Module 1: Trade Policies in India

1. Discuss elaborately the export promotion policies in India.

Government of India has liberalized the schemes for export oriented units and export processing Zones. Agriculture, Horticulture, poultry, fisheries and dairies have been included in the export oriented units. Export processing zones have been allowed to export through trading and star trading houses and can have equipment on lease. These units have been allowed cent percent participation in foreign equities.

Export Promotion Schemes
Foreign Trade Policy 2015-20 and other schemes provide promotional measures to boost India's exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Brief of these measures are as under:

A. Exports from India Scheme
i. Merchandise Exports from India Scheme (MEIS)
Under this scheme, exports of notified goods/ products to notified markets as listed in Appendix 3B of Handbook of Procedures, are granted freely transferable duty credit scrips on realized FOB value of exports in free foreign exchange at specified rate (2-5%). Such duty credit scrips can be used for payment of custom duties for import of inputs or goods, payment of excise duty on domestic procurement, payment of service tax and payment of custom duties in case of EO default.

Exports of notified goods of FOB value upto Rs 25, 000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit.

ii. Service Exports from India Scheme (SEIS)
Service providers of notified services as per Appendix 3E are eligible for freely transferable duty credit scrip @ 5% of net foreign exchange earned.

B. Export Houses, trading houses and star trading houses:
To increase the marketable efficiency of exporters, the government introduced the concept of export houses, trading house and star trading houses. Those registered exporters who have shown good performance over the past few years have been given the status of export houses and trading houses.

Since 1994 a new category of golden super star trading house was added by the government which has the highest average annual foreign exchange earnings.

C. Duty Exemption & Remission Schemes
These schemes enable duty free import of inputs for export production with export obligation. This scheme consists of:-

i. Advance Authorization Scheme
Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION or on the basis of self declaration, as per procedures of FTP. AA normally have a validity period of 12 months for the purpose of making imports and a period of 18 months for fulfillment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s).

ii. Advance Authorization for annual requirement
Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorization for Annual requirement. This shall only be issued for items having SION.

iii. Duty Free Import Authorization (DFIA) Scheme
DFIA is issued to allow duty free import of inputs, with a minimum value addition requirement of 20%. DFIA shall be exempted only from the payment of basic customs duty. DFIA shall be issued on post export basis for products for which SION has been notified. Separate schemes exist for gems and jewellery sector for which FTP may be referred.

iv.Duty Drawback of Customs/Central Excise Duties/Service Tax
The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways:

i) All Industry Rates : As per Schedule

ii) Brand Rate : As per application on the basis of data/documents

v.Rebate of Service tax through all industry rates
Refund of service tax paid on specified output services used for export of goods is available at specified all industry rates.

D. Export promotion Capital Goods (EPCG) Scheme
i. Zero duty EPCG scheme
Under this scheme import of capital goods at zero custom duty is allowed for producing quality goods and services to enhance India's export competitiveness. Import under EPCG shall be subject to export obligation equivalent to six times of duty saved in six years. Scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

i. Post Export EPCG Duty Credit Scrip Scheme
A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash.

E. EOU/EHTP/STP & BTP Schemes
Units undertaking to export their entire production of goods and services may be set up under this scheme for import/ procurement domestically without payment of duties. For details of the scheme and benefits available therein FTP may be required.

F. Other Schemes

i. Towns of Export Excellence (TEE)

Selected towns producing goods of Rs. 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

ii. Rebate of duty on "export goods" and "material" used in manufacture of such goods

Rebate of duty paid on excisable goods exported or duty paid on the material used in manufacture of such export goods may be claimed under Rule of 18 of Central Excise Rules, 2002.

iii. Export of goods under Bond i.e. without payment of excise duty

Rule 19 of Central Excise Rules 2002 provides clearance of excisable goods for exports without payment of central excise duty from the approved factory, warehouse and other premises.

iv. Market Access Initiative (MAI) Scheme

Under the Scheme, financial assistance is provided for export promotion activities on focus country, focus product basis to EPCs, Industry & Trade Associations, etc. The activities are like market studies/surveys, setting up showroom/warehouse, participation in international trade fairs, publicity campaigns, brand promotion, reimbursement of registration charges for pharmaceuticals, testing charges for engineering products abroad, etc. Details of the Scheme is available at www.commerce.nic.in

v. Marketing Development Assistance (MDA) Scheme

Financial assistance is available for exporters having an annual export turnover upto Rs. 30 crores for trade fairs, buyer seller meets organized by EPC's/ Trade promotion organizations. MDA guidelines available at www.commerce.nic.in

vi. Status Holder Scheme

Upon achieving prescribed export performance, status recognition as one star Export House, two Star Export House, three star export house, four star export house and five star export house is accorded to the eligible applicants as per their export performance. Such Status Holders are eligible for various non-fiscal privileges as prescribed in the Foreign Trade Policy.

In addition to the above schemes, facilities like 24X7 customs clearance, single window in customs, self assessment of customs duty, prior filing facility of shipping bills etc are available to facilitate exports

2. Evaluate the export promotion measures are taken by of Indian Government.

A number of institutions have been set up by the government of India to promote exports. The export and import functions are looked after by the Ministry of Commerce. The Government formulates the export-import policies and programmes that give direction to the exports.

Exim policies aim at export assistance such as export credit, cash assistance, import replenishment, licensing, free trade zones, development of ports, quality control and pre-shipment inspection, and guidance to Indian entrepreneurs to set up ventures abroad.

1. International Presence

The Director of Exhibitions makes arrangements for participation in international exhibitions, holds Indian exhibitions abroad, runs show rooms in foreign countries and, sets up Trade centres outside India.

2. Export Promotion Council

The Director of Commercial Intelligence is concerned with commercial publicity through various media, monthly publications, directories of foreign importers of Indian products, country-wise.

There are 22 export promotion councils for different products, offering services of export promotion such as price, quality, packing, marketing, transport etc. They conduct market surveys, publish reports on foreign trade, administer various export promotion schemes, develop trade contacts, quality control, joint participation in trade fairs and exhibitions.

3. Setting up of Commodity boards to promote exports

Commodity Boards are set up to help export of the traditional items. There are seven Commodity Boards apart from All India Handloom and Handicraft Board under the Commerce ministry. They advise the government on its policies, signing trade agreements, fixing quota, etc.

4. Trade reps

There are Trade Representatives abroad who conduct market surveys, furnish information on exports-imports, settle trade disputes and pass on information about the rules and regulations for imports.

