hussain Committee on Trade Policies	Abid Hussain	• Growth led exports rather than export led growth. Phased reduction of effective protection • Recommended phased reduction of effective protection • Long term trade policy was introduced to boost exports and encourage efficient import substitution
1978	Report of the Committee on Import Export Policies and Procedures	PC Alexander	• Simplification of the import licensing of procedure and provided framework for shifting from 'controls' to 'development' • Led to selective import liberalization measures to make import of capital good easier

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Crisis of 1991

- CAD – 3.2% of GDP
- Forex only for 2.5 months
- Short term debt was 1465% of forex
- High rate of inflation
- Expectation of devaluation led to withdrawal of deposits by NRIs
- Collapse of Soviet union eroded external support and also undermined faith in central planning
- Since some reforms were already started in 1980s, liberalization of the policy regime was politically acceptable

Post 1991

- Trade policy sought to minimize the role of quantitative restrictions and reduce tariff rates
- Shift from import substitution to export promotion
- Moved away from provision of direct export subsidy to indirect promotional measures
- Market based exchange rate
- Imports and exports increased on an average at 20% per annum over 1993-96. Decelerated during 1996-99 due to unfavourable external sector
- Trade deficit declined
- By 2012, India's export plus import as proportion of GDP is 55% - RBI annual report.

Structural changes in India's Foreign Trade

- **Diversification in export basket:** Export basket moved away from primary products to manufactured products[1]
  - Exports of petroleum products increased

[1] Compositional changes in India's export basket have been taking place over the years. While the share of primary products in India's exports fell over the years from 16 per cent in 2000-1, in 2012- 13 (April-November) it regained the share of 16 per cent mainly due to the export of agricultural items like rice and guar gum meal. The share of manufacturing exports fell drastically from 78.8 per cent in 2000-1 to 66.1 per cent in 2011-12 and further to 64.5 per cent in 2012-13(April-November) mainly due to the fall in shares of traditional items like textiles and leather and leather manufactures even though the share of engineering goods and chemicals and related products increased

- Among manufactured products, four items – chemical and allied products, engineering goods, garments and textiles account for most of the growth.
  - Within primary –export of minerals and ores fell, also agri and allied products fell. Traditional export items like tea, coffee, cereals, handicrafts and carpets declined
  - India has made new forays in skill-and capital-intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional area of strength, i.e. in the labour-intensive exports like textiles, leather and leather manufactures and handicrafts, and carpets
  - However, diversification is restricted. According to GoI study, in top 100 imports of the world, India has only 6 items with a share of 5% or more in 2010, 15 items with 2% share or more.
  - India has a very high export share in world imports in the case of only two four-digit HS items, jewellery and diamonds.
  - There are number of items where India has already developed competence but still India's share in world imports remain very small. Some of them are simple items like taps, cocks, valves, and similar parts for pipes, boiler shells, tanks etc.
- **Destination-wise diversification:** OECD continued to be the largest market, prominence of OPEC and developing countries increased while steep erosion in relative position of Europe.
  - The share of Asia and ASEAN in total trade increased from 33.3 per cent in 2000-1 to 57.3 per cent in the first half of 2011-12, while that of Europe and America fell from 42.5 per cent to 30.8 per cent respectively. This has helped India weather the global crisis emanating from Europe and America.
  - Only five advanced western countries among the top 15 trading countries
  - The major changes are the entry of Indonesia, Korea, Iran, and Nigeria in the new list in place of Italy, Malaysia, France, and Australia.
  - US now on third position, followed by UAE (first) and China
  - In 2000-01 – top 15 countries accounted for 59.6%, now 55.5%
  - India's exports to all the top three destinations, i.e. the UAE followed by the USA and China, registered growth of 43.3, 30.8, and 69.1 per cent in 2010-11 and 21.9 per cent, 40.7 per cent, and 34.2 per cent in the first half of 2011-12 respectively.

India's Service trade

- Trade in services is largely dominated by the developed western countries except for China, India and Singapore
- During 2000-11, merchandise export grew at 18.6% while service export increased by 23.4%. Suffered some setback during global financial crisis in 2009-10 but the growth bounced back.
- Service trade mostly dominated by:
  - Software services (41.7%)
  - Business services (18.1%)
  - Travel (11.5%)
  - Transportation (10.7%)
  - Highest growth rate observed in software sector, business and financial services, transportation and inflation
- Going forward, if the euro zone debt crisis remains unresolved and the contagion

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impact spreads to other advanced countries, companies in the US and EU countries could reduce their information technology (IT) budgets which can affect the prospects of India's software exports. Similarly, weakening of economic activity in advanced economies can lead to a further downtrend in business and financial services.
- India's service imports – dominated by business services, transportation and travel. During 2009-10, deceleration. Growth has picked up.
- India's balance of trade in services – Surplus in this has financed deficit in manufacturing sector – during 2005-10, surplus on an average financed 41% of merchandise deficit

Other

- After the conclusion of Uruguay round and establishment of WTO, number of regional trade agreements – SAFTA in 2004
- Anti dumping initiations by India – 45 in 2010
    - India has been getting a lot of undue flak internationally for the highest anti-dumping initiations, though the value of imports prior to the imposition of anti-dumping duties on these items is negligible. The share of imports from the target countries in the total imports of India in the year prior to imposition of duties i.e., 2009-10 for the 12 items for which antidumping duties were imposed by India during 2010- 11 (April-March) is only 0.6 per cent.
    - Though India's anti-dumping policy has been directed to checking genuine cases of dumping there is a need for some fine-tuning of its strategy to avoid unnecessary international criticism.
- Though world over growth of FTAs, countries resorting to non-tariff measures

Problems

- India's trade deficit as a per cent of GDP at 5.7 percent in 2010, is one of the highest.
- High trade deficit with China (machinery) and Switzerland (gold).
- Reform and simplify taxes - GST
- Improve social and physical infrastructure to come at par with trading companies
- Difficulties in doing business in India:
    - On 'trading across borders', India is ranked 109 with Singapore at first rank and China at 60th.
    - India requires 8 export documents to be cleared and China 5 with good practice economies like France at 2.
    - Time to export is 16 days for India, 21 for China, and 5 for Denmark.
    - Cost to export is $1095 per container for India, compared to $500 in China and $450 in Malaysia. Number of import documents that need clearance are 9 in India, 5 in China, and 2 in France.
    - Time to import is 20 days in India, 24 in China, and 4 in Singapore. Cost to import is $1070 per container in India, $545 in China, and $439 in Singapore.
    - As per the World Bank and International Finance Corporation (IFC) publication Doing Business 2012, India is ranked 132 on 'ease of doing business'.
- While India has made new forays in skill-and capital-Intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional area of strength, i.e. in the labour-intensive exports like textiles, leather and leather manufactures, handicrafts, and carpets

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- While India has signed number of FTAs, these have not received sufficient attention amongst the platers
    - It is important to ensure that any deal, which would have taken several years to conclude, should provide some real market access for industry. This is important because the earlier two deals with Japan and South Korea – though substantial – failed to deliver the expected results from an industry perspective. One did not see the kind of enthusiasm from industry about the deals, expected with markets as large as South Korea and Japan. The government understood the need for greater dissemination of information regarding these agreements, and it undertook a familiarisation drive in 2012 to help the industry capitalise on benefits now available with both these countries.
    - An important issue that the government may like to focus on with the countries where FTAs are already in place is the signing of mutual recognition agreements (MRAs) on food and industrial products. Without MRAs, companies on both sides will find it difficult to achieve real market access, since technical barriers can act as non-tariff barriers to exports.

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The top four items in India's manufactured exports are engineering goods, gems and jewellery, chemicals and related products, and textiles (see Table 1). Since 2007-8, electronic goods have displaced leather and manufactures from fifth place with the share of the former increasing and the latter decreasing. There has been a gradual shift in India's manufactures exports from labour-intensive sectors like textiles, leather and manufactures, handicrafts, and carpets to capital- and skill- intensive sectors.

Engineering goods exports has seen an almost steady rise in shares from 1999-2000 to the first half of 2011-12 and high growth rates of 84 per cent and 43.6 per cent in 2010-11 and the first half of 2011-12 respectively mainly due to the high growth rates of two major items machinery & instruments and transport equipments besides residual engineering items with very high growth rates. The major markets for Indian engineering exports in 2010-11 were China, the USA, the UAE, Singapore, Saudi Arabia, South Africa, Germany, Sri Lanka, and the UK. All these markets showed tremendous export growth with China topping at 409 per cent.

With the highest growth rate among manufactures at 58.4 per cent in the first half of 2011-12,gems and jewellery, the second major export item, has retained its share of around 16-17 per cent since 2000-1. In 2010-11, this sector accounted for 14.7 per cent of India's total merchandise exports. India is the largest cutting and polishing centre for diamonds in the world. Of the global polished diamond market, India's share is estimated to be 70 per cent in terms of value, 85 per cent in terms of volume, and 92 per cent in terms of pieces. As per the Gem and Jewellery Export Promotion Council (GJEPC), this sector as a whole supports about 34 lakh jobs. The gems and jewellery manufacturing sector consists of large number of small and medium enterprise (SME) units, employing skilled and semi-skilled labour, almost entirely in the unorganized sector

The share of chemicals and related products has fallen marginally over the years

mainly because of the fall in shares of basic chemicals, pharmaceuticals, and cosmetics. The growth in 2010-11 and the first half of 2011-12, however, have been higher by 26.5 per cent and 34.2 per cent respectively. The steady fall in share of the textiles sector to single digits since 2000-01 is mainly due to a fall in shares of ready-made garments and cotton, yarn, fabrics, made-ups, etc. Clearly, India has not been able to utilize the opportunity provided by the phasing out of the Multi Fibre Agreement (MFA)[2] in 2005.

The rise of the electronics sector, though long overdue, is a welcome sign. This is due to the recent policies of the government to help this sector like including many electronic items in the Focus Product Scheme[3], [4] and customs duty exemption to many electronic components. The Tsunami in Japan which led to disruption of supply chains in Japan could also have benefitted India at a time when support measures were taken by India for this sector.

Table 1 : Performance of Top Four Items in India's Manufactured Exports

	Shares				CAGR	Growth rate		
	1999-00	2010-11	2010-11 Apr.-Sept.	2011-12 Apr.-Sept.	1999-00 to 2008-09	2009-10	2010-11	2011-12 (Apr.-Sept.)
1. Engineering Goods	11.9	23.8	21.7	22.2	28.0	-18.7	84.0	43.6
1) Machinery	5.6	12.2	13.1	13.1	30.5	-13.3	55.7	40.2
a) Machine tools	0.2	0.1	0.1	0.1	20.6	-26.4	12.8	18.3
b) Machinery & instruments	3.2	4.8	4.9	4.6	28.1	-13.3	25.2	31.6
c) Transport equipments	2.2	7.3	8.1	8.4	33.9	-12.9	86.6	45.7
2) Iron & steel	2.3	2.6	2.3	2.2	24.5	-39.2	80.0	31.5
a) Iron & steel bar rod etc	0.3	0.4	0.4	0.5	30.4	-34.2	49.4	50.2
b) Primary & semi-finished iron & steel	2.0	2.2	1.9	1.7	23.5	-40.4	87.8	27.1
3) Other engineering items	4.1	9.1	6.2	7.0	25.9	-21.7	145.7	56.8
a) Ferro alloys	0.2	1.2	1.0	0.6	43.6	-43.1	234.6	-14.2
b) Aluminum other than products	0.4	0.4	0.3	0.2	14.5	11.3	79.2	0.3
c) Non-ferrous metals	0.1	3.7	1.2	1.1	60.5	5.4	323.2	29.5
d) Manufacture of metals	3.3	3.8	3.7	2.9	22.5	-27.2	70.5	10.6
e) Residual engineering items	0.1	0.1	0.1	2.1	21.3	-5.9	47.4	3512.9
2. Gems & Jewellery	20.4	14.7	14.3	16.1	15.9	3.7	27.0	58.4
3. Chemicals & Related Products	13.4	11.5	12.2	11.6	19.3	0.9	26.5	34.2
1) Basic chemicals, pharma & cosmetics	8.4	7.7	8.2	7.5	19.8	0.7	22.0	29.2
2) Plastics & linoleum	1.6	1.8	2.0	2.2	19.7	10.4	37.7	56.1
3) Rubber, glass & other products	2.4	2.2	2.4	2.6	18.7	-0.5	33.2	51.4
4) Residual chemicals & allied products	0.9	0.6	0.5	0.5	14.6	-5.2	43.7	29.9
4. TEXTILES	25.0	8.7	9.6	8.7	8.6	-1.2	17.1	27.0
1) Ready-made garments	13.0	4.5	4.8	4.5	9.7	-2.0	4.6	29.4
2) Cotton, yarn, fabrics, made-ups, etc	8.4	2.2	2.5	2.2	3.4	-11.1	48.8	22.6
3) Man made textiles & made-ups, etc	2.3	1.8	2.0	1.9	16.2	19.7	16.9	35.0
4) Natural silk textiles	0.6	0.1	0.1	0.1	4.9	-18.4	21.2	-34.4
5) Wool & woolen mfrs	0.1	0.0	0.0	0.1	8.0	-10.3	16.6	59.9
6) Coir & coir mfrs	0.1	0.1	0.1	0.1	13.9	7.7	-4.9	31.3
7) Jute mfrs	0.3	0.2	0.2	0.2	10.3	-28.4	110.2	-4.2

Source : Computed from DGCI&S data

[2] The Multi Fibre Arrangement (MFA) governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It expired on 1 January 2005.

[3] To incentivise export of select products that have high export intensity / employment potential, thereby to offset infrastructure inefficiencies and other associated costs involved in marketing of these products. Exporters are given credit, depending on their value of exports.

[4] Focus Market Scheme, Latest policy: (a) 29 new countries have been included within the ambit of Focus Market Scheme (b) The incentives provided under Focus Market Scheme have been increased from 2.5% to 3% (c) There has been a significant increase in the outlay under 'Market Linked Focus Product Scheme' by inclusion of more markets and products. This ensures support for exports to all countries in Africa and Latin America, and major Asian markets like China and Japan.

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Box 7.5 : Fifth Trade Policy Review: Issues Raised and India's Responses

The Openness of India's Trading Regime: Questions were asked about the openness of India's trading regime. In response India pointed out that year after year, India's imports had outpaced exports. In terms of percentage of GDP, the country's merchandise trade deficit is one of the highest in the world. India has been autonomously reducing its tariffs over the years. The simple average most favoured nation (MFN) tariff rate declined from 15.1 per cent in 2006-7 to 12 per cent in 2010-11. Both the average agricultural and industrial average tariffs have declined over time. The tariffs on 71 per cent of India's tariff lines are between 5 and 10 per cent.

Gap between India's Bound and Applied Rates on Agricultural Products: Some members mentioned the large gap between India's bound and applied rates on agricultural products. India responded that the large gap reflected India's steady and continued autonomous tariff liberalization. During the four years since the last TPR, the tariffs on some agricultural commodities had to be adjusted in the face of high volatility in food prices. In most cases tariffs have been brought down and have stayed down. In a few instances they have been raised again but never above their original levels.

Export Incentives: Questions were asked about export promotion schemes. It was explained that India's export promotion schemes are based on the concept of duty neutralization and providing a level playing field. These schemes are reviewed regularly.

FDI Policy: To a number of questions on FDI policy, India explained that the continuing thrust, during the period since India's last TPR in 2007, has been on making the FDI policy more liberal and investment friendly. The FDI guidelines have been significantly rationalized, simplified, and consolidated, with the aim of providing a single policy platform for reference of foreign investors. Several new sectors, such as petroleum and natural gas and civil aviation were either opened up to foreign investment or significantly liberalized during this period. Efforts were also being made to streamline and simplify the business environment and make regulations conducive to business.

India's IP Policies and Enforcement: On questions related to India's IP policies, India replied that a number of initiatives have been taken to enhance IP protection and enforcement. The changes proposed in the Copyright and Trademark Acts would enhance protection to intellectual property rights (IPRs) in digital technology particularly with regard to the dissemination of protected material over digital networks. These have been supplemented by administrative as well as judicial measures to strengthen the IPR regime. The provisions on IP protection in these laws are further supplemented by border measures to prevent the import of goods involving copyright piracy and counterfeit trademarks. Another initiative taken by Indian customs is the facility for online registration by the right holders through the web-based Automatic Recordation and Targeting for IPR Protection System.

Government Procurement: On this subject, India explained that the procurement of high tech items and high value tenders, above US$ 50,000 is generally open to international bidders. Major reforms are on the anvil for increasing coverage, improving transparency and efficiency, and better enforcement, which are triggered by domestic concerns relating to enhancing the value for money. An omnibus procurement law applicable to the entire country and to all procuring entities, including public-sector enterprises, is being deliberated upon.

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Sanitary and Phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) measures: In response to question on India's SPS and TBT measures, India explained that specific trade concerns raised against India have been largely addressed. Regulations adopted in the past have been on the basis of scientific risk analysis.

Export Restrictions: There were some questions on India's use of export restrictions. India responded that export restrictions have been used on some occasions for purposes of domestic supply management but these have been purely on a temporary basis. The ban on the export of rice and wheat had to be extended in 2009 due to a dislocation in production and again in 2010 due to the severest drought in the country in the last forty years. However, the export of wheat and non-basmati rice is now completely free. The export of basmati rice is and has always been free. Restrictions on cotton exports were imposed for only a brief period last year. Cotton yarn exports have been made completely free. Similarly, cotton is also freely exportable.

Other Issues: There were questions related to customs valuation, tariffs, and other charges, internal taxation, import licensing, and the use of trade remedies. In response it was pointed out that India cannot be accused of protectionist intent in its use of trade remedies. If that were the case, then the easy route of increasing the tariffs up to the bound rates could have been used; that has not been done. Anti-dumping measures are legitimate instruments against unfair trade practices. Investigations are carried out in a fair and transparent manner and subjected to strict scrutiny. As a rule India only imposes the lesser duty and not the full dumping margin as is done by some WTO members. This underscores the fact that trade remedies are not used as a protectionist tool. Despite the fact that many members, with very deep pockets, use subsidies as part of their trade policy, India has not imposed a single anti-subsidy measure. As on date, there is only one safeguard duty in force. In the wake of the economic crisis, there was a spurt in application of safeguard investigations in 2009. A total of 14 applications were received but in nine cases, investigations were either terminated or a decision was taken not to impose any safeguard duty. Duties were imposed only in five cases and those too have since been withdrawn. Moreover, India has never taken recourse to quantitative restrictions as safeguard measures. Import licensing affects only a few restricted items primarily on grounds of protection of human, animal, and plant life and the environment. The licensing regime is open and transparent. Licences are granted on a non-discriminatory basis. The relevant regulations are all available in the public domain and the DGFT acts as the nodal agency.

