Does The Annual Supplement Of FTP Respond To Exporters' Needs?

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The announcement of imminent sops in Annual Supplement to Foreign Trade Policy 2009-14 by Anand Sharma Minister for Commerce, Industry and Textiles on 13th October had been hinted earlier by him, but it would be as insipid as it has turned out to be was not expected. The expectations were that the Government would provide the necessary support to the garment export industry failed to materialize. There has been an acknowledged downward trend of Indian garment exports and the future did not look quite pink in view of the economic slowdown in the US and the problem of sovereign default, hitting the Europe. Exports to Japan are likely to suffer a setback in keeping up with the recent natural calamities hitting the country hard.

Above all, the highly volatile foreign exchange rates have also added to the woes of the garment exporters, who have been forced into highly uncertain behaviour of foreign change market. With all these negative factors in relation to the major export destinations for Indian garment exports, the exporters – and The Stitch Times – had a valid expectation that the Government would offer adequate support to them.

We really need to examine the sops doled out by the Foreign Trade Policy announcement.

Briefly: First, the Special Bonus Benefit Scheme has been introduced as a new scheme to provide special assistance to specified sectors for 6 months as special assistance to support to engineering, pharmaceutical and chemical sectors. But that has hardly any bearing on garment exports which is our prime concern. We can just ignore as a topic for this article and dwell on its bearing on apparent export sector.

Support to Apparel Sector

The Foreign Trade Policy acknowledges that exports of items under Chapters 61 and 62 have shown a declining trend during 2010-11 compared to year 2009-10. The total exports to USA under Chapters 61 and 62 during 1.4.2010 to 30.09.2010 were ₹ 6129.69 crore. The exports during 1.4.2011 to 30.09.2011 declined to ₹ 3897.29 crore. Similarly the total exports to EU under Chapter 61 and 62 during 1.4.2010 to 30.09.2010 were ₹ 10365.01 crore. The exports during 1.4.2011 to 30.09.2011 declined to ₹ 7869.02 crore. The policy admits that this sector has high potential to achieve higher level of exports and generate great employment opportunities. USA and EU are also our major markets and these two countries are having their own myriad problems at present.

It will be recalled that the chapters 61 and chapter 62 items were granted duty credit under MLFPS for export to USA till 30.9.2010 and for exports to EU up to 31.3.2011. However, at present the readymade garments are not covered under the FPS/MLFPS. It has been decided to extend MLFPS for exports to USA and EU under chapter 61 and 62. The scheme would cover all the items covered under chapter 61 and 62. The duty credit would be available to exports made during 1.4.2011 to 31.3.2012 @ 2 % of FOB value of exports.

Focus Product Scheme

The list of items under FPS has been expanded to include 130 additional items. These items are mainly in the sectors of chemical pharmaceuticals, textiles, handicrafts, engineering and electronics sector. As to the textile items are concerned, these include polyester textured yarn, fully drawn yarn of polyester, viscose rayon type yarn, polyester chips, woven cotton fabrics denim 85% cotton over 200G/M2, unbleached or bleached cotton fabrics, dyed cotton fabrics knitted or crocheted.

The items covered under FPS are entitled to get duty credit scrip @ 2% of FOB value of exports.

Market Linked Focus Product Scheme

The items covered under MLFPS are entitled to get duty credit scrip @ 2% of FOB value of exports.

EDI Initiatives and reduction in transaction Cost

DGFT has established itself in the e governance field. From on-line filing of application to electronic issuance of licenses, it has been a great success story. In furtherance of the EDI initiatives, online message exchange of DFIA Authorization with Customs has also been started. Therefore, now Advance Authorization, EPCG and DFIA are completely EDI enabled.

DGFT has also become India’s first digital signature enabled department in government of India, which has introduced a higher level of Encrypted 2048 bit Digital Signature. Digital certificate provides a high level of security for online communication such that only intended recipient can read it. It provides authentication, Privacy, non-repudiation and Integrity in the virtual world.

‘Niryat Bandhu’ - A scheme for International Business Mentoring

The Government has devised a novel ‘Niryat Bandhu’ scheme for mentoring first-generation entrepreneurs. The officer (Niryat Bandhu) would function in the ‘Mentoring’ arena and would be a ‘Handholding’ experiment for the Young Turks in International Business enterprises. Under the scheme, officers of DGFT will be investing Time and Knowledge primarily to mentor the interested individuals who want to conduct the business in a legal way. Over time, it would be expected to develop a class of businessmen who carry out the international business in an ethical manner.

Procedural simplification

Exporters have faced lots of problems in clubbing of their Advance Authorizations and in almost all the cases they were to approach DGFT, Hqrs. This procedure was time consuming and onerous. The procedure has now been simplified and the powers have been delegated to the Regional Authorities of DGFT. For the first time in the history of foreign trade formulation, the draft text for amendment of HBP v1 was uploaded on the website of DGFT seeking suggestions on the draft. The amendment has incorporated their valuable suggestions.