5. Indian Institute of Foreign Trade

The Indian Institute of Foreign Trade (IIFT) was set up by the Government in co-operation with trade, industry, universities, educational and research institutions. It is an autonomous body, set up to train people in international trade, conduct research, survey and organize training programmes.

6. Participation

To promote, organize and participate in the international trade fairs, Government set up Trade Fair Authority of India in 1977. It sets up showrooms and shops in India and abroad. It assists in development of new items for diversification and expansion of India's exports.

7. Trade development Authority

In addition to the above, we have Trade Development Authority to collect information, conduct research and render export finance and help in securing and implementing export orders.

8. Financing for export

The Export Credit Guarantee Corporation (ECGC) covers both commercial and political risks on export credit transactions. Its head office is in Mumbai and branches are in Delhi, Calcutta and Chennai. In 1982, the Government set up EXIM Bank with head office in Mumbai, branch offices in other major cities in India and abroad.

EXIM Bank finances exports and imports of machinery, finances joint ventures, provides loan, undertakes merchant banking functions such as underwriting stocks, shares and bonds or debentures, develops and finance export oriented industries, undertakes techno marketing studies and, promotes international trade.

9. Advisory Councils

Some of the State Governments have set up specialized Export Trade Corporations which undertake export promotion. They are established in Andhra Pradesh, Bihar, Karnataka, Uttar Pradesh, Madhya Pradesh, Himachal Pradesh. There are also Advisory Councils like Board of Trade, Export-Import Advisory Council, etc.

10. Technical assistance and Training

The Small Industries Development Organization (SIDO) with 26 small industries service institutions, provide techno-managerial assistance like motivating entrepreneurs to export, provide information on export-import and offer consultancy services with respect to export procedure, documentation and export incentives.

It also provides training programmes to educate entrepreneurs on exports, conduct seminars, meetings, holds discussions with export promotion agencies and publish small industry export bulletin, besides liasing with the export promotion organizations for solving the problem of small scale exporters.

3. Write down the recent export promotion schemes introduced by the government of India.

Foreign Trade Policy 2015-20 and other schemes provide promotional measures to boost India's exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Brief of these measures are as under:

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i. Merchandise Exports from India Scheme (MEIS)

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Exports of notified goods of FOB value upto Rs 5,00,000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit. List of eligible category under MEIS if exported through using e-commerce platform is available in Appendix 3C.

ii. Service Exports from India Scheme (SEIS)

Service providers of notified services as per Appendix 3D are eligible for freely transferable duty credit scrip @ 5% of net foreign exchange earned.

2. DUTY EXEMPTION & REMISSION SCHEMES

These schemes enable duty free import of inputs for export production with export obligation. This scheme consists of:-

2.1 Advance Authorization Scheme

Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION or on the basis of self declaration, as per procedures of FTP. AA normally have a validity period of 12 months for the purpose of making imports and a period of 18 months for fulfilment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s).

2.2 Advance Authorization for annual requirement

Exporters having past export performance (in at least preceding two financial years) shall be entitled for Advance Authorization for Annual requirement. This shall only be issued for items having SION.

2.3 Duty Free Import Authorization (DFIA) Scheme

DFIA is issued to allow duty free import of inputs, with a minimum value addition requirement of 20%. DFIA shall be exempted only from the payment of basic customs duty. DFIA shall be issued on post export basis for products for which SION has been notified. Separate schemes exist for gems and jewellery sector for which FTP may be referred.

2.4 Duty Drawback of Customs

The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways:

i) All Industry Rates: As per Schedule

ii) Brand Rate : As per application on the basis of data/documents

2.5 Interest Euqlisation Scheme (IES)

The Government announced the Interest Equalisation Scheme @ 3% per annum for Pre and Post Shipment Rupee Export Credit with effect from 1st April, 2015 for 5 years available to all exports under 416 tariff lines [at ITC (HS) code of 4 digit] and exports made by Micro, Small & Medium Enterprises (MSMEs) across all ITC(HS) codes. With effect from November 2, 2018, the rate of Interest Equalisation for MSME has been increased to 5%. The Scheme has also been extended to Merchant Exporters who will now avail the benefit @ 3% for all exports under 416 tariff lines w.e.f. January 2, 2019.

3. EPCG SCHEME

3.1 Zero duty EPCG scheme

Under this scheme import of capital goods at zero custom duty is allowed for producing quality goods and services to enhance India's export competitiveness. Import under EPCG shall be subject to export obligation equivalent to six times of duty saved in six years. Scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

3.2 Post Export EPCG Duty Credit Scrip Scheme

A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash.

4. EOU/EHTP/STP & BTP SCHEMES

Units undertaking to export their entire production of goods and services may be set up under this scheme for import/ procurement domestically without payment of duties. For details of the scheme and benefits available therein FTP may be required.

5. OTHER SCHEMES

5.1 Towns of Export Excellence (TEE)

Selected towns producing goods of Rs. 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

5.2 Market Access Initiative (MAI) Scheme

Under the Scheme, financial assistance is provided for export promotion activities on focus country, focus product basis to EPCs, Industry & Trade Associations, etc. The activities are like market studies/surveys, setting up showroom/warehouse, participation in international trade fairs, publicity campaigns, brand promotion, reimbursement of registration charges for pharmaceuticals, testing charges for engineering products abroad, etc.

5.3 Status Holder Scheme

Upon achieving prescribed export performance, status recognition as one star Export House, two Star Export House, three star export house, four star export house and five star export house is accorded to the eligible applicants as per their export performance. Such Status Holders are eligible for various non-fiscal privileges as prescribed in the Foreign Trade Policy.

In addition to the above schemes, facilities like 24X7 customs clearance, single window in customs, self assessment of customs duty, prior filing facility of shipping bills etc are available to facilitate exports.

5.4 Gold Card Scheme

The Gold Card Scheme was introduced by the RBI in the year 2004. The Scheme provides for a credit limit for three years, automatic renewal of credit limit, additional 20% limit to meet sudden need of exports on account of additional orders, priority in PCFC, lower charge schedule and fee structure in respect of services provided by Banks, relaxed norms for security and collateral etc,. A Gold Card under the Scheme may be issued to all eligible exporters including those in the small and medium sectors who satisfy the pre-requisite conditions laid by individual Banks.

4. Discuss the current EXIM Policy (2015-2020) in India

Govt. of India introduced a series of trade reforms since July 1991 as part of economic liberalisation.

The aim of the new policy was to promote exports and to remove restrictions on imports.

The following are the salient features of the new export, import policy:
1. Increase in number of Export Items:
The Govt. has identified many new products for exports. They are fish and fish preparations, agricultural products and marine products etc. These products are import-light and hence pressure on foreign exchange was relieved.

2. Special Economic Zones:
For promotion of exports, special economic zones (SEZ) have been established. SEZ units are deemed to be foreign territory for the purpose of trade operations and tariffs. The main objective of the SEZ units is to provide a congenial atmosphere for exports. Indian banks were pre-mitted to establish off share banking units in SEZ. These units will attract foreign direct investments (FDI's) and would be free from cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

3. Role of Public Sector Agencies:
Certain exports are controlled by Public sector agencies like State Trading Corporations (STC), Mineral and Metal Trading Corporation (MMTC). Now these are asked to compete with other exporters. Foreigners have been permitted to set up trading houses for export purposes.

4. Restriction Free Export Policy:
Restrictions on exports have been reduced to minimum according to new policy. Export restrictions have been imposed on a few sensitive commodities taking the domestic demand and supply factors into consideration. Export duties are now not

considered as source of revenue generation but a means of increasing the competitiveness of domestic exporters in the international market.

5. Liberalisation of Export-Oriented Import:
Import licenses were removed from most of the items. Provisions were made to levy low custom duties an imports which were used as inputs for production of export goods. Imports were linked to the availability of foreign exchange generated through exports.

Import duties were gradually reduced and the objective was to equal the same with other countries of the world. The restrictions laid on import of all items were removed to conform to the WTO norms and these were put under Open General License (OGL) list. This process liberalized imports and simplified export-import procedures.

6. Convertibility of Rupee:
To increase exports, the rupee was made partly convertible on current account. In 1994-95 budget rupee was made fully convertible.

7. Devaluation of Rupee:
Generally speaking, devaluation of rupee means lowering the value of rupee in terms of foreign currencies. Devaluation makes domestic goods cheaper in the foreign market. To cover the balance of payment difficulty. Govt. of India devalued rupee in June 1991 by 23%. This helped in encouraging exports.

India's International Trade Policy – EXIM Policy

International trade is regarded as a means to growth and development of countries. Its main purpose is not to earn foreign exchange but to stimulate the economic activities.

India is becoming the major player in world trade. In India, the Government of India, Ministry of Commerce and Industry announce the export-import policy, which is called as EXIM policy and foreign trade policy.

It is announced after every five years and updated on 31st of March every year. The EXIM policy (export-import policy) aims at regulating and managing imports and promoting and maintaining exports. It does not allow exporting the goods that are scarce and needed within the country.

The EXIM policy was first announced in 1992 to bring stability and continuity in the Indian economy. Its main objectives are as follows:
a. Deriving maximum benefits from expanding opportunities in the global market

b. Stimulating economic growth by providing essential raw materials, components, and capital goods for production

c. Enhancing the efficiency of agriculture and service sector and improving their competitiveness

d. Generating new employment

e. Encouraging the attainment of internationally accepted standards of quality

f. Providing quality products at reasonable prices

5. Describe the recent Foreign Trade Policy of India

The integration of the domestic economy through the twin channels of trade and capital flows has accelerated in the past two decades which in turn led to the India's GDP reaching Rs 190.10 trillion (US$ 2.72 trillion) in 2018-19*. Simultaneously, the per capita income also nearly trebled during these years. India's trade and external sector had a significant impact on the GDP growth as well as expansion in per capita income. Provisional estimates of India's GDP during first half of 2019-20 stood at Rs 98.56 trillion (US$ 1.41 trillion).

Total exports from India (Merchandise and Services) registered a growth of 2.13 per cent year-on-year during April 2019-February 2020 to US$ 491.64 billion, while total imports are estimated at US$ 559.45 billion, according to data from the Ministry of Commerce & Industry.

The merchandise export stood at Rs 20,67,408.73 crore (US$ 292.91 billion) during April 2019-February 2020 and imports reaching Rs 30,76,266.13 crore (US$ 436.03 billion) for the same period.

The estimated value of services export for April 2019-February 2020 stood at US$ 198.73 billion and import is US$ 123.42 billion.

According to Mr Piyush Goyal, Minister for Commerce and Industry, the Government of India is keen to grow exports and provide more jobs for the young, talented, well-educated and even semi-skilled and unskilled workforce of India.

Capital Inflows

India's foreign exchange reserves were Rs 33.98 lakh crore (US$ 476.09 billion) in the week up to February 14, 2020, according to data from the RBI.

External Sector

- In February 2020, Memorandum of Understanding signed between Department of Health and Family Welfare, Government of India and Department of Health and Human Services, Government of the United States of America.
- In February 2020, President of Portugal H.E. Mr Marcelo Rebelo de Sousa, Minister of National Defense of Portugal and Minister of State for Shipping(I/C) and Chemical and Fertilizer, Mr Mansukh Mandaviya, signed an Memorandum of Understanding (MoU) to develop a world class National Maritime Heritage Complex at Lothal, Gujarat with the cooperation from the Republic of Portugal.
- In February 2020, cabinet approved the Memorandum of Understanding (MoU) signed between India and Iceland in the field of Sustainable Fisheries Development.
- In January 2020, Memorandum of Understanding (MoU) was signed between India and Finland to improve defence cooperation between Finnish companies and Indian Defence Public Sector Undertakings.
- In January 2020, India signed a Memorandum of Understanding (MoU) with the Department for International Development (DFID-Government of United Kingdom) for facilitating the energy self-sufficiency of the Indian Railways.

- In December 2019, cabinet approved Memorandum of Understanding between Central Electricity Authority, India and Japan Coal Energy Centre, on Japan-India cooperation for Efficiency and Environmental Improvement for Sustainable, Stable and Low-Carbon supply of Electricity.
- The Memorandum of Cooperation (MoC) between Government of India and Government of Japan in order to constitute the 'India-Japan Steel Dialogue' to strengthen cooperation in steel sector got approval from cabinet in December 2019.
- In November 2019, All India Institute of Ayurveda (AIIA) signed a Memorandum of Understanding (MoU) with Western Sydney University, Australia at New Delhi.
- In November 2019, the Memorandum of Understanding (MoU) signed between India and Finland approved by Cabinet in order to strengthen the cooperation in the field of Tourism
- In October 2019, the Memorandum of Understanding signed between Central Drugs Standard Control Organization (CDSCO) and Saudi Food and Drug Authority in the field of Medical Products Regulation.
- In September 2019, four Memorandum of Understanding (MoUs) were signed between India and Mongolia focusing on cultural exchange protocol, disaster management, space exploration and in field of animal health and dairy.
- In September 2019, Liquefied Natural Gas (LNG) importer Petronet entered into agreement with US LNG developer Tellurian Inc. and invest US$ 2.5 billion.
- In August 2019, four Memorandum of Understanding (MoUs) were signed between India and France focusing on skill development and vocational training, renewable energy, IT services and space research.

