Introduction

Four years after the eruption of the financial crisis, the global economy is still struggling to recover. During 2012, global economic growth weakened further. A growing number of developed economies have fallen into recession. Those in severe sovereign debt distress moved even deeper into recession, caught in the downward spiralling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility.

Global economic growth has slowed from 3.9 percent in 2011 to 3.2 percent in 2012. IMF has put the projections of growth of world output at 3.5 percent in 2013. The advanced economies are expected to grow at 1.4 percent while the emerging and developing economies are to grow at the rate of 5.5 percent in 2013.

In this backdrop of a bleak global economic outlook, WTO in last September downgraded their forecast for world trade expansion in 2012 from 3.7% to 2.5%. The volume of trade growth in 2013 is forecasted to be at 4.5%, still below the long term annual average of 5.4% growth for the last 20 years.

India is well integrated with the global economy. Our exports and imports amount to approximately 43 percent of GDP. The slow growth in different countries and reduced demand are also likely to determine the markets for our exports.

Following the slowdown induced by the global financial crisis in 2008-09, the Indian economy responded strongly to fiscal and monetary stimulus and achieved a growth rate of 8.6 percent and 9.3 percent respectively in 2009-10 and 2010-11. However, with the economy exhibiting inflationary tendencies, the Reserve Bank of India (RBI) started raising lending rates in March 2010. High rates, as well as, policy constraints adversely impacted investment and in the subsequent two years viz., 2011-12 and 2012-13, the growth rate slowed to 6.2 per cent and 5.0 per cent respectively. Nevertheless, despite this slowdown, the compound annual growth rate (CAGR) for Gross Domestic Product (GDP) at factor cost, over the decade ending 2012-13 is 7.9 per cent.

However, despite the global slowdown both in GDP growth and trade volumes, India recorded one of the highest export growths among the major trading nations of the world in 2011, though 2012 has witnessed a considerable slowdown. As per WTO’s International Trade Statistics, 2012, in merchandise trade, WTO ranked India as the 19th largest merchandise exporter in the world, with a share of 1.7% of the global trade and the 12th largest importer with a share of 2.5% of global imports in 2011. In commercial services trade, India ranked higher: 8th largest exporter (3.3% of world exports) and 7th largest importer of services (3.1% of the global imports).

India’s Merchandise Trade

India’s merchandise exports reached US$ 304.6 billion during 2011-12 (prov.), a growth of 21.3 percent as compared to 40.5 percent during the previous year. In spite of the recent slowdown faced by India’s export, the Compound Annual Growth Rate (CAGR) of 20.3 percent recorded for merchandise exports during 2004-05 to 2011-12, remains the silver lining.
During April-February, 2012-13, the cumulative value of exports was US $ 265.94 billion, as compared to US $ 277.12 billion for the corresponding period of April-February, 2011-12. The cumulative exports for the period April-February, 2012-13 has a negative rate of growth of 4%.

Cumulative value of imports for the same period was US $ 448.03 billion as against US $ 446.93 billion during the corresponding period of the previous year, registering a growth of 0.25 per cent.

The trade deficit in April-February, 2012-13 was estimated at US $ 182.09 billion which was higher than the deficit of US $ 169.81 billion during April-February, 2011-12.
Overview

Sector-wise Performance during April - January, 2013

Exports
During the period, Products which have recorded good rates of Export growth (in $ terms) are Agriculture & Allied Products (27.5%) of which growth rate of Guar gum Meal was (138.65%), Meat & Preparations (11.84%) and Poultry & Dairy Products (73.46%), Drugs, Pharmaceuticals & Fine Chemicals (11.34%), Carpets (16.15%), Petroleum Products (4.57%) and Machinery & Instruments (3.53%).

Imports
During the period, Products which have shown high rates of Import growth (in $ terms) are Petroleum Products (11.80%), Pulses (25.97%), Vegetable Oil (19.92%), Organic Chemical (7.75%), Artificial Resins (15.14%) and Manufacture of Metals (3.35%).

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

The Department formulates, implements and monitors the Foreign Trade Policy (FTP) which provides the basic framework of policy and strategy to be followed for promoting exports and trade. The Trade Policy is periodically reviewed to incorporate changes necessary to take care of emerging economic scenarios both in the domestic and international economy.