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Highlights of Annual Supplement (2013-14) to the Foreign Trade Policy 2009-14 Announced by Shri Anand Sharma

1. Measures to revive investors' interest in SEZs.

1.1 A package of measures has been formulated to revive investors' interest in SEZs and to boost exports. The salient features of the package are:-

(i) In view of the acute difficulties in aggregating large tracts of uncultivable land for setting up SEZs, while ensuring vacancy and contiguity, we have decided to reduce the Minimum Land Area Requirement by half. For Multi-product SEZ from 1000 hectares to 500 hectares and for Sector-specific SEZ from existing 100 hectares to 50 hectares.

1.2 IT Exports constitute a very significant part of India's exports and IT SEZs have a major contribution in it. Exports from IT SEZs during financial year 2012-13 have exceeded Rs. 1.40 lakh crore registering a growth of over 70% over the previous year's exports. We have specifically addressed issues to boost growth of this very important sector and also to give a fillip to employment and growth in Tier-II and Tier-III cities.

(i) The present requirement of 10 hectares of minimum land area has been done away with. Now there would be no minimum land requirement for setting up an IT/ITES SEZ. Only the minimum built up area criteria would be required to be met by the SEZ developers.

1.3 The present SEZ Framework does not include an Exit Policy for the units and feedback was that this was perceived as a great disadvantage. It has now been decided to permit transfer of ownership of SEZ units, including sale.

2. Zero Duty Export Promotion Capital Goods (EPCG) Scheme

2.1 Foreign Trade Policy has two variants under this scheme, namely, Zero Duty EPCG for few sectors and 3% Duty EPCG for all sectors. During the last announcement on 5th June, 2012, a new Post Export EPCG Scheme was also announced which was notified on 18 February, 2013 by the CBEC. Based on the request of all stakeholders, Government has decided to harmonize Zero Duty EPCG and 3% EPCG Scheme into one scheme which will be a Zero Duty EPCG Scheme covering all sectors.

3. Widening of Interest Subvention Scheme

4. Widening the Scope of Utilization of Duty Credit Scrip

4.1 Duty Credit Scrips issued under Focus Market Schemes, Focus Product Scheme and Vishesh Krishi Gramin Udyog Yojana (VKGUY) can be used for payment of service tax on procurement of services within the legal framework of service tax exemption notifications under the Finance Act, 1994. Holder of the scrip shall be entitled to avail drawback or CENVAT credit of the service tax debited in the scrips as per Department of Revenue rules.

4.2 All duty credit scrips issued under Chapter 3 can be utilized for payment of application fee to DGFT for obtaining any authorization under Foreign Trade Policy. This benefit shall be available only to the original duty credit scrip holders. Duty credit scrip can also be paid for payment of composition fee and for payment of value shortfalls in EO under para 4.28 (b) of Hand Book of Procedure Vol. 1.

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5. Market and Product Diversification

5.1 Norway has been added under Focus Market Scheme and Venezuela has been added under Special Focus Market Scheme. The total number of countries under Focus Market Scheme and Special Focus Market Scheme becomes 125 and 50 respectively.

5.2 Approximately, 126 new products have been added under Focus Product Scheme. These products include items from engineering, electronics, chemicals, pharmaceuticals and textiles sector.

6. Incremental Exports Incentivisation Scheme

6.1 Government has announced Incremental Export Incentivisation Scheme on 26.12.12 for the exports made during January 2013 to March 2013. This scheme is available for exports made to USA, EU and Asia. It has been agreed to extend this scheme for the year 2013-14. The calculation of the benefit shall be on annual basis under the extended scheme.

Address by Anand Sharma at the Release of Annual Supplement 2013-14 to the Foreign Trade Policy 2009-14

The Union Minister for Commerce, Industry & Textiles Shri Anand Sharma today released the Annual Supplement 2013-14 to the Foreign Trade Policy 2009-14. Following is the Text of the Speech delivered by Shri Sharma here today:

Four years ago, the Government had announced the 5-year Foreign Trade Policy for the period 2009-14. As we approach the end of this period, it is time for us to take stock of our performance, recognize the challenges we are faced with and take policy measures which will help boost exports. Last year has been an extremely difficult one for the global economy and the challenging economic situation in Euro Zone continues unabated. Recovery in United States is weak and in this environment it has been a difficult task for our exporting community. The World Trade Organization in its latest report has revised the global trade growth projections downwards from 3.7% to 2.5% which is less than half of the previous 20 years average. This is indeed a disturbing trend. We view exports not only as a valuable source of foreign exchange, which helps in stabilizing the Current Account Deficit, but it is also a key contributor to growth and employment.

