Trade Policy

6.44 In the Union Budget 2006-07, the peak rate of basic customs duties was reduced from 15 per cent to 12.5 per cent. RBI, in its Mid-Term Review of Annual Policy 2006-07 of October 2006, has also come out with policies related to exports which include allowing all categories of foreign exchange earners to retain up to 100 per cent of their foreign exchange earnings in their Exchange Earners' Foreign Currency accounts; allowing large turnkey/project exporters/service exporters with satisfactory track record to operate one foreign currency account with inter-project transferability of funds/machinery in any country, subject to specified reporting requirements; and allowing large turnkey/ project exporters/service exporters with good track record to deploy their temporary cash surpluses in either short-term bank deposits or AAA-rated short-term paper abroad, subject to monitoring by the authorized dealer bank(s).

6.45 The Annual Supplement of Foreign Trade Policy (FTP) 2004-09, in April 2006, announced the twin schemes of Focus Product and Focus Market. Further, to meet the objective of employment generation (Box 6.5) in rural and semi urban areas, export of village and cottage industry products were included in the Vishesh Krishi Upaj Yojana, renamed as Vishesh Krishi and Gram Udyog Yojana . A number of measures announced to achieve the objective of making India a gems and jewellery hub of the world include: allowing import of precious metal scrap and used jewellery for melting, refining and re-export; permission for export of jewellery on consignment basis; permission to export polished precious and semi precious stones for treatment abroad and re-import in order to enhance the quality and afford higher value in the international market. The value addition norms have been reduced due to the increase in prices of gold and silver in international markets.

Box 6.5 : Exports and employment

One of the objectives of the FTP was to make trade an instrument for employment generation. A study was also commissioned by the Department of Commerce to find out the employment potential in the export sector.

In 2004-05, against an export of US$80 billion, the total employment generation in the export sector was 16 million (9 million direct and 7 million indirect). In 2009-10, it is estimated that overall exports of US$165 billion will result in total employment of 37 million. Thus, exports are likely to generate incremental employment of 21 million between 2004-05 and 2009-10.

In 2004-05, in the export sector, the maximum employment was in agricultural products (6.2 million) followed by mineral products (1.7 million), textile and textile articles (1.7 million) and prepared foodstuff and beverages, etc. (1.6 million). While export has recorded robust growth in recent years, the corresponding growth of export of labour-intensive goods has slowed down. Between 1995 and 2003, while *labour-intensive exports* (rice, tea, spices, horticulture and floriculture products, marine products, processed food, textiles, gems and jewellery, handicrafts, sports goods) grew by 7.2 per cent per year, the growth of *resource- intensive exports* (iron ore), *medium-technology-intensive exports* (manufactures of metals, primary & semi-finished iron and steel, manmade yarns, petroleum products) and *knowledge- intensive exports* (chemicals, drugs and pharma, plastics and linoleum, machinery and transport equipment, machinery, electronic goods) were of the order of 12 per cent, 19 per cent and 14 per cent, respectively. India's relatively small share of global exports of labour-intensive goods relative to China's indicate how the potential for such exports remain unutilized.

Since certain industrial products can generate large employment per unit of investment compared to other products, and promoting their export would in turn give a thrust to their manufacture and resulting employment, in the 2006-07 annual revision of FTP the 'Focus Product Scheme' was formulated. The Scheme allows duty-credit facility at 2.5 per cent of the FOB value of exports on fifty per cent of the export turnover of notified products, such as value added fish and leather products, stationery items, fireworks, sports goods, and handloom & handicraft items. The Vishesh Krishi Upaj Yojana was also launched to promote labour-intensive and value added products such as fruits, vegetables, and flowers. To take the benefits of foreign trade further to rural areas, the Vishesh Krishi Upaj Yojana has been expanded to include village industries based products for export benefits, and it is therefore renamed as Vishesh Krishi Upaj aur Gram Udyog Yojana.

6.46 In order to enable the country to offer supply of fuel and other stores to foreign going vessels and aircrafts at international rates thereby making India an attractive destination for refueling, the Annual Supplement 2006 of FTP, 2004-09 also announced that such supplies would be treated as exports for extending the benefits under various export promotion schemes. To promote development and export of auto sector, import of new vehicles by auto manufacturers has been allowed for R&D purposes, without homologation. A number of procedural changes have been effected to streamline the existing provisions like enabling ITES to avail refund of Central Sales Tax and interest payments on delayed refunds. Through the introduction of duty-free import authorization, a window has been introduced to offer the facility to import required inputs for export production with the facility of transferability of inputs or the scrip. In order to promote services exports, some new features have been added to the 'Served from India Scheme'. The scheme now allows transfer of both the scrip and the imported input to the Group Service Company while, earlier, transfer of imported material only was allowed. Some policies aimed at simplification include filing of applications for obtaining authorization under duty exemption/remission schemes like Advance authorization/EPCG/DEPB on line with digital signature and payment of fee through Electronic Fund Transfer (EFT) mode.

