Trade Policy

6.33 Trade policy reforms over the last decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance. The focus of these reforms have been on liberalization, openness, transparency and globalization with basic thrust on outward orientation focussing on export promotion activity moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. Over the years, significant changes in the EXIM Policy have helped to strengthen the export production base, remove procedural irritants, facilitate input availability besides focussing on quality and technological upgradation and improving competitiveness. Steps have also been taken to promote exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. During the past year, the following trade policy measures have been announced.

I. Measures announced in the Union Budget 2000-01

- Peak rate of basic customs duty was reduced from 40 per cent to 35 per cent and the total number of slabs in customs duty rates was rationalized from five to four (i.e., 35, 25, 15 and 5 per cent).
- Duty on various items (mostly consumer goods and agriculture products) on which quantitative restrictions have been lifted have been placed at peak rate (35 per cent plus surcharge) to accord adequate tariff protection to these items. A number of agricultural and horticultural products placed on the free list of import in the earlier years have also been brought to the peak rate to ensure adequate protection to farmers.
- For sensitive agricultural products (wheat, rice, sugar, edible oils), suitable enabling provisions to fix statutory tariff rates at appropriately high levels have been made, providing the necessary flexibility for adjusting the applied rates to facilitate suitable supply management of these commodities.
- Phasing out of export concessions under the income tax over a period of five years. To start with, 20 per cent of the export earnings will be taxed from 2000-01, increasing by a further 20 per cent each year for the next five years. Exporters would, however, continue to enjoy exemption from MAT until the full phase out of concessions has taken place.
- To improve international competitiveness of sectors which are integral part of the ongoing “Convergence revolution” and encourage their exports, industry specific concessions (like lower customs duty on specified equipment and raw materials) have been granted to Information Technology, Telecommunication and Entertainment industry sectors.
- Continuation of tax holiday for another two years for EOUs in backward areas.

II. Measures announced in the Annual EXIM Policy

- Quantitative restrictions (QRs) removed from 714 tariff lines including 58 reserved for SSI sector (Box 6.2).
- Setting up of Special Economic Zones (SEZ) to encourage export production with fewer rules and regulations governing imports and exports (Box 6.3).
- Evolution of a scheme for granting assistance to States based on their export performance for development of export related infrastructure.
- Rationalization of existing export promotion schemes including abolition of Special Import Licence (SIL) from 1.4.2001, exemption from payment of all kinds of duties on Advance Licences, extension of EPCG scheme uniformly to all sectors and capital goods without any threshold limit and on payment of 5 per cent duty and removal of threshold limit for fixing new DEPB rates.
- Introduction of post-export duty replenishment licence scheme for enabling import of inputs on the basis of input-output norms and uniform value addition of 33 per cent.

- Sector specific initiatives to accelerate exports announced for core areas like gems & jewellery, agrochemicals, biotechnology, pharmaceuticals, leather, garments, handicrafts, silk and granite & minerals. In addition, a Diamond Dollar Account Scheme to boost export of gems & jewellery has been introduced.
- All items under SIL will be importable on surrender of SIL equivalent to 5 times the CIF value of imported goods.
- Permission for import of second hand capital goods which are less than 10 years old without obtaining any licence on surrender of SIL.
- Deemed export benefits rationalized by extending benefits uniformly to eligible categories and expanding the definition of capital goods to include all such items/components/spares/accessories/tools etc. which go into the making of capital goods. Deemed export benefits extended to core infrastructural sectors (involving an investment of Rs.100 crore and above) like coal and hydrocarbon, to the power sector including modernisation and renovation of power plants and to supply of projects funded by UN agencies.
- Additional benefits permitted to EOU/EPZ include: permission to carry job work for Domestic Tariff Area (DTA) units in all sectors; and all EOUs/units in EPZ having an investment of Rs.5 crore or above, in plant and machinery, will only be required to maintain positive value addition.
- Project exporters/construction companies/domestic service providers with a domestic turnover of Rs.100 crore or more shall now be eligible for "International Service House" status on signing an MOU with the DGFT for exports.
- Double weightage on exports manufactured in Jammu & Kashmir for determining the status certification.
- Procedural simplifications like extension of electronic filing of licence applications, extension of green channel facility to all manufacturers exporters holding green cards, delegation of powers to issue Trading House Certificates to regional licencing authorities etc.

