Overview

Introduction

The year 2013-14 was in many ways a year full of challenges and opportunities for us. A series of international events had a major impact on our economy. Most of the world economies struggled to emerge out of the financial crisis. While the global environment still remains challenging, policy action in India has been repositioned so as to better tackle the negative impact of external shocks. The growth momentum and export competitiveness has picked up as government has instilled greater confidence among businesses. The improved outlook and pro-active policy environment will help boost exports and bring India on the trajectory of greater economic growth.

Global trade growth has reduced from 2.3% in 2012 to 2.1% in 2013. The **WTO as per the April, 2014 Outlook, predicts a growth of 4.7% for 2014** and **5.3% in 2015**, but conditions for improved trade are gradually falling into place.

India's merchandise exports reached a level of US$ 312.61 billion during 2013-14 (P) registering a growth of 4.1 percent as compared to a negative growth of 1.8 percent during the previous year. Despite the setback faced by India's export sector due to the global slowdown, merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 15 percent from 2009-10 to 2013-14 (P).

There is an increasing shift in India's trade from conventional destinations i.e. the US and EU towards South Asia, ASEAN, Africa and Latin America. During 2013-14, India's exports with South Asia stood at US $ 17.33 billion; with ASEAN at US $ 33.18 billion, with Africa US $ 31.23 billion and with Latin America at US $ 10.18 billion. The expansion of our trade basket and diversification of our markets will be a priority to improve the balance of trade. Export expansion needs to be accompanied by contraction in some of the high volume high value imports that display inelastic demand.

Vision and Mission of DOC

The basic role of the Department of Commerce is to facilitate the creation of an enabling environment and infrastructure for accelerated growth of exports. The mandate of the Department is the regulation, development and promotion of India's international trade and commerce through the formulation and implementation of appropriate international trade and commercial policy.

Foreign Trade Policy

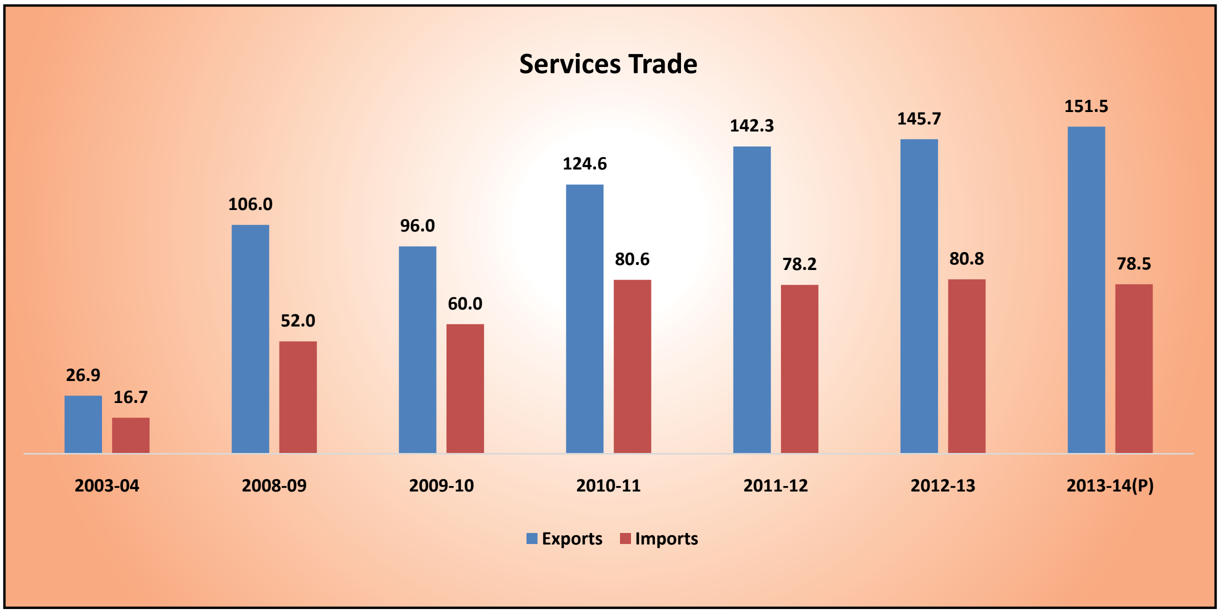
The 2% Interest subvention scheme was earlier available only to Handlooms, Handicrafts, SMEs and carpets. In June 2012, it had been extended to labor intensive sectors, namely, Toys, sports goods, processed agricultural products, and readymade