6.47 A major development related to trade policy was the operationalization of the Special Economic Zone (SEZ) Act 2005. SEZ Act and SEZ Rules were notified on February 10, 2006 to give transparency and stability to the policy. The SEZ Rules provide for differentiated minimum land requirements for different classes of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where supporting infrastructure is to be created. The SEZ Rules also provide for simplified procedures for development, operation and maintenance of the SEZ, setting up units in SEZs, single window clearance both relating to Central as well as State Governments for setting up of an SEZ and units in a SEZ, and simplified compliance procedures/documentation with emphasis on self-certification. A Board of Approval has been constituted by Government in exercise of the powers conferred under the SEZ Act (Box 6.6).

6.48 Contingency trade policy and non-tariff measures (NTMs) continued to act as significant barriers to exports from developing countries, but with somewhat reduced intensity (Table 6.11). Such barriers are considerably stiffer for products with lower value addition and lower technological content (e.g. agriculture, textiles, and leather products), which are of major interest to developing countries like India. With its diversified manufacturing and export base, India has been one of the major users as well as one of the major targets of anti-dumping measures in the world. During January-June 2006, 20 WTO members reported initiating a total of 87 new investigations, down from the 105 initiations in the corresponding period of 2005. India reported the highest anti-dumping initiations with 20 new initiations (taking each country as one case) followed by European Communities (17) and Australia (9). As far as imposition of new final anti-dumping measures during the first half of 2006 is concerned, China reported applying the largest number (15) followed by Turkey (11), India (8) and Egypt (7).

Box 6.6 : Special Economic Zones (SEZs)

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. However, the EPZs were not able to emerge as effective instruments for export promotion on account of multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime.

With a view to overcome these shortcomings and attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. This policy was intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with minimum possible regulations. To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, the Special Economic Zones Act, 2005, was passed by Parliament in May, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on February 10, 2006. The main objectives of the SEZ Act are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities. Various incentives and facilities are offered to both units in SEZs for attracting investments into SEZs (including foreign investment) as well as for SEZ developers. It is expected that these incentives and facilities will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

During 2005-06, exports from functioning SEZs, which are mainly the former EPZs were around US$5 billion. At present 1,016 units are in operation in these SEZs providing direct employment to over 1.79 lakh persons (about 40 per cent of whom are women). Private investment by entrepreneurs for establishing units in these SEZs is of the order of about Rs.3163 crore.

After the SEZ Act and SEZ Rules came into effect on February 10, 2006, formal approval has so far been granted to 237 SEZ proposals and in-principle approval has been granted to 164 SEZ proposals. Out of the 237 formal approvals, notifications have already been issued in respect of 63 SEZs. In these 63 new generation SEZs which have come up after February 10, 2006, investment of the order of Rs.11,194 crore has already been made in less than one year. These SEZs have so far provided direct employment to 15,097 persons. It is expected that total investment in these SEZs would be around Rs.58,459 crore and 8,90,700 additional jobs will be created by December 2009. It is also expected that if all the 237 SEZs become operational, investment of the order of Rs.3,00,000 crore may take place and 4 million additional jobs may be created.

Concerns have been expressed regarding acquisition of agricultural land for setting up SEZs. The State Governments have been advised that in land acquisition for SEZs, first priority should be for acquisition of waste and barren land and if necessary single crop agricultural land could be acquired for the SEZs. If perforce a portion of double cropped agricultural land has to be acquired to meet the minimum area requirements, especially for multi-product SEZ, the same should not exceed 10 per cent of the total land required for the SEZ. Various issues relating to setting up of SEZs in the country including issues raised by various political parties are being addressed by the Empowered Group of Ministers.

Table 6.11 : Investigations initiated by top ten users of anti-dumping measures, 1995–2006

Country	1995	2000	2001	2002	2003	2004	2005	2006 Jan-June	1995-June 2006
India	6	41	79	81	46	21	28	20	448
United Sates	14	47	75	35	37	26	12	0	366
European Community	33	32	28	20	7	30	25	17	345
Argentina	27	45	26	14	1	12	12	5	209
South Africa	16	21	6	4	8	6	23	2	199
Australia	5	15	23	16	8	9	7	9	188
Canada	11	21	25	5	15	11	1	4	138
Brazil	5	11	17	8	4	8	6	3	125
Mexico	4	6	5	10	14	6	7	3	89
China, P.R.	0	6	14	30	22	27	24	3	126
All countries	**157**	**292**	**364**	**312**	**232**	**213**	201	87	2938

Source : WTO