Foreign Trade Policy

- In the Mid-Term Review of the Foreign Trade Policy (FTP) 2015-20 the Ministry of Commerce and Industry has enhanced the scope of Merchandise Exports from India Scheme (MEIS) and Service Exports from India Scheme (SEIS), increased MEIS incentive raised for ready-made garments and made-ups by 2 per cent, raised SEIS incentive by 2 per cent and increased the validity of Duty Credit Scrips from 18 months to 24 months.
- In August 2019, Ministry of Commerce plans to introduce new foreign trade policy aimed at providing incentives and guidelines for increasing export in next five financial years 2020-25.

Road Ahead

India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought-after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country augur well for the trade and economic sector in the years to come.

Boosted by the forthcoming FTP, India's exports are expected reach US$ 330-340 billion by 2019-20 according to Federation of India Export Organisation (FIEO). Also, with the Government of India striking important deals with the governments of

Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent.
India has the potential to increase its goods and services exports to Australia to US$ 15 billion by 2025 and US$ 35 billion by 2035.

6. Explain the main of Trade Policies (Trade Reforms) since 1991.

The massive trade liberalisation measures adopted after 1991 mark a major departure from the relatively protectionist trade policies pursued in earlier years.
The current trade policy reforms seem to have been guided mainly by the concerns over globalisation of the Indian economy, improving competitiveness of its industry, and adverse balance of payments situation. Main features of trade policies (trade reforms) since 1991 are as follows:

1. Freer Imports and Exports:
Substantial simplification and liberalisation has been carried out in the reform period. The tariff line wise import policy was first announced on March 31, 1996 and at that time itself 6,161 tariff lines were made free.
Till March 2000, this total had gone up to 8,066. The Exim Policy 2000-01 removed quantitative restrictions on 714 items and the Exim Policy 2001- 02 removed quantitative restrictions on the balance 715 items. Thus, in line with India’s commitment to the WTO, quantitative restrictions on all import items have been withdrawn.
2. Rationalisation of Tariff Structure:
Acting on the recommendations of the Chelliah Committee, the government has, over the years, reduced the maximum rate of duty. The 1993-94, Budget had reduced it from 110 per cent to 85 per cent. The successive Budgets have reduced it further in stages. The peak import duty on non-agricultural goods is now only 12.5 per cent.
3. Decanalisation:
A large number of exports and imports used to be canalised through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalised items and decanalised 16 export items and 20 import items. The 1992-97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilisers.
However, 8 items (petroleum products, fertilisers, edible oils, cereals, etc.) were to remain canalised. The Exim Policy, 2001-02 put 6 items under special list — rice, wheat, maize, petrol, diesel and urea. Imports of these items were to be allowed only through State trading agencies.
4. Devaluation and Convertibility of Rupee on Current Account:
The government made a two- step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1 and July 3, 1991. This was followed by the introduction of LERMS i.e., partial convertibility of rupee in 1992-93, full convertibility on the trade account in 1993-94 and full convertibility on the current account in August 1994.

Substantial capital account liberalisation measures have also been announced. The exchange rate of the rupee is now market-determined. Thus, exchange rate policy in India has evolved from the rupee being pegged to a market related system (since March 1993).

5. Trading Houses:

The 1991 policy allowed export houses and trading houses to import a wide range of items. The government also permitted the setting up of trading houses with 51 per cent foreign equity for the purpose of promoting exports.

The 1994-95 policy introduced a new category of trading houses called Super Star Trading Houses. These houses are entitled to membership of apex consultative bodies concerned with trade policy and promotion, representation in important business delegations, special permission for overseas trading and special import licences at enhanced rate.

6. Special Economic Zones:

A scheme for setting up Special Economic Zones (SEZs) in the country to promote exports was announced by the government in the Export and Import Policy of March 31, 2000. The SEZs are to provide an internationally competitive and hassle-free environment for exports and are expected to give a boost to the country's exports.

The Policy has provided provisions for setting up SEZs in the public sector, joint sector or by State governments. It was also announced that some of the existing Export Processing Zones (EPZs) would be converted into Special Economic Zones.

Some of the distinctive features of SEZ scheme are:

(i) a designated duty-free enclave to be treated as foreign territory for trade operations and duties and tariffs;

(ii) SEZ units could be for manufacturing services;

(iii) No routine examination of export and import cargo by customs;

(iv) Sale in domestic market on full duty and import policy in force;

(v) SEZ units to be positive net foreign exchange earners in three years; (vi) no fixed wastage norms;

(vii) Duty-free goods to be utilised within the approval period of 5 years;

(viii) Subcontracting of part of production and production process allowed for all sectors, including jewellery units;

(ix) 100 per cent foreign direct investment through automatic route in the manufacturing sector;

(x) 100 per cent income tax exemption for 5 years and 50 per cent for 2 years thereafter and 50 per cent of the ploughed back profit for the next 3 years;

(xi) External commercial borrowing through automatic route, etc.

7. EOU Scheme:

The Export Oriented Units (EOUs) scheme introduced in early 1981 is complementary to the SEZ scheme. It offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, and availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. The EOUs have put up their own infrastructure.

8. Agriculture Export Zones:

The Exim Policy 2001 introduced the concept of Agri- Export Zones (AEZs) to give primacy to promotion of agricultural exports and effect a reorganisation of our export efforts on the basis of specific products and specific geographical areas.

The scheme is centered on the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market.

The AEZs would have the state-of-the-art services such as pre-post harvest treatment and operations, plant protection, processing, packaging, storage and related research and development. The exporters in these zones can avail of the various export promotion schemes under the Exim Policy including recognition as a status holder.

9. Market Access Initiative Scheme:

Market Access Initiative Scheme was launched in 2001- 02 for undertaking marketing promotion efforts abroad. The key features of the scheme are in- depth market studies for select products in chosen countries to generate data for promotion of exports from India, assist in promotion of India, Indian products and Indian brands in the international market by display through showrooms and warehouses set up in rental premises by identified exporters, display in identified leading departmental stores total exhibitions trade fairs, etc. The scheme shall also assist quality upgradation of products as per requirements of overseas markets, intensive publicity campaigns, etc.

10. Focus on Service Exports:

The amended Export-Import Policy, 2002-07, announced on March 31, 2003, specifically emphasized service exports as an engine of growth. It, accordingly, announced a number of measures for the promotion of exports of services. For instance, import of consumables, office and professional equipment, spares and furniture upto 10 per cent of the average foreign exchange export earning has been allowed.

The advance licence system has been extended to the tourism sector. Under this, firms will be allowed duty-free import of consumables and spares upto 5 per cent of their average foreign exchange earnings of the previous three years, subject to actual user condition.

11. Concessions and Exemptions:

A large number of tax benefits and exemptions have been granted during the 1990s to liberalise imports and promote exports with the five year Exim Policy 1992-97 and Exim Policy 1997-2002 serving as the basis for such concessions.

These policies, in turn, have been reviewed and modified on an annual basis in the Exim policies announced every year. Successive annual Union Budgets have also extended a number of tax benefits and exemptions to the exporters.

These include reduction in the peak rate of customs duty to 15 per cent; significant reduction in duty rates for critical inputs for the Information Technology sector, which is an important export sector; grant of concessions for building infrastructure by way of 10-years tax holiday to the developers of SEZs;

Facilities and tax benefits to exporters of goods and merchandise; reduction in the customs duty on specified equipment for ports and airports to 10 per cent to encourage the development of world class infrastructure facilities, etc.

A number of tax benefits have also been announced for the three integral parts of the 'convergence revolution' the Information Technology sector, the Telecommunication sector, and the Entertainment industry.

7. What is the meaning of "balance of Payments"? What is the status of India's export and imports?

Trade between different cultures and societies has been a common feature across human civilization. In the modern-day context, international trade plays a key role in the economy of every country. Exporting goods & services that a country has surplus of or is good at and importing those which it needs is a driver behind the international trade.

Ascertaining the value of exports & imports along with the difference between them, can offer insights into the state of a country's economy. Balance of Payments is a good measure which indicates the surplus or deficit in a country's trade with other nations.

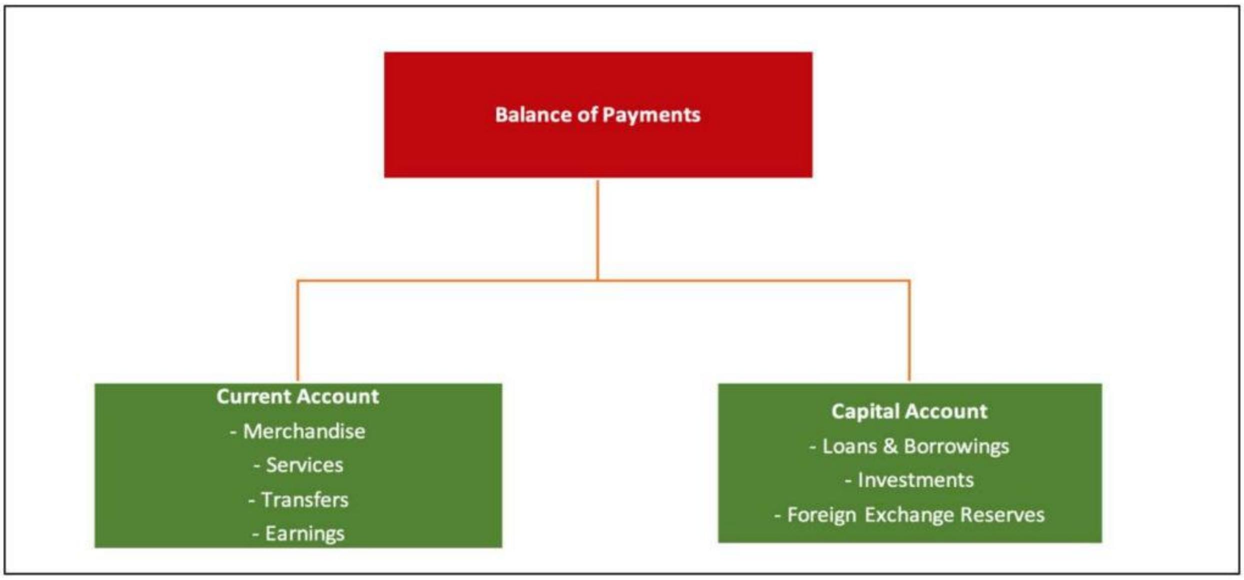
In this story, we explore the trends in India's Balance of Payments (BOP) and its various components.

Positive Capital Account covering up for the negative Current Account over the years

Balance of Payments (BoP) is a statement that has a record of all the monetary transactions made between residents of a country with the rest of the world during a specific time period.

BoP statement indicates whether a country has a surplus or deficit.

BoP statement consists of two components – Current Account and Capital Account. Current account consists of all the inflow and outflow of goods and services of a country. Capital account includes all the capital transactions made between the countries.

