SPEECH BY COMMERCE & INDUSTRY MINISTER
ON RELEASE OF ANNUAL SUPPLEMENT
TO FOREIGN TRADE POLICY 2004-09

Four years ago I had announced India's first ever integrated Foreign Trade Policy for the period 2004-09. I had then indicated two major objectives, namely (a) to double our share of global merchandise trade within 5 years, and (b) to use trade expansion as an effective instrument of economic growth and employment generation.

I am pleased to say that our achievements have exceeded our expectations. Not only have we fulfilled our promises in substantial measure, but we have achieved these remarkable results in just four years, instead of five.

In 2004 our exports stood at a little over $ 63 billion. In 2007-08 they have exceeded $ 155 billion; our exports are not only just double what they were four years ago, but 2½ times that. We have managed an average cumulative annual growth rate (CAGR) of 23%, year on year, way ahead of the average growth rate of international trade.

Our total merchandise trade – exports and imports together – will be almost 400 billion US dollars this year; accounting for nearly 1.5% of world trade. If the trade in services is added to this, our commercial engagement with the world would be in the region of 525 billion US dollars.

We have delivered on our second objective as well: that of fashioning trade into an instrument of economic growth and employment generation. Our total trade in goods and services is now equivalent to almost 50% of our GDP. This is unprecedented in India's modern economic history.

On the issue of employment, it is our estimate that during the last 4 years, increased trade activity has created 136 lakh new jobs. I have always maintained that exports are not just about earning foreign exchange but about boosting our manufacturing sector, creating large-scale economic activity and generating fresh employment opportunities.

The Special Economic Zones policy is a case in point. The Government sees SEZs as vehicles of industrialization and employment generation. Till now we have granted 453 formal approvals for setting up of SEZs. 207 out of these have been notified, and are at various stages of implementation and operation. I am particularly happy to say that approvals are not restricted to a few states, but spread over 19 States and 3 Union Territories. SEZs currently provide employment to more than 2.80 lakh people. The incremental employment generated by these SEZs since February 2006 is 1.5 lakh. In the last 3 years, the exports from SEZs have shown an increase of over 150%. It is projected that the exports from SEZs would reach Rs.1, 25,000 crores by the end of this financial year. Developments of this nature re-assure us of the validity of the basic policy relating to SEZs, notwithstanding the skepticism expressed by a few persons.

What is more remarkable about all our achievements is that they have been accomplished in the face of appreciation of the rupee (by more than 12% in the last year alone), high interest rates, spiralling oil prices, withdrawal of some GSP benefits to India by other countries and a general international economic slowdown in some of our major trade markets. In spite of all this our exporters have shown great resilience. For this, they deserve our congratulations.

It is in this context that I am happy to present the final Annual Supplement to the Foreign Trade Policy for 2004-2009. In this Supplement, we have proposed several innovative steps:

(1) I firmly believe that there must be a stable Policy environment for the exporters. Accordingly, we have extended the DEPB Scheme till May 2009.

(2) To ensure that terminal excise duty and CST refund is made to the exporters in time, it has been decided that interest @ 6% per annum shall be paid by the Government to the exporter, in case refund is not

made within one month of its becoming due. I know we had made this announcement last year. Thus, to honour my commitment, I announce that this refund along with interest will be paid on all such claims that have become due on or after 1.4.2007.

(3) To become competitive in international markets, our factories and service providers need to have state-of-the-art machinery and equipment. Through the EPCG, the Government has been incentivising exporters to modernize their production facilities. To re-emphasise the importance of modernization in export units, we have reduced the customs duty payable under EPCG from 5% to 3%. Further, exports made towards fulfillment of export obligation under EPCG shall also be eligible for incentives/rewards under promotional schemes.

(4) Last year Govt. had announced a reduced rate of interest to the exporters in sectors affected by rupee appreciation, and to SMEs. I am happy to announce that Government has decided that these reduced rates shall be continued for another year.

(5) The Average export obligation under EPCG Scheme for the year 2007-08 will be lowered for those sectors or product groups, which have a decline in export of more than 5% in 2007-08. Further, Premier Trading Houses would be given the option, on request, to refix their average export obligation based on the average of their exports of last 5 years instead of 3 years.

(6) 100% EOUs have been contributing significantly to our national export efforts. Export by these units has crossed Rs.125,000 crores in 2007-08, which is approximately one-fifth of our total exports. The income tax exemption available to these 100% EOUs under Section 10B of Income Tax Act is to expire on 31.3.2009. I am pleased to announce that this exemption will be extended for one more year, beyond 2009.

Further, EOUs operating in textile and granite sector shall be required to pay only excise duty on their DTA sale, in case the use of duty paid imported inputs is up to 3% of the FOB value of exports. This measure will provide the EOUs, greater operational flexibility.

(7) India produces 11% of the world's vegetables and 15% of its fruits. Not only are we the second largest producer, but we also produce them at a very competitive cost. According to the World Bank, our cost of vegetables is half the average of global prices, and that of fruits is two-thirds of global prices. Unfortunately, our share in world trade in fruits and vegetables has remained dismal at 1.7% and 0.5% respectively. The major handicap suffered by our exporters of fruits, vegetables and flowers is high incidence of transport cost; domestic as well as international. To partially neutralize this disadvantage, I announce that for specific fruits, vegetables and flowers, an additional duty-free credit scrip of 2.5% over and above the existing available under VKGUY.

(8) India has a varied toys and sports goods industry, predominantly in the unorganized sector, which is more than 100 years old. The two major clusters of sports goods industry, at Meerut and Jalandhar, provide employment to a large number of people, including those of minority communities. India has a minuscule share of less than 1% in world sports and toys exports. To promote exports from this sector, I announce an additional credit of 5%, over and above the credit available under Focus Product Scheme for these products. Further, separate funds shall be marked for this sector under ongoing Market Development Assistance (MDA) Scheme and Market Access Initiative (MAI) Scheme.

(9) Our capability and expertise in IT software is internationally established. Now, there is a need to focus on strengthening our manufacturing and export capabilities in IT hardware sector. We are bringing this sector in Special focus initiative this year. Specific items of this sector shall be made eligible for benefits under High Tech Product. Export Promotion Scheme. Further, funds would be specifically earmarked for this sector under the ongoing MDA and MAI Schemes.

(10) The Government has already announced refund of service tax on almost all the services, which are directly relatable to export production and supply. A number of services related to export, which do not attract service tax have been identified and a Circular is being issued

to inform the exporting community. The remaining issues regarding refund of service tax on services linked to exports will also be resolved shortly.

(11) It has been the endeavour of the Government to reach "zero rating" of exports, so far as domestic taxes is concerned. The Government is seized of the issue that a number of State taxes are not being refunded to exporters. The Government is looking into formulation of a scheme for rebating these taxes, with urgency.

(12) To promote export of high value added manufactured products, I announce an enhanced incentive under Focus Product Scheme @ 2.5% for products, which would be notified separately.

(13) Our exporters are really going places! To encourage them on their voyage of discovery, I announce inclusion of another 10 countries within the ambit of Focus Market Scheme. These countries include Mongolia, Bosnia-Herzegovina, Albania, Macedonia, Croatia, Honduras, Djibouti, Sudan, Ghana and Colombia.

(14) The Focus Products and Focus Markets Schemes would be calibrated, so that some products of high export intensity (which are presently not covered under FPS) but which have low penetration in countries (which are presently not covered under FMS), would be considered for export incentive as a Focus Product for that Country. We would invite suggestions from the Export Promotion Councils in this regard.

(15) Under the Industrial Park Scheme, administered by the Department of Industrial Policy and Promotion besides manufacturing, it has now been decided to include, IT, ITES and R&D in Natural Sciences and Engineering, as industrial activities permitted in the parks.

(16) Last year I had announced the formation of the Export Promotion Forum for Telecom to boost exports in the telecom sector. The exports from this sector are likely to touch Rs. 4,000 crores this year, up from Rs. 1,800 crores last year. This is likely to exceed Rs. 10,000 crores by 2011. To encourage this sector, I am pleased to announce the establishment of an Export Promotion Council for Telecom.

(17) Export Credit Guarantee Corporation of India (ECGC) has completed fifty years of operations. With the establishment of National Export Insurance Account (NEIA), ECGC now provides credit risk insurance cover even to high risk countries where such insurance cover was not earlier provided. NEIA has already provided Rs.396 crores to ECGC and a balance amount of Rs.1704 crores will be provided during the current Plan Period to enhance ECGC's under-writing capability. ECGC has also reduced its premium by more than 10% to provide relief to exporters affected by rupee appreciation.

(18) The time period for re-import of branded jewellery remaining unsold has been extended from 180 days to 365 days. The facility of export on consignment basis has been extended to the export of coloured gem stones. At present in case of exports through Foreign Post Office, value of jewellery parcels is limited to US $ 50,000. The limit is now raised to US $ 75,000.

(19) To curb inflation on essential commodities, Government has banned export of non-basmati rice, edible oils and pulses. Benefits under DEPB Scheme have been withdrawn on export of rice, cement and primary steel items. We are also withdrawing the incentives under promotional scheme (FMS) on export of cement and primary steel items.

(20) Every now and then I come across surveys by reputed international and domestic organizations pointing out the distressing fact that transaction costs – in both money and time – for exporters in India are very high. In the last four years we have taken a number of steps to reduce these costs. Introduction of e-commerce in Government, removal of controls and simplification of procedure have been pursued relentlessly. Apparently, a lot more needs to be done. In the last year of this Policy period, we propose additional measures towards this end:

i) Advance Authorisation Scheme and EPCG Scheme will be brought under the EDI system with effect from 1.7. 2008.

ii) With effect from 1.1.2009, all existing EDI ports will be treated as a single port and there will be no requirement of TRA under Advance Authorisation.

iii) Payment of duty under EPCG Scheme, through debit of DEPB or other duty credit scrips would be allowed w.e.f. 1.1. 2009.

iv) To facilitate faster clearance of deemed export benefits, Central Excise authorities will now endorse the supply invoices within 21 days.

v) A few additional ports have been included under Export Promotion Schemes. This will help in reducing costs and adhering to delivery schedules. Some more ports are also under consideration.

Similarly, a large number of other measures have been announced, details of which are given in the Annual Supplement.

We still face many structural problems which need to be addressed. We have to plan an integrated strategy to tackle these issues. I announce the setting up of a Joint Task Force of representatives of the Central Government, State Governments, Panchayati Raj Institutions, Industry and Exporters to draw up, within six months, a detailed Action Plan as a roadmap to achieve this objective.

The key elements of this strategy that the JTF will be mandated to look at would include:

(a) Development of world-class infrastructure to facilitate trade involving an investment of over $ 800 bn in infrastructure.

(b) Trade facilitation through EDI, such that the waiting periods at ports, airports and ICDs and Land Customs Stations, would match world standards; of 2 hours or less.

(c) The development of global manufacturing hubs in selected sectors like auto components, generic drugs, gems and jewellery, handicrafts, textiles, petro products etc.

(d) The development of global services hubs, not only in IT but also in KPO, industrial design, research and development and product testing.

(e) The development of a chain of sector-specific skill development institutes, so that trained manpower is available for all sectors.

(f) In line with the Government's policy that no duty and taxes should be exported, early implementation of GST and simultaneous reimbursement of the remission or refund of all taxes & levies.

(g) Encouraging e-commerce through robust implementation of e-governance at all levels.

You are aware that negotiations for further liberalization of trade under WTO are continuing since 2001. This indecisiveness at the World Trade Body is not on account of any unreasonable positions of developing countries like India. The negotiations remain inconclusive on account of the recently discovered fear and shyness from trade liberalization by the developed countries. We remain committed to a fair, rule bound international trading order, where the developing countries have an equal say and share. We will continue our endeavour to protect our farmers from the trade distorting subsidies provided in developed countries. We will also ensure adequate safeguards for protection of our small and tiny industries and We will continue to seek enhanced market access for our goods and services.

The remarkable achievements in trade and commerce of the past four years gives me the confidence to spell out an even more ambitious target – that of achieving a 5% share in world trade by the year 2020. In practical terms this means a four-fold increase in our percentage share in the next 12 years. Considering that world trade is itself increasing, this would translate into an eight-fold increase in absolute terms. Ambitious the target may be, but achieving it is not impossible. It means we would have to ensure an average annual growth rate of 25% consistently for the next 12 years. To begin with, I set a target of $200 billion for exports during the current year.

The task is difficult, but the prize is great. If we achieve it, India will once more become the trading superpower it was two centuries ago.

Thank you.