Besides, the Department is also entrusted with responsibilities relating to multilateral and bilateral commercial relations, Special Economic Zones, State trading, export promotion and trade facilitation, and development and regulation of certain export oriented industries and commodities.

The long-term vision of the Department is to make India a major player in the world trade by 2020 and assuming a role of leadership in the international trade organizations, commensurate with India’s growing economy.

The policy tools being adopted in this context are contained in the Strategy Paper focussing on the targeted commodity and country-wise strategy in the medium term and the Strategic Plan / vision and the Foreign Trade Policy in the long run.

Foreign Trade Policy
To provide policy stability, the Department of Commerce has evolved FTP for 5 years which is reviewed annually to adapt it to the emerging challenges. The FTP 2009-14 was updated in June, 2012. The salient features of this are: reducing interest burden and extension of the Interest Subvention Scheme up to 31st March, 2014, focus on labour intensive sectors such as Toys, Sports Goods, Processed Agricultural Products and Ready-Made Garments. The Supplement also provided for extension of the Zero Duty EPCG Scheme (Export Promotion Capital Goods Scheme) till 31st March 2014, with enlarged scope. Other critical initiatives include: Support for Export of Green Technology Products, Support for Infrastructure for Agriculture Sector, Incentives for Promoting Investment in Labour Intensive Sectors, Encouragement for Manufacturing Sector in Domestic Market, adding three new towns of export excellence, simplification of procedures, focussing on E-enabled transmission of foreign exchange, etc.

In view of the Department’s strategy of export diversification with focus on new markets and commodities, 7 new markets have been added to Focus Market Scheme (FMS), 7 new markets have been added to the Special Focus Market Scheme (Special FMS) and 46 new items have been added to Market Linked Focus Product Scheme (MLFPS).

Government has recently reviewed the situation arising out of current economic scenario and...
declining growth in the western world. Some urgent steps were required to boost the exports and to reverse this declining trend and therefore additional incentives to boost exports have been provided.

Achievements

- On the external front particular mention needs to be made of the impressive growth in agricultural products and pharmaceuticals exports.

One of the highlights of last year has been the rapid growth in agricultural exports from India, which grew at an impressive rate at 68% during 2011-12, as against 2010-11. India’s export of agriculture and allied sector touched Rs.1, 32, 447 crore in 2011-12 and during the period, April to January, 2013, exports registered a growth of 45%. As the tenth largest agri-exporter last year, India emerged as world’s largest rice, buffalo meat, ground nut and guar gum exporter. The proactive policy support provided by the Government by adopting an ‘always on’ policy which is both transparent and predictable, enabled India’s farmers become major suppliers of agro products to the world. Additional measures to augment this strategy are on the anvil.

Similarly the Indian Pharmaceutical industry came to be recognized as the Pharmacy of the world on the strength of its high quality products and affordable prices. Pharmaceuticals contributed 4.13% to total exports and held sixth position among principal products exported by India during 2011-12. During the five year period (2006-2011), pharma exports have consistently shown a cumulative annual growth rate of 15.1%. During April-January, 2013, India exported pharmaceuticals valued at Rs. 65,034.15 crore with a growth rate of 27% over corresponding period of the previous year.

- As the largest economy in South Asia, India has taken a number of initiatives for closer economic integration of the region for the benefit of its people. India has unilaterally eliminated its negative list for the Least Developed Countries in South Asia retaining only tobacco and alcohol as restricted items. Similarly, we have worked towards normalizing our trade and economic relations with Pakistan. Restrictions on investments to and from Pakistan have been lifted. Pakistan has conveyed her willingness to completely normalize trade relations with India, as per its existing WTO and SAFTA obligations. Trade through the land route of Attari Wagah has also increased considerably. Efforts are being made to upgrade and modernize land customs stations with our other neighbours also. These measures initiated by us would create a regional production and value chain which would contribute to our mutual prosperity.

- The ASEAN-India Agreement on trade in services and investment was concluded at the India-ASEAN Commemorative Summit held in New Delhi in December 2012. We are also engaged in the Regional Comprehensive Economic Partnership (RCEP) which is an ambitious Asian Economic Integration Project and may define the Asian economic landscape of the future once it is finalized.