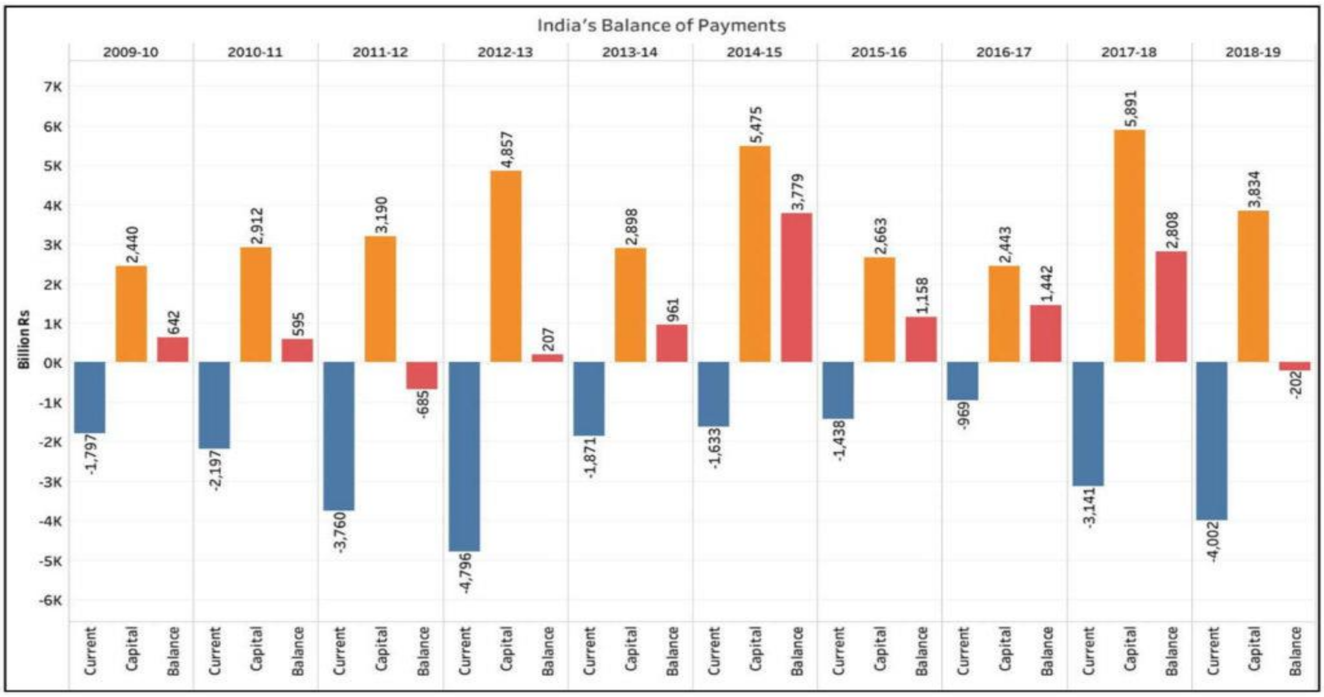


BoP follows the double entry system of accounting i.e. every debit has a corresponding credit. Ideally, when all the components are rightly accounted for, the net sum would be 'zero'. India has a deficit current account with the value of the imports exceeding the value of exports for most of the years. This negative current account is covered up by the positive capital account (funded by foreign Investments, loans etc.).

However, as per the data provided by RBI, for 2018-19, the positive capital account could not cover up for the current account deficit and hence the overall deficit in BoP was to the tune of ₹ 202 billion. This amount is balanced out through foreign exchange reserves. Over the last decade (barring one year), the capital account was able to balance out the negative current account.

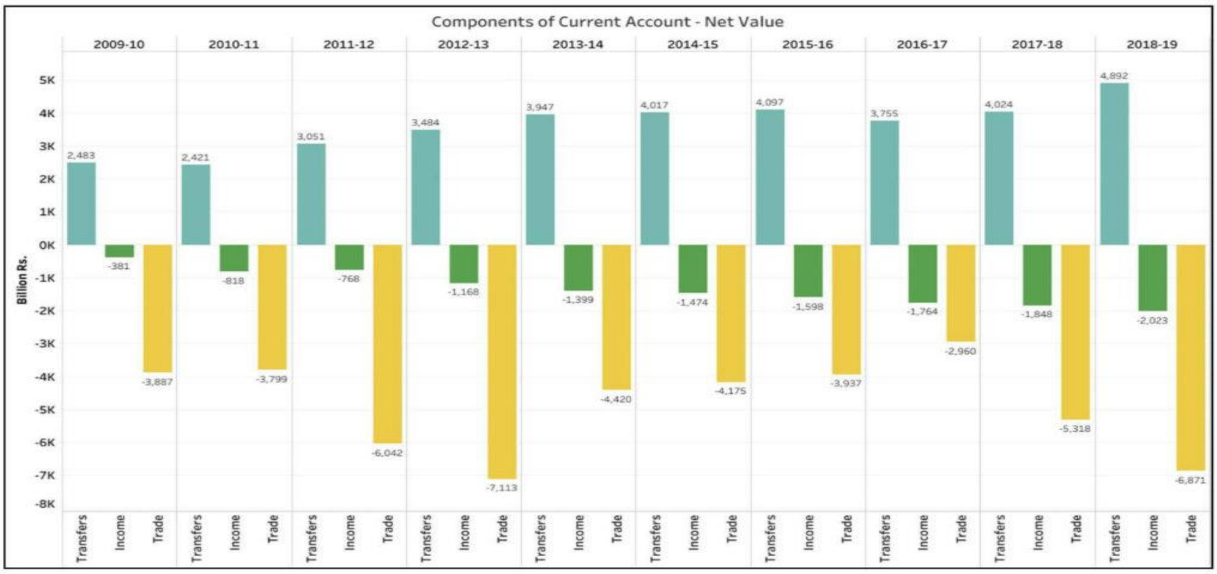
The current account deficit for 2018-19 was ₹ 4,002 billion which is a substantial increase over 2017-18, when it was ₹ 3,141 billion. However, there is a fall in the value of capital account in 2018-19 (₹ 3,834 billion) compared to that of 2017-18 (₹ 5,891 billion) resulting in capital account not being able to cover up current account's deficit leading to negative BoP.
The last time there was a deficit in BoP was in 2011-12, when it was ₹ 685 billion. During that year, the current account deficit grew substantially, while the corresponding growth in capital account was not to that extent.

In the subsequent year, even though the current account deficit increased, the corresponding capital account net value increased, there by covering the deficit.