India Trade Story

US $ Billion

Source: DGCIS database

US $ Billion



Source: RBI

garments, in addition to the four sectors benefitting from the scheme earlier. With effect from 1st January, 2013, the scheme was extended to 134 sub-sections of engineering sector. The validity of the scheme was also extended till March 31, 2014. The scheme has been further widened to cover 101 tariff lines of Engineering sector and 6 tariff lines of Chapter 63 of ITC(HS) (Textiles Made ups) w.e.f. 1st April, 2013. Further, Government has enhanced the rate of subvention from 2% to 3% with effect from 1st August, 2013.

Zero duty EPCG Scheme and concessional 3% duty EPCG scheme were harmonized and w.e.f. 18.4.2003 there is just zero duty EPCG scheme for all products/services.

Duty credit scrips issued under Focus Product Scheme (FPS), Focus Market Schemes (FMS) and Vishesh Krishi and Gram Udyog Yojna (VKGUY) can be used for payment of Service Tax.

A new scheme namely, the Incremental Export Incentivisation scheme has been introduced w.e.f 1.1.2013 whereby exports made during the period January-March 2013 over the base period January-March 2012 would be eligible for these benefits. The above scheme was extended for 2013-14 also on an annual basis.

The Foreign Trade Policy 2014-19 will be announced by the new Government and in the interim, the existing policy (2009-14) is continuing. The exercise for drafting the new FTP is under way and stakeholder consultations with Export Promotion Councils and Chambers of Commerce have started. Some of the existing export promotion schemes may be restructured based on the feedback.

Achievements

- **A New Expanded Duty Free Tariff Preference (DFTP) Scheme for Least Developed Countries (LDCs)**

  One of the elements of the Hong-Kong Ministerial Declaration of December 2005 was to extend Duty Free Quota Free (DFQF) access to the Least Developed Countries (LDCs). India was the first developing country to extend this facility to LDCs. India's Duty Free Tariff Preference (DFTP) Scheme for LDCs came into effect in August, 2008 with 85% of India's total tariff lines made duty free, 9% tariff lines enjoying a Margin of Preference ranging from 10% to 100% and only 6% of total tariff lines retained in the Exclusion List with no duty preferences, for the exports from LDCs.

  This year, the Cabinet has approved an increase in coverage as well as simplification of the Scheme, in line with both the Hong Kong Ministerial mandate as well as requests from several LDCs (eg., Tanzania, Uganda and Ethiopia) for additional product coverage under the duty free list to cover products of their export interest and for simplification of the Rules of Origin procedures.

  The new and expanded DFTP Scheme would provide improved market access to the 28 beneficiary countries as well as to new entrants, such as the Republic of Yemen and Haiti. This initiative by India would strengthen the country's position in the WTO on issues relating to LDCs and is expected to send a strong signal to major developed countries which are yet to comply with the Hong Kong

Ministerial mandate to adopt similar measures.