In the financial year 2012-13, India's exports have crossed US$ 300 billion reaching at US$ 300.60 billion but compared to previous year, it fell by 1.76%. However, it is a matter of concern that the trade deficit which was US$ 183.4 billion last year has increased to US$ 190.91 billion. If we look at the direction of Indian exports, we are able to discern a shifting trend as Indian exports to Asia, Africa and Latin America during 2012-13 touched US$ 195.27 billion, accounting for 65% of our total export basket. This is indeed a development with significant import as South-South trade is assuming a new dynamics. Apart from this, value added exports have got a centrality in our export basket as engineering exports accounted for US$ 57 billion, textiles accounted for US$ 26 billion and pharmaceuticals at US$ 15 billion.

Agricultural exports by the very nature are sensitive as they have a direct bearing on the domestic price situation as well as demands of the agro-based industry. However, we have always strived to strike a balance in securing interests of the farmers and consumers. On account of bumper harvest last year, export of all agricultural commodities was freely allowed.

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Export of non-basmati rice, wheat and wheat and wheat products was banned in 2007. Wheat products have been allowed for exports since 2009 and non-basmati rice and wheat exports have been allowed in September 2011. As a result, we have become the largest rice exporter in the world and the second largest wheat exporter. We have exported more than 6 million MTs of wheat since September 2011 and at present except pulses and edible oils, export of all agricultural commodities is free. We have also taken series of measures to promote export of Organic Agricultural produce and in order to provide a predictability for long-term contracting, we have taken a view to exempt export of certain processed and value added products to be freely exportable even in the eventuality of a restriction on exports of basic farm produce. For instance export of cheese, ghee, butter, casein, casein products are exempted from export ban even in the event of a ban on export of milk and milk products.

In the last 4 years, we have aggressively pursued a policy of trade liberalization and engaged with all dynamic parts of the world. We have concluded comprehensive economic partnership agreement with ASEAN after signing of Services and Investment at the Commemorative Summit last year. Similar agreements had already been finalized with Korea, Japan and Malaysia. I have just returned from Brussels and I am happy to share with you that the negotiations for the India-EU BTIA are progressing well and both sides have given a clear mandate to negotiators for concluding a balanced and fair agreement at the earliest. I am confident that over the next couple of months, we should see intensification of this process and hope that we will be able to arrive at a broad understanding soon.

Over the last few months, we have been engaged in an active consultation with the apex chambers, Export Promotion Councils, industry bodies and we convened a meeting of the Board of Trade for comprehensive review to get a sense of the sectors which require special support for exports. We have held detailed dialogue with the Finance Ministry and I myself met Finance Minister on two occasions and I am grateful for the support that has been extended for today's announcements.

In June last year, I had outlined the 7 pillars which define our approach to foreign trade : (a) Giving a focused thrust to employment intensive industry because we view exports not only in terms of their economic contribution but as a means of generating gainful employment, (b) Encourage domestic manufacturing for inputs to export industry and reduce the dependence on imports, (c) Promote technological upgradation of exports to retain a competitive edge in global markets, (d) Persist with a strong market diversification strategy to hedge the risks against global uncertainty, (e) Encourage exports from the North Eastern Region given its special place in India's economy, (f)Provide incentives for manufacturing of green goods recognizing the imperatives of building capacities for environmental sustainability and (g) Endeavour to reduce transaction cost through procedural simplification and reduction of human interface. I have persisted with the same approach in this year's policy announcements.