III. Other Measures

- Duty Drawback rates rationalized in consonance with changes in customs and excise effected in the Union Budget 2000-01. The drawback rates in respect of 141 entries were increased, 406 entries have been maintained and for 270 entries revised downwards to reflect appropriate incidence of these duties. A maximum drawback cap has been imposed on 141 entries. Nine new entries have been introduced including plastic jumbo bags, hand-knotted/handmade silk and synthetic carpets, copper cathodes, mechanical pencils and parts of textiles machinery.
- It has been decided to amend the Foreign Trade (Development & Regulation) Act, 1992 for vesting the Government with necessary powers to impose QRs as a safeguard measure.
- The Monetary & Credit Policy 2000 has extended export refinance limit by permitting bills rediscounted by institutions like the EXIM Bank to be included in the refinance limit.
- A High Powered Standing Committee on reduction of transaction costs of Indian exports has been set up under the chairmanship of the Finance Secretary. The Committee meets regularly to resolve various issues relating to inter-departmental cooperation and to review action taken reports of concerned Departments, including re-commendations on further follow up measures.
- Dereservation of the garment sector from the purview of SSI reservation in the new textile policy will facilitate larger investments, including higher foreign direct investment, in garment manufacturing and would thus provide a fillip to garment exports.

BOX 6.2

Impact of removal of Quantitative Restrictions on Imports

Quantitative Restrictions (QRs) refer to measures other than tariffs or duties (e.g. quotas, licences, canalisation) taken to restrict imports (or exports). Although multilateral trade rules in general prohibit QRs on importation (or exportation) of any product, the GATT provides exceptions to this fundamental principle (e.g on Balance of Payment grounds, BOP) and permits imposition of QRs on imports. India has, thus been maintaining QRs on imports on BOP grounds which, in view of improvement of our BOP position, we had committed with our major trading partners to phase out by 2003. However, U.S.A. had filed a case in the WTO Dispute Settlement Body (DSB) against these QRs in May 1997. The DSB had ruled against India and had found that India's QRs on imports were not justified on BOP grounds. It had recommended that India should bring its imports regime in conformity with its obligations under the WTO Agreements. The Government has accordingly decided to phase out these QRs by 1.4.2001.

Of the 2714 import lines, at eight digit level of the HT-ITC classification, on which such QRs were notified in 1997, the Government has been unilaterally liberalising these imports since 1996. As on 31.3.1996, when the tariff line-wise import policy was first announced, more than 60 per cent of the total tariff lines were already without any QRs. QRs on 488 tariff lines (at 10 digit level) were lifted during 1996-97. QRs on 132 tariff (at 10 digit level), 391 and 894 tariff lines at 8 digit level were also removed on 1.1.1998, 13.4.1998, 1.4.1999 respectively. The EXIM Policy announced on 31st March 2000 has further removed QRs on 714 items thus leaving 715 items requiring to be liberalised by 1st April, 2001. However, QRs in respect of all these items (except a few canalised items) have already been withdrawn preferentially for imports from SAARC countries with effect from 1.8.1998.

Apprehensions have been expressed that the above removal of QRs have resulted in a surge and dumping of imports into the country, specially from China, Nepal and certain East Asian countries, affecting adversely the domestic industry. However, the provisional import data of DGCI&S for the first nine months of the current financial year indicate that the total Non-petroleum oil imports during April-December, 2000 have declined by 8.3 percent over the corresponding period of last year. While imports from specific countries like China have increased, our exports have risen faster than these imports. For example, imports from China (in Dollar terms) increased by 17.9 per cent in 1999-00 and have increased further by 28.2 percent in the first seven months of the current financial year. As compared to this, our exports to China have increased by 28.2 per cent in 1999-00 and by 53.3 per cent during April-October, 2000. An analysis of imports share of selected countries, given below, also does not reveal any such surge in imports:

Share in total imports from selected countries

(Percent)

	Country	**1998-99**	**1999-00**	**(April –October)**	
				1999	**2000**
1.	China	2.6	2.7	2.6	2.9
2.	Nepal	0.3	0.2	0.4	0.4
3.	Indonesia	2.0	2.1	2.0	2.0
4.	Malaysia	3.8	4.4	4.7	2.4
5.	Hongkong	1.1	1.7	1.6	1.6
6.	South Korea	3.3	2.6	2.4	1.5
7.	Singapore	3.3	3.2	3.2	3.0
8.	Thailand	0.6	0.7	0.7	0.6
9.	Chinese Taipei	0.9	0.9	0.8	1.0
Total (1 to 9)		**17.9**	**18.5**	**18.4**	**15.4**

However, necessary adjustments in the tariff rates have been effected within the bound rates as temporary measures against any surge in imports of specific commodity/product. Besides, laying down of Indian quality standards and printing of retail prices in Rupees for all imported goods has been made mandatory. For compliance of this requirement, all manufacturers/exporters of these products to India are required to register themselves with the Bureau of Industrial Standards (BIS). Further, the WTO framework also permits various trade defence measures to protect the domestic industry thus permitting Members to impose additional duty on trade under certain conditions. These, inter alia, include anti-subsidy and anti-dumping action, protection under safeguard provisions in case of surge in imports, besides providing for some exceptions necessary for taking care of national security, protecting public morals, human, animal or plant life or health or relating to the conservation of exhaustible natural resources. Institutional set up to implement all these agreements include the Directorate of Anti-dumping & allied duties (DGAD) and the Directorate of Safeguards. To strengthen the institutional mechanism and to make it more effective, Government proposes to strengthen the Tariff Commission so that it can play the role of an independent expert body to advise appropriate levels of tariffs as should be imposed on various items from time to time. Government has also constituted an Inter-Ministerial Group under the chairmanship of the Commerce Secretary to assess the likely impact of impending removal of QRs and to suggest suitable corrective measures.

BOX 6.3

Special Economic Zones (SEZs)

The EXIM Policy has introduced a new scheme from 1.4.2000 for establishment of Special Economic Zones (SEZs) in different parts of the country, with a view to providing an internationally competitive and hassle free environment for export production. The units operating in these zones are to be deemed as outside the country's customs territory and will have full flexibility of operations. They would be able to import capital goods and raw materials duty free and would also be able to access the same from Domestic Tariff Area (DTA) without payment of Excise Duty. No permission would be necessary for inter unit sales or transfer of goods. There would be no wastage norms or input output norms. They would be able to undertake job work for the DTA units and would also be able to get their goods processed in the DTA. The only condition would be that the units in the zones would have to be a net foreign exchange earner. DTA sales would be on payment of full customs duties and in accordance with the import policy in force. The movement of goods between SEZs and ports will be unrestricted and without any hindrance.

The SEZs imply a qualitative transformation of the traditional Export Processing Zones (EPZs). The improvements include 100 per cent FDI investment through automatic route to manufacturing SEZ units (barring a handful of sensitive industries), no routine examination by customs of export and import cargo in SEZs, all imports on self certification basis, duty free material to be utilized over five years, no pre-determined value addition, DTA sales on full duty payment and various procedural simplification for operations like record keeping, inter-unit transfers, subcontracting, disposal of obsolete materials etc.

SEZs will be permitted to be set up in the public, private, joint sector or by the State Governments with a minimum size of not less than 100 hectares. These units may be for manufacturing, trading or service activity. Package of incentives announced so far include exemption from industrial licensing for manufacture of items reserved for SSIs and removal of sectoral ceilings on FDI in SEZ units.

From November 1, 2000 the Export Processing Zones at Kandla, Santa Cruz (Mumbai), Kochi and Surat have been converted into SEZs. Approval has also been given for setting up SEZs at Nanguneri (Tamil Nadu), Positra (Gujarat), Kulpi (West Bengal), Paradeep (Orissa), Bhadohi and Kanpur (Uttar Pradesh), Kakinada (Andhra Pradesh), Dronagiri (Maharashtra) and Indore (Madhya Pradesh).

The performance of SEZs largely depends on comprehensive liberalization and freedom, as inherent in the Chinese SEZ model. However, Chinese Zones are many times larger than those currently planned in India. The extent of success of SEZs in India would, therefore, crucially depend upon the degree to which domestic regulations, restrictions and infrastructure inadequacies are eliminated in these zones.