- The Plantation Sector comprising tea, spices and rubber is important to India's economy given the livelihood concerns of a large number of people employed in the industry. Tea and Spices are the brand ambassadors of `India'. This has been a remarkable year for India in terms of taking the lead at international commodity bodies in pursuing the producers' interests in the tea, spices and coffee sectors. The Union Cabinet has approved India's joining the International Tea Producers Forum as a founder member. India has been elected as the Chair of International Coffee Organization Council. India has also succeeded in getting a Codex Committee on Spices and Culinary Herbs (CCSCH) formed by the Codex Alimentarius Commission, which would harmonize quality parameters for spices, across the globe and help our exports. These are significant steps in achieving a commanding place in world trade in these sectors and thereby protecting the interests of lakhs of growers.
- To sustain and accelerate the growth rate of engineering exports, the Department of Commerce has launched a strategic brand promotion of engineering goods in coordination with IBEF and EEPC. Since the Engineering Sector covers a large span of the products, based on the core strengths, in the initial phase, machine tools and the Pump and Valves sector have been identified for this exercise.
- The increasing competence of Indian pharma in the global market place especially the fact that India is emerging as the `pharmacy of the world' and as a reliable supplier of authentic, quality, safe and affordable drugs, resulted in a campaign by certain vested interests to brand generic medicines of India as sub-standard, spurious / fake. It was in this context that Department of Commerce took the initiative of proposing technological solutions for tracing and tracking the `Made in India' drugs in the global market. Extensive consultations were held with the industry and concerned departments and it was decided that trace and track features need to be incorporated on all medicinal products being manufactured and exported from India as a measure to build better image and credibility of Indian pharma products.
- A major initiative has been taken by the Government through eTRADE Project which aims to facilitate Export and import clearances in online environment and by integrating international standards and best practices. This is a community project covering trade regulatory and facilitating agencies such as Customs, Directorate General of Foreign Trade (DGFT), Sea Ports, Airports, ICSs/ CFSs, Exporters, Importers, Agents and Banks. The project facilitates electronic delivery of services like document filing and clearances, e-Payments integration etc. The Government will pursue this initiative vigorously as part of its on-going trade facilitation efforts to support the thrust on export promotion.

Export Promotion

- In the last few years, India's current account deficit has been under pressure and several measures were taken to manage it. The Foreign Trade Policy for 2014-19 which the Government will announce very soon looks at long-term measures to address the situation. The new policy will build upon India's strengths, focus on export of manufacturing and value added products and improving the competitiveness of agricultural products. Developing the capacity for defence and technology intensive exports is another area that will receive Government's attention. A stable tax regime and stable foreign exchange rate will be necessary to support an aggressive export strategy. It is also proposed to establish an Export Promotion Mission to bring all the stakeholders under one umbrella. States will be made partners in the country's export promotion efforts.

Services Exports

The Services sector has been a major force in driving growth in the Indian economy for more than a decade. Services contribute around 60% to the GDP of the country, 35% to employment, 25% to total trade, around 40% to exports, 20% to imports and account for more than 50% of FDI into the country.

Increasing surplus from services trade over the whole of the last decade has helped to offset a major part of the deficit accruing from the merchandise side, and thereby helped to keep a check on the Current Account Deficit (CAD).

India recorded a merchandise trade deficit of US$ 137.45 billion in 2013-14. Total export of services was US$ 151.4 billion in 2013-14 and the net export of services was US $ 72.9 bn. Out of US $ 72.9 billion of net exports in services, around US$ 66.9 billion comes from net software services exports alone. Services exports from India have been growing rapidly, increasing from US$ 96 billion in 2009-10 to US$ 151.4 billion in 2013-14 with a CAGR of 9.5%.

However, in the sphere of IT/ITES services India is slowly losing its competitive edge on account of competition from other countries such as Vietnam, Mexico, Turkey and Philippines. The role of Software Technology Parks (STPs) and SEZs in making IT/ITES services competitive, has been critical.

Income tax benefits under sections 10A and 10B were available to undertakings in STPs and EOUs only till 31 March 2011. Today nearly 60% of the operational SEZs are in the IT/ITES sector. There is an urgent need for restoring their benefits to keep the IT/ITES sector competitive. There is also a strong demand from the IT industry for greater clarity on their taxation issues including transfer pricing norms.