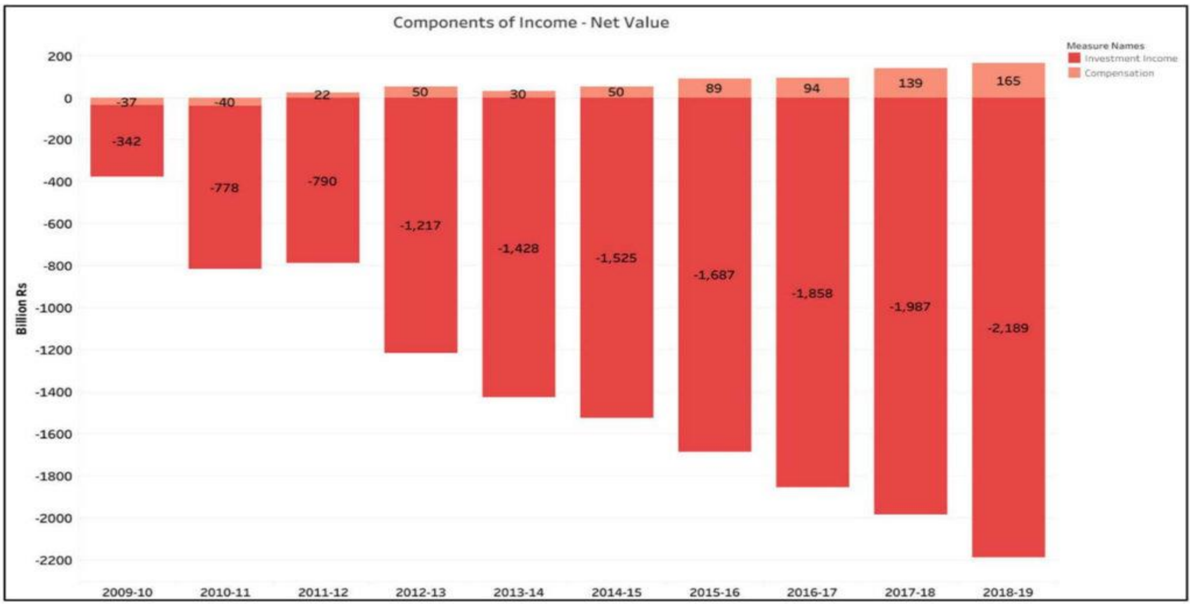


Deficit in trading & income contributing towards Current account deficit

The current account takes into consideration the trade of both the tangible commodities/goods and the services along with transfers and earnings.
While the net value of the current account has been varying over the last decade, it has always been in the negative. This implies that the value of imports exceeded that of the exports.
A closer look at current account numbers reveal that the net transfers have remained positive over the years, while net income and net trade values were always in the negative and thereby contributing to current account deficit.
At the beginning of the decade i.e. 2009-10, the net value of transfer was ₹ 2483 billion which has gradually increased over the decade and for the year 2018-19 it is ₹ 4892 billion.
However, the trend is opposite for Net Income and Net Trade whose deficit has been on a gradual increase.



The head 'Income' consists of two categories – Investment income & Compensation of employees. While 'Compensation of Employees' shows a surplus every year with the Inwards being more than Outwards, the same isn't the case for Investment Income. The net value of Investment Income has a deficit every year over the past decade.



Deficit in Trade is due to imports exceeding the exports

While the net deficit under 'Income' is a contributor towards current income deficit, its proportion is less. The major part of the current income deficit is due to the huge trade deficit of India.

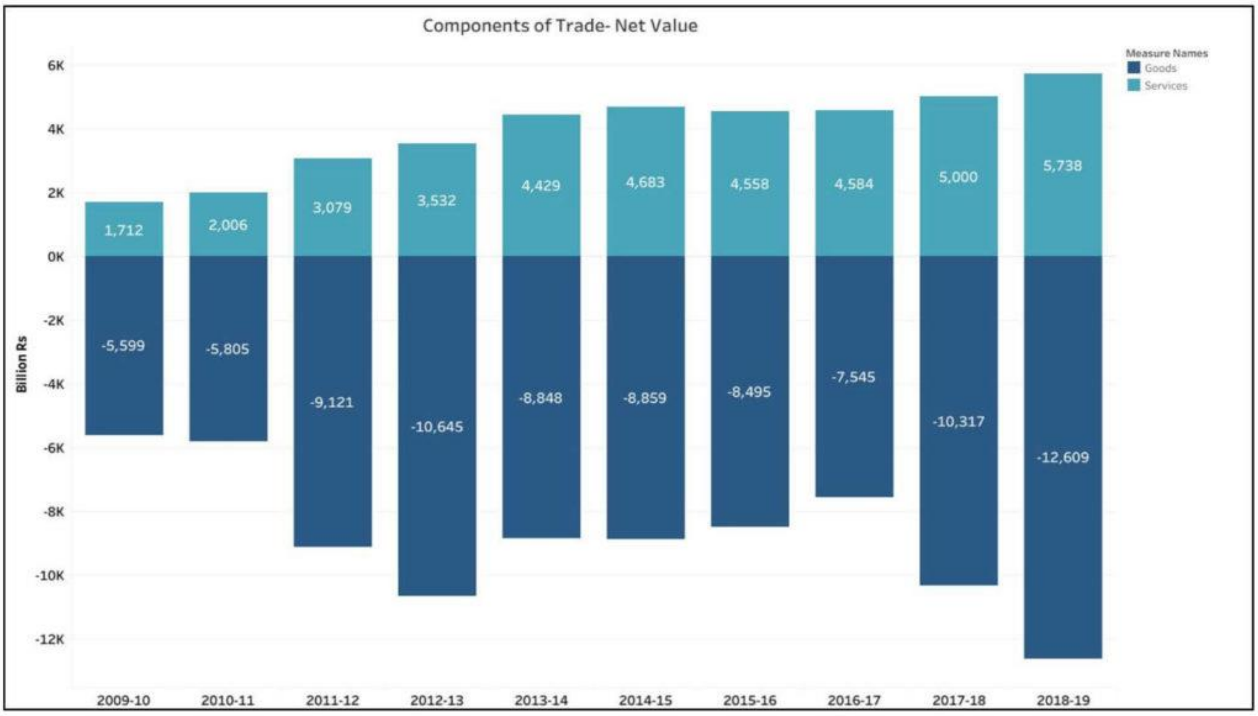
Trade includes both tangible goods as well as services. A closer inspection shows that India's trade in services has a surplus but the deficit in the trade of tangible goods is so huge that it results in a net negative for trade.