- The Special Economic Zone (SEZ) scheme provides infrastructural support, domestic employment and also enhances our export capabilities. In this context, the SEZ scheme has yielded encouraging results. Exports from the SEZs increased to Rs.3,64,478 crore in 2011-12, registering a growth of 15.39% over 2010-11. The total physical exports from SEZs for April-Dec 2012 has been Rs. 3,53,195 crore approximately, registering a growth of 35.3% over the exports of corresponding period of the last financial year.
With a view to bringing efficiency and transparency, and improve the interface of Government with exporters, the Directorate General of Foreign Trade (DGFT), under the Department of Commerce, is increasingly utilizing e-governance tools such as the Electronic bank realization certificate system (e-BRC) which dispenses with the need of filing copies and reduces cost of transaction. The DGFT is also working on developing an electronic system for monitoring export obligation discharge of importers.

To enhance transparency and curb arbitrariness and possibility of corruption in public procurement, Department of Commerce has supported e-procurement projects in various States and UTs. This has found ready acceptance.

Services Exports

The Services sector has been a major force in driving growth in the Indian economy for more than a decade. The Indian economy has navigated the most turbulent years of the recent global economic crisis relatively successful because of the vitality of this sector in the domestic economy and its prominent role in India’s external economic interactions.

Importance of services in the Indian economy becomes abundantly clear from the fact that 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. The Services sector in India has in general grown at a rate higher than the overall GDP growth Rate. For the period 2001-10, Services sector in India grew at a Compound Annual Growth Rate (CAGR) of 9.4%. The same story is reflected in the trade figures also. The export of services has been growing at a CAGR of 23.4% during 2000-01 to 2010-11 compared to the merchandise exports which grew at a CAGR of 18.6 per cent during the same period. In 2011, India was amongst the top ten exporters and importers of commercial services with 3.6% share of world exports and 3.6% share of world imports. Average annual growth rate for services exports for the last 10 years is 25%. In 2011-12, services exports were US$ 142 billion and imports of services were US $ 78 billion.

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$ 189 billion in 2011-12. Net export of services was US$ 64 billion in 2011-12. Out of US$ 64 billion of net exports in services, around US$ 61 billion comes from net software services exports alone.

Services exports in the period April-December, 2012 were US$ 105 billion as compared to US$ 102 billion in the corresponding period in 2011. Even the net exports in the period April-December 2012 have increased to US$ 45 billion from US$ 39 billion in the corresponding period in 2011.

Multilateral Negotiations

India strongly believes that a transparent, rules-based multilateral trading system is in the best interests of India and other developing countries.

Latest developments under the WTO negotiations on different issues along with India’s stand/response on the same and implications for India have been highlighted below:

The WTO is a key pillar of the global economic edifice, particularly in these challenging times. It has stood as a bulwark against a
rising tide of protectionism. Concluding the ongoing negotiations is important not only for the trade liberalisation and rule building that the Doha Development Agenda (DDA) aims to achieve but also for the credibility of the multilateral trading system. India will continue to work closely with other WTO members towards this end.

The Doha Round of trade negotiations in the WTO which began in the year 2001, remains unfinished due to differences among Members on various issues. The Eighth Ministerial Meeting of the WTO which was held in December 2011 in Switzerland, provided political guidance to the Members to resolve the issues involved. However, there was no significant progress in 2012. Efforts are being made for an early harvest on some issues in time for the Ninth Ministerial Conference of the WTO (“MC9”) to be held in December 2013 in Bali, Indonesia. India is of the view that any early outcome of the negotiations should invariably address issues of interest to the developing countries, especially the Least Developed Countries (LDCs) and the Small, Vulnerable Economies (SVEs).

Export Promotion Measures
The primary responsibility of the Department of Commerce is to facilitate creation of an enabling environment and infrastructure for accelerated growth of external trade. The core functions include regulation, development and promotion of India’s international trade and commerce through formulation and implementation of appropriate trade and commercial policies. Creation of an international standard infrastructure for rapid growth of trade is an integral part of the overall long-term policy being pursued by the department.

Some of the major schemes of Department of Commerce to promote exports are:

**Assistance to States for Infrastructure Development of Exports (ASIDE) Scheme**
Assistance to States for Infrastructure Development of Exports (ASIDE) Scheme is being administered by Department of Commerce with an objective of involving State Governments / UT Administrations in export efforts for creation of appropriate infrastructure for development and growth of exports. ASIDE guidelines for 12th FYP (2012-17) have been revised.

**Changes brought in ASIDE guidelines**

Projectised Basket Approach: In view of doubling of exports envisaged in FTP 2009-14, involvement of States / UTs is now based on the **projectised basket approach**. Herein a general basket of 500-600 critical export infrastructure projects with visible and tangible impact for implementation during 12th FYP (2012-17) is being prepared. The basket shall form the basic focus of the Scheme. The list shall serve as the benchmark for the type and size of the projects. Such basket will consist of shelf of projects (20-40 in number) received from each State / UT and States are to implement these ASIDE projects during 12th FYP on priority basis.

Four Category of States / UTs: All States/ UTs have been grouped in four category: Large, Medium, Small and North Eastern States. 10 % of ASIDE outlay is reserved for incentivizing States / UTs for their better performance under ASIDE as per Incentive guidelines.

**Eligible Activities under ASIDE**

- Land free from all encumbrances is prerequisite for consideration of projects for assistance under ASIDE.
Only those activities (aimed at development of infrastructure for exports) can be funded from the schemes which have an overwhelming export content and their linkage with exports is fully established.

The assistance covered under ASIDE is only for capital infrastructure.

The Scheme is exclusively used for creating infrastructure which does not get addressed by any other Government Programmes.

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 revised after a thorough review with extensive consultation with all the stakeholders in the year 2006 and 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.

Marketing Development Assistance (MDA) Scheme

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

- Assist exporters for their participation in approved EPC/Trade Promotion Organization led export promotion events abroad.
- Assist Export Promotion Council (EPCs) to undertake export promotion activities for their product(s) and commodities.
- Assist approved organization/trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts for their members.
- Assist 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.

Status of India’s RTAs/FTAs

India has always stood for an open, equitable, predictable, non-discriminatory and rule based international trading system. Regional Trading Arrangements, in India’s point of view, should be ‘building blocks’ towards the overall objective of trade liberalisation and should complement the multilateral trading system. Therefore, India is actively engaging in regional and bilateral negotiations with her trading partner countries/ blocs to diversify and expand the markets for its 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.
List of India’s 15 FTAs / PTAs already in force

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List of FTAs / PTAs Under Negotiations

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<td>4</td>
<td>India - Thailand CECA</td>
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<td>India - EFTA BTIA</td>
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<td>India - New Zealand FTA/CECA</td>
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<td>India - Southern African Customs Union (SACU) Preferential Trade Agreement (PTA)</td>
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<td>India - Gulf Cooperation Council (GCC) Framework Agreement</td>
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<td>16</td>
<td>India - Indonesia Comprehensive Economic Cooperation Agreement (CECA)</td>
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<td>17</td>
<td>India - Australia CECA</td>
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Overview

SEZs

In short span of about five years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 577 SEZs out of which 385 have been notified. Out of the total employment provided to 10,19,146 persons in SEZs as a whole 8,84,442 persons is incremental employment generated after February, 2006 when the SEZ Act has come into force. This is apart from millions of man days of employment created by the developer for infrastructure activities. Physical exports from the SEZs has increased from Rs. 3,15,868 crore in 2010-11 to Rs. 3,64,478 crore, registering a growth of 15.39%. There has been overall growth of export of 2531% over past eight years (2003-04 to 2010-11).

The total physical exports from SEZs as on 31st December, 2012 has been to the tune of Rs. 3,53,195 crore approximately registering a growth of 35.3% over the exports of corresponding period of the previous financial year. 100% FDI is allowed in SEZs through automatic route as per the provisions of the SEZ Act, 2005. Out of a total of 166 exporting SEZs, 96 are IT/ITES, 18 Multi product and 52 other sector specific SEZs. The total number of units in these SEZs is 3,587.

Commodity Boards and other Development Authorities

One of the key focus areas of DOC is the plantation sector and the commodity boards form part of the major schemes of DOC. The major items of Indian exports include plantation, marine products, agriculture and allied products. This category covers agriculture, plantation crops, marine products and iron-ore exports. Focus of agriculture policy in India has been on self reliance in food grains and other commodities. During the Eleventh Five Year Plan agricultural exports improved from US$ 6.01 billion in 2006-07 to US$ 18.19 billion in 2011-12. India's export of agriculture and allied sector grew at 68% from Rs. 78,854.31 crore in 2010-11 to Rs. 1,32,447.51 crore in 2011-12.

Conclusion

Global slowdown due to unfolding of euro zone sovereign debt crisis has, inter–alia, impacted the Indian economy through deceleration in exports, widening of trade and current account deficit, decline in capital flows, fall in the value of Indian Rupee, stock market decline and lower economic
growth. Export oriented industries and capital investment are the most affected sectors.

India’s merchandise trade deficit has risen and continues to rise as import growth has outpaced export growth. The prime reason for rising imports is the inelastic demand for oil and rise in gold imports.

The Services sector has been a major force in driving growth in the Indian economy for more than a decade. Indian economy has navigated the turbulent years of the recent global economic crisis, relatively successfully, because of the vitality of this sector in the domestic economy and its prominent role in India’s external economic interactions. There are, however, indications that services exports too may be under pressure particularly due to contraction in travel and transportation services as well as reduction in growth of traffic handled at major ports.

It is pertinent to note that we have always stood for an open, predictable, non-discriminatory and a rule based international trading system. There is a realization that continued growth of India requires both and expanding domestic market as well as open markets outside, along with, assured access to critical raw materials and intermediate goods.

DOC has consciously worked on diversifying our export markets, reducing the dependence on traditional markets. India has been pursuing a policy of market diversification directing her export promotion efforts at Asia and ASEAN, Latin America and Africa through Focus Market initiatives and bilateral trade agreements.

The last two decades have seen dramatic changes in the trade and investment relations across the globe. These have geo-political implications. The emerging contours of global trade partnership, needs to be seen in the backdrop of three distinct trends of multi-polarity, forces of globalization and technological changes and the emerging trade architecture.

Some of the critical issues which needs to be addressed in the Twelfth Plan would be: accelerating growth of merchandise exports and enhancing the proportion of manufacturing in the export basket i.e. moving up the value chain to realise higher value addition. Simultaneously, concerted efforts need to be directed at creating domestic capacity in production of goods where India’s import dependency is high and increasing. There is also need for building a brand image for Indian products and increase the technology intensity of Indian exports.

Steps also have to be taken for enhancing our overall share in the world exports of services, need for diversifying the services export basket and reduce over dependence on software services exports. Also, there is need for corresponding reforms in the area of manufacturing, skill development, human resource planning so that domestic conditions for services improve.

Concluding, it is to mention that, our recent success in agricultural exports has clearly demonstrated that a stable policy framework encourages Indian exports. We have to work towards improving the investment and business climate, re-energize our manufacturing sector, and ensure that policy stability is maintained. To balance trade, the country’s export basket must include a much larger volume of manufactured goods. Unless Manufacturing becomes an engine of growth, it will be difficult for India’s growth to be inclusive.

The Direct Tax Code is an important step towards creating an integrated national market. Similarly, we need to work further on bringing down internal transportation costs, improving export infrastructure and managing the transition to a lower tariff regime as ushered in both autonomously as well as through negotiated FTAs. It is essential to address some of the critical supply side bottlenecks.

The objective of Department of Commerce is to make the Export Promotion Schemes ‘more
efficient’, and re-double the export efforts in the new markets of Africa, Latin America and the CIS countries. All these untapped markets hold great prospects. While we have a number of challenges, our focus will be on providing the necessary resilience, as well as, resolve to overcome the temporary setbacks and regain the momentum of high exports, move towards higher value added products and greater integration with the global economy.

Given the sovereign debt crisis and recessionary conditions looming large over the European economy and bleak World Economic Outlook, thus, it is of utmost importance that the external sector is handled with caution. More resources are required to strengthen the support system for Indian exports and enable rapid increase in exports.

To maintain the trend experienced in the last few years and to increase our competitiveness, policies have to be geared to access new markets in line with the growth projections and continue the quest for achieving higher efficiency and productivity domestically.