There is also great scope for increasing exports in the sphere of Business, Professional, Tourism and Medical Services. India can be developed as a 'hub' for cardiac, ophthalmic, orthopaedic surgery and other related medical services especially for patients from South Asia, Middle East and other advanced countries. This would require easing the visa regime by providing visa on arrival and multiple entry visas to the patients, covering hospitals under Served from India Scheme to make them eligible for export incentives on the basis of foreign exchange earned and reforms in health insurance including portability etc.

Trade Infrastructure and Trade Facilitation

- An efficient infrastructure is necessary to support the thrust in exports that is sought to be achieved under the new Foreign Trade Policy. Government will endeavour to build a network of world class ports, air cargo facilities, road and railways. Government's scheme to support creation of infrastructure at the Centre and State level called 'Assistance to States for Infrastructure Development for Exports' (ASIDE) has made an important contribution and Government proposes to continue and upscale it. EDI connectivity has to be extended to all the ports in the country. As far as possible, exporters would be enabled faster clearance through a single window mechanism. The reduction in transaction costs will go a long way in making our exports more competitive. A Committee on Reducing Transaction Costs has submitted its report and its recommendations are under active consideration of the Government and will be included in the Foreign Trade Policy. Similarly, harmonisation of domestic standards with global practices will be necessary for addressing non tariff barriers.

Electronic Data Interchange (EDI) Connectivity

EDI connectivity has improved in the context of merchandise trade data:

- **Exports:** In 2013-14(P), 65.2% of the total value of trade was through EDI, 34.4% was through Non-EDI and 0.42% was through manual as compared to 58.2% through EDI, 30.09% through Non-EDI and 11.7% manual in 2009-10.
- **Imports:** In 2013-14(P), 72.41% of the total value of trade was through EDI, 27.3% was through Non-EDI and 0.26% was manual as compared to 65.8% through EDI, 12.5% through Non-EDI and 21.8% through manual in 2009-10.
- Reducing delay in data transmission-this will require:
  - Increasing the coverage of EDI ports by converting manual and non EDI ports into EDI ports
  - Data relating to manual clearance from EDI ports captured and transmitted in EDI mode

Recent developments in the World Trade Organisation (WTO) negotiations

The Doha Round of trade negotiations is continuing in the WTO since the year 2001. After protracted negotiations yielding little results for almost a decade, consensus was reached to negotiate a small package consisting of Trade Facilitation, some elements of agriculture and development/ LDC issues for an early outcome in the Ninth Ministerial Conference of the WTO held in December 2013 in Bali, Indonesia.

The Bali outcome consists of an agreement on Trade Facilitation and Ministerial decisions on some elements of agriculture and development/LDC issues.

In the area of agriculture, which is very important for the developing countries, the proposal submitted by G-33, a group of developing countries in the WTO relates to updating the rules concerning public stockholding for food security. The Ministers approved an interim mechanism, until a permanent solution is found to enable the developing countries meet this policy objective subject to some notification and transparency provisions. The interim mechanism stipulates that WTO Members will not challenge the compliance of a developing member with obligations under the WTO Agreement on Agriculture in relation to support provided for traditional staple food crops in pursuance of public stockholding programmes for food security purposes, if they are consistent with the existing rules. A permanent solution has to be negotiated for adoption by the 11th Ministerial Conference.

The agreement on trade facilitation is aimed at simplifying customs procedures by reducing costs and improving their speed and efficiency. It will be a legally binding agreement. The objectives are: to speed up customs procedures; make trade easier, faster and cheaper; provide clarity, efficiency and transparency; reduce bureaucracy and corruption, and use technological advances. It also has provisions on goods in transit, an issue particularly of interest to landlocked countries seeking to trade through ports in neighbouring countries.