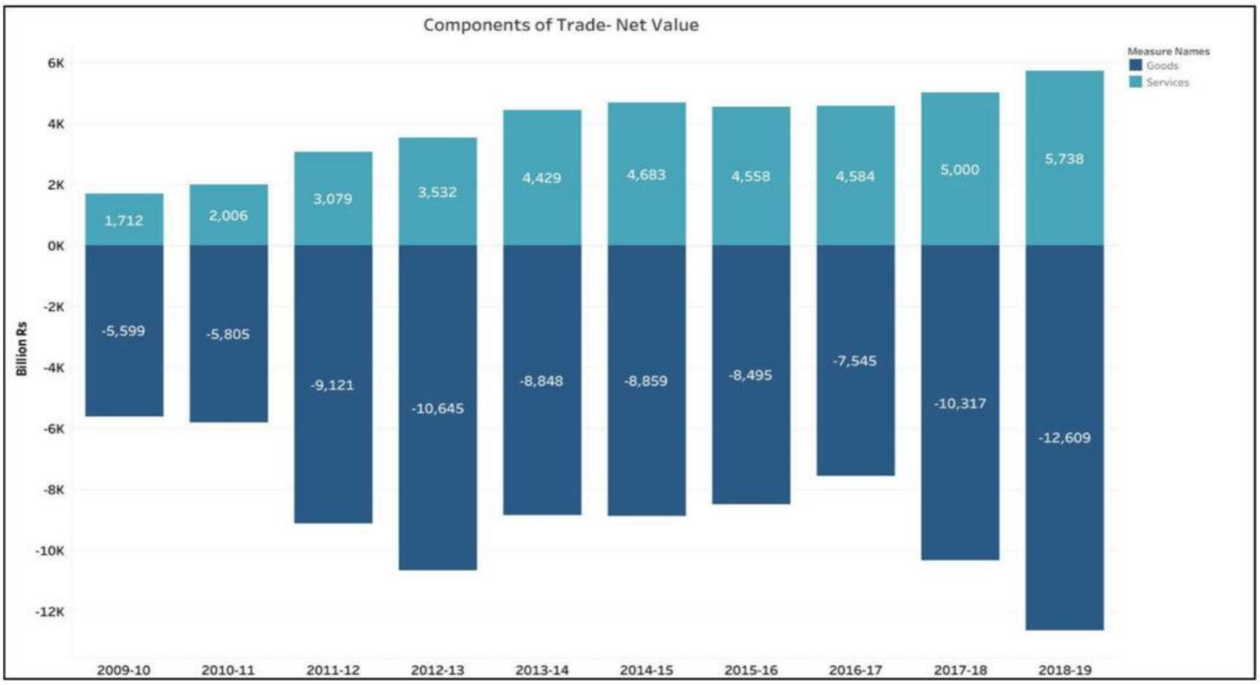
Over the last decade, the surplus from trade of services has increased by 3.35 times. In 2009-10, the surplus through services was ₹ 1,712 billion which increased to ₹ 5,738 billion in 2018-19.

The different components of the services include – Travel, Transportation, Software services, financial services etc.

During the same time period, the trade deficit when it comes to goods has more than doubled. In 2009-10, the deficit for trading goods was ₹ 5,599 billion which has increased to ₹ 12,609 billion in 2018-19.

The earlier highest deficit of trade in goods was in 2012-13, when it was ₹ 10,645 billion. Over the subsequent years the volume of this deficit has come down to reach ₹ 7,545 billion in 2016-17. But the last two years has seen an increase in the deficit of trade in goods with ₹ 10,317 billion and ₹ 12,609 billion in 2017-18 and 2018-19 respectively.



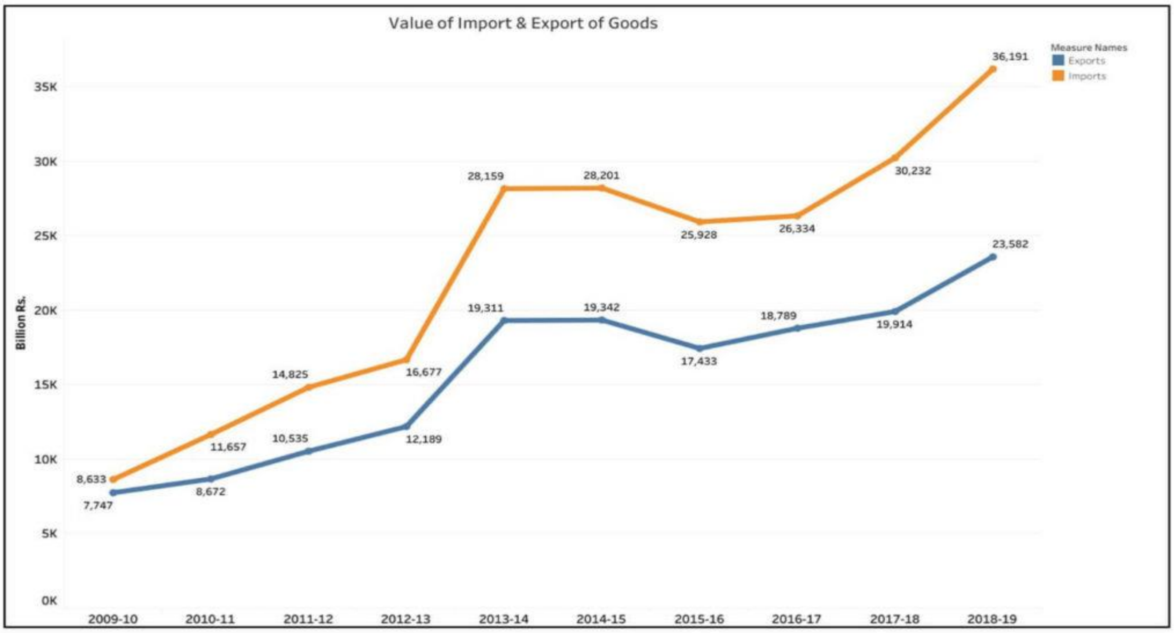


Increase in imports of goods has overshadowed the increase in exports

Over the past decade, India's exports of goods have increased by 3 times. However, during the same period, the value of India's imports has increased by nearly 4.2 times. This higher corresponding increase in the value of imports over the exports is contributing towards the increasing trade deficit.

During 2013-14, there was a major spike in the volume of imports of goods where in it increased to ₹ 28,159 billion from ₹ 16,677 billion the previous year. After a slight increase in the next year, the value of goods imported has come down to in 2015-16 and 2016-17. During these two years also, the exports has shown a corresponding increase.

However, in 2017-18 and 2018-19, the value of imports increased by ₹ 3,898 billion and ₹ 5,959 billion respectively. Correspondingly, the exports only increased by ₹ 1,125 billion and ₹ 3,668 billion respectively. Hence, in spite of a higher increase in the exports during 2018-19, the increase in imports has widened the deficit gap.



Increase in the value of exports can help to reduce the trade deficit

With the increase in the value of exports, it does appear that decreasing the imports could help cover up the trade deficit. A quick look at the different commodities being imported would reveal that Petroleum products, machinery, organic & inorganic chemicals form a major part of the imports. These commodities have a significant impact on the economy as they are vital to the commercial activity of the country.

While alternate solutions can be sought out, a decrease in the imports in the short term might not be a plausible solution. On the other hand, increasing exports, more specifically the value of the services (where India has a surplus) can help to cut down on the deficit.

In the next story, we would explore the different components of the exports and imports in India and the related trends, along with understanding the reasons for negative BoP in 2018-19.