Now I would like to share with you the measures which we are taking this year for giving a fresh fillip to exports.

The Zero Duty EPCG[5] Scheme has been an important instrument for increasing technology intensity of our exports. This scheme was scheduled to expire in March 2013. In a major decision, we have decided not only to extend the Zero Duty EPCG scheme beyond March 2013, but also merge it with 3% EPCG Scheme. Now the Zero Duty EPCG benefits will be available to

[5] Zero duty EPCG scheme allows import of capital goods (including CKD/SKD thereof as well as computer software systems) for pre-production, production and post-production at zero Customs duty, subject to an export obligation equivalent to 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorization issue-date.

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all sectors. We have also undertaken a major simplification of the EPCG scheme, details of which will be available through separate notification. Further, for units located in J&K, North East and Sikkim, exporters would be required to achieve 25% of normal export obligation under the scheme. Time period for completion of export obligation for BIFR units has been extended to 9 years instead of 6 years in normal cases.

We would like to encourage our exporters to procure capital goods domestically and thus we have decided that if a EPCG authorization holder procures capital goods from domestic market, the export obligation of such authorization shall be reduced by 10%. Being Textile Minister, I have been conscious of the demands and aspirations of the textile industry. Hitherto, any exporter who had obtained benefits under the Technology Upgradation Fund Scheme was in-eligible for obtaining benefits under Zero Duty EPCG Scheme. We have now decided that even an exporter who has obtained benefits under TUFS Scheme, will be eligible for benefits of Zero Duty EPCG Scheme. This I hope will provide a push to our labour intensive textile industry.

The Special Economic Zones (SEZs) scheme has been a key instrument for promoting exports from India. Today, 389 SEZs have been notified of which 170 are functional and they employ over one million persons. We have received investment of over Rs. 2.36 lakh crores in SEZs and exports from SEZs have seen a dramatic jump from Rs. 22,840 crores in 2005-06 to Rs. 4.76 lakh crores in 2012-13, a growth of over 2000% over the 7 year period. Exports from SEZs during the last financial year have registered a growth of over 31% over the previous year. Undoubtedly, these are significant achievements, but the SEZ scheme has not been able to realize its full potential so far. We have undertaken a comprehensive review of the SEZ Policy after intense stakeholder consultation and after a year- long process, today I am happy to announce a package of reforms for reviving investor interest in SEZs.

We have taken a note of the fact that there are acute difficulties in aggregating large tracts of uncultivable land which is vacant and contiguous and we have decided to reduce the Minimum Land Area Requirement by half for different categories of SEZs. For Multi—product SEZ, this has been brought down from 1000 hectares to 500 hectares and for Sector-Specific SEZs, it has been brought down to 50 hectares from the existing 100 hectares.

Currently, a single-product SEZ is allowed to come up in a land area of 50 hectares while a multi-product SEZ requires minimum 500 hectares of land. In order to provide greater flexibility in operation and efficiency in use of infrastructure, it has now been decided that for every additional 50 hectares of contiguous area, an additional sector would be allowed on a graded scale to be added in the existing SEZ.

IT exports constitute a significant part of India's exports and IT SEZs have made a significant contribution in this direction. We have decided that there would be no minimum land requirement for setting up IT/ITES SEZs and only minimum built up area criteria would be needed to be met by SEZ Developers. Minimum built up area requirements have also been considerably relaxed with the requirement of one lakh square meters to be applicable for 7 major cities – Mumbai, Delhi (NCR), Chennai, Hyderabad, Bangaluru, Pune and Kolkata. For the other class B-cities minimum built up area would be 50,000 sq. mtrs while for other cities 25,000 sq. mtrs built up area norm will be applicable. I am confident that these measures will give a boost to IT SEZs in Tier-II and III cities, creating employment and growth.

We have received feedback from SEZ units that they are placed at a severe disadvantage in absence of exit policy. We have now decided to allow transfer of ownership of SEZ units including sale.

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