Status of India's RTAs/FTAs

India has always stood for an open, equitable, predictable, non-discriminatory and rule based international trading system. India views Regional Trading Arrangements, as 'building blocks' towards the overall objective of trade liberalisation which should complement the multilateral trading system. Therefore, India is actively engaging in regional and bilateral negotiations with various countries/ blocs to diversify and expand the markets for exports.

So far, India has signed 10 FTAs and 5 Preferential Trade Agreements (PTAs) and these FTAs/PTAs are already in force. Further, India is currently negotiating 17 FTAs, including review/expansion of some of the existing FTAs/PTAs.

Ten Free Trade Agreements (FTAs) with

Sri Lanka (March, 2000)	SAFTA (January, 2006)	Nepal (March, 2007)	Bhutan (July, 2006)	Thailand (September, 2004)
Singapore (June, 2005)	ASEAN (January, 2010)	South Korea (January, 2010)	Japan (August, 2011)	Malaysia (August, 2011)

Five Preferential Trade Agreements (PTAs) with

Asia Pacific Trade Agreement (APTA) (November, 1976)	Global System of Trade Preferences (GSTP) (April, 1989)	Afghanistan (May, 2003)	Mercosur (June, 2009)	Chile (September, 2007)

Special Economic Zones

- Special Economic Zones (SEZs) in India have been a very important vehicle for export growth, earning valuable foreign exchange, generating employment and having multiplier effects on the

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economy. During 2013-14, exports from SEZs touched the level of about US $ 82.35 billion, employing about 12.83 lakh people. To revive investors' interest in the SEZs some easing of SEZ Rules was undertaken in 2013, but more needs to be done on the fiscal incentives. The exemption from Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) need to be restored to re-vitalise the SEZs in the country.

Market Access Initiative (MAI) Scheme

Market Access Initiative (MAI) Scheme is a Plan scheme formulated to act as a catalyst to promote India's exports on a sustained basis, based upon 'focus product' and 'focus market' concept. Under the scheme, assistance is extended to the Departments of Central Government and organizations of Central/ State Governments, Export Promotion Councils, Registered Trade Promotion organizations, Commodity Boards, recognized Apex Trade Bodies and Recognized Industrial Clusters and individual Exporters (only for product registration and testing charges for engineering/Pharmaceuticals products abroad). The scheme was thoroughly reviewed and extensive consultations were held with all the stake holders in 2006 and a revised Scheme was launched with effect from January, 2007.

The following activities are eligible for financial assistance under the scheme:-

i. Marketing Projects Abroad

ii. Capacity Building

iii. Support for Statutory Compliance

iv. Studies

v. Projects Development

vi. Miscellaneous activities like developing Foreign Trade Web Portal etc.

Market Development Assistance (MDA) Scheme

To facilitate various measures being undertaken to stimulate and diversify the country's export trade, a Market Development Assistance (MDA) Scheme is under operation through the Department of Commerce. The Scheme supports the following export promotion activities:

- Assistance to exporters for their participation in approved EPC/Trade Promotion Organization led export promotion events abroad.
- Assistance to Export Promotion Council (EPCs) to undertake export promotion activities for their product(s) and commodities.
- Assistance to approved organization/ trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts for their members.
- Assistance to Focus export promotion programmes in specific regions abroad like Focus (LAC), Focus (AFRICA), Focus (CIS) and Focus (ASEAN +2).
- Residual essential activities connected with marketing promotion efforts abroad.

Focus Areas

- India has always stood for an open, equitable, predictable, non-discriminatory and rule based international trading system. Recognizing that Regional Trading Agreements (RTAs) would continue to feature permanently in world trade, India has engaged with its trading partners / blocs with the intention of expanding its export market since early part of the previous decade and began concluding, in principle agreements to move, in some cases, towards Comprehensive Economic Cooperation Agreements (CECA) which covers FTA in goods (i.e. having a zero customs duty regime within a fixed time frame on items covering substantial trade and a relatively small negative list of sensitive items on which no or limited duty concessions are available), services, investment and identified areas of economic cooperation.

- The Government proposes to continue its proactive engagement with countries in the neighbourhood and beyond to strengthen trade and economic relations. India's exports to SAARC countries have doubled in the last five years. Digitization of foreign trade procedures and large scale use of IT has contributed significantly in reducing transaction cost and promoting trade with our neighbours. A comprehensive road map has been developed bilaterally between India and Pakistan, sincere efforts on both sides will pay rich dividends.
- India has developed a multi faceted relationship with ASEAN countries. The India ASEAN Free Trade Agreement (FTA) was signed in 2009 and the India ASEAN Agreement on Trade in Investment and Services was concluded in December 2012. These agreements have strengthened the business and commerce relations between ASEAN and India. We also have India Singapore Comprehensive Economic Cooperation Agreement (CECA) since 2005 and India Malaysia CECA since 2011 which have boosted bilateral trade between the two countries. The Government seeks to promote its engagement with East and South East Asia which have grown steadily in the last two decades. With this in mind, India is also participating in negotiations for Regional Comprehensive Economic Partnership (RCEP) between ASEAN and its six FTA partners to create a new trading block in the region.
- Project exports will get greater attention from the Government, specially to Africa, West Asia, CIS countries, ASEAN and Cambodia, Laos, Myanmar and Vietnam.
- Government will also strategise global trade engagements to conclude trade pacts, where negotiations are in various advance stages, such as with EU, PERU/ Columbia, COMESA/ECOWAS, RCEP, MERCOSUR, Russia, China, US.
- **Streamline Processes to Reduce Transaction Costs**

  This is a priority for the private sector and DoC is working on a set of recommendations which need to be implemented rapidly. These include:

  - Integration of e-BRCs between DGFT and Customs CBEC.
  - Making all ports with annual exports more than Rs.50 crore EDI connected.
  - Message Exchange with Customs for all schemes of DGFT.

- Ensure 24x7 operations of ports and land custom stations by providing adequate facilities like customs clearance round the clock.

- **Preserving Competitiveness of Key Sectors**

  Certain developing countries like India have been able to give export subsidies as per the WTO agreements. This is a special provision which will soon expire as our per capita income and share in exports will cross the relevant benchmarks. This will affect our exports of textiles, gems & jewellery and fruits & vegetables which form about 23 percent of our exports. To maintain the competitiveness of these sectors we need to institute a special subsidy scheme.

- **Promoting Hi-Tech Exports**

  The global exports of hi-tech sector are largely dominated by electronics and pharmaceuticals, which together constitute 80 per cent of world hi-tech exports. The country's potential in technology oriented manufacturing exports is yet to witness its full potential. Pharmaceuticals and electronic goods sectors dominate exports of hi-tech products from India with the share of electronics in hi-tech exports almost doubling during the period 2007 and 2011. Strategies for increasing technology based exports would include capacity enhancement, special subvention financing package, tax incentives for investments in hi-tech products, financial assistance to set up world class hi-tech clusters and a well drafted production subsidy scheme along with an open regime for foreign direct investment to get investments & technology.

- **Export Credit**

  This needs to be included as priority sector lending for all commercial banks to ensure adequate availability of credit to exporters.

- **Infrastructure**

  Improvement in port and laboratory infrastructure as well as setting up of common facility centres for increasing value addition in traditional exports such as, handicrafts, textiles, gems & jewellery, leather etc. will go a long way in increasing exports and enhancing employment.

- **Improving Production Standards and Building Brand India**

  A mandatory standards regime if implemented, not only protects consumers but also raises the quality of merchandise produced which in turn raises the capacity to export to discerning markets. This together with promotion of our traditional brands of goods like tea, spices, ayurvedic products and services like, yoga, wellness and health care as valued Indian brands can lead to greater value addition and export realization.