Process of simplifying the Redemption /No Bond Condition of Advance Authorization has been started. Under this additional window available to exporters the Redemption / No Bond condition of Advance Authorization will be done on the basis of a self-declaration. The cases will be subject to post-scrutiny with stricter penal provisions. The existing route of Redemption will also continue for such exporters who do not wish to go for a 'post scrutiny'. The draft procedure has also been placed on the DGFT website on 7.10.2011 inviting comments. Based on the inputs detailed, the mechanism would be worked out by DGFT.

The application of IEC has become online w.e.f. 1.1.2011. This reduces the interface of exporters with the Regional Authorities of DGFT. An effort is also on to update the IEC database containing more than 7.6 lakhs IEC. All the IEC holders are being urged to cooperate in this effort and update their details on-line. This exercise would be completed by 31.3.2012.

Industry's Reaction

By and large, the Indian industry has hailed the export incentive package announced by Commerce and Industry Minister Anand Sharma in the annual supplement to the 2009-14 Foreign Trade Policy (FTP).

"This will bring relief to the exporters who are reeling under pressure of falling demand in the international markets. Business is still tough and raw material and overhead costs have gone up. In today's situation, the incentives are imperative to act as a support system", said **PHD Chamber** President Salil Bhandari. The Chamber also lauded the incentives given for the diversification of markets since the traditional markets in the West are reeling under recessionary pressures and the incentives may help the exporters to explore newer markets, particularly in Asia, Latin America, Africa and the CIS countries, Bhandari added.

Expressing a similar opinion, exporters' body **FIEO** said the move will help the nation to move closer to our target of US$ 300 billion. "The factoring of these benefits will help Indian exporters to offer competitive prices which have assumed greater significance in view of compressed demand due to slowdown particularly in advance economies," it added.

Deora welcomed the novel initiative of "Niryat Bandhu" for adoption of new generation entrepreneurs which are very much required to take country's exports to US$ 500 billion by 2013-14. The FIEO chief also appreciated the EDI initiative and some of the procedural simplification carried out by DGFT but added that many more bold initiative needs to be taken by DGFT for reducing transaction time.

Rakesh Vaid, President, **GEA** has welcomed the announcement made by Minister of Commerce and Industry and Textiles, Anand Sharma providing ₹ 900 Crores package for exporters to help them to overcome the present crisis being faced by them because of slowdown in the US, EU, the major markets for Indian Exports which jointly account for over 70 per cent of Indian apparel exports. Vaid has also appreciated the restoration of Market Linked Focus Product Scheme (MLFPS) incentives of 2 per cent of FOB value of exports made to US and EU for the period 1st April, 2011 to 31st March, 2012. He hoped that the 2 per cent incentive will encourage and motivate the exporters to increase their exports to US and EU which have not yet recovered from the recession and economic slowdown. Vaid also again recommended that readymade garments should be included in the list of labour incentives sectors which have been recently restored 2 per cent interest rate subvention on export credit.

FIEO President Ramu S Deora viewed that giving the garment sector, which is struggling in US & EU, 2 percent Market Linked Focus Product benefit from April 1 will further boost exports and will help in maintaining their market share.

It has been observed, over the years, the trade bodies have invariably and ubiquitously been appreciative of the Government decisions, be it the Budget or Foreign Trade Policy, but unfortunately they have failed to link and relate these announcements with the requirements of the times now and ahead. Of course, there are others too, who have been always indulging in asking for more, faithfully adhering to their trait, "Dil Mange More". One does not have to go very far to endorse what has been stated above. One need to note what the Government, be it the Commerce Secretary or the Prime Minister, consider about the Indian and global economic situation now and in the foreseeable future and then relate it to the sops, now offered to assess how far the announcements made in the Annual Supplement is responsive to our needs.

Commerce Secretary Provides the Backdrop

India's exports rose at a slower rate of 36.3 percent to USD 24.8 billion in September as demands in the US and European markets slowed due to economic uncertainties, Commerce Secretary Rahul Khullar said. Imports increased 17.2 percent to USD 34.6 billion in September, resulting in a trade deficit of USD 9.8 billion.

Exports had surged 44.25 percent in August and 81.79 percent in the previous month. The cumulative value of exports during April-September rose by 52.1 percent to USD 160 billion. "Exports continue to grow over last year, but the heady numbers have gone. It is clear there is deceleration," Khullar told. He added exports have declined in recent months due to uncertainties in the US, as also in Europe. The Commerce Secretary explained that the recently announced ₹ 900-crore package of incentives for exporters was a case of advance action taken to help some lagging sectors ride out the expected storm over the next six months. He pointed out that monthly exports have been sliding steadily since April, when it was around $29 billion, and "if anything, the second half of the year is going to be terrible".

PM Speaks

Prime Minister Manmohan Singh while addressing the National Development Council (NDC) meeting only recently expressed concern over the slowing economy "The current slowdown is a matter of concern... "

Referring to the 9 per cent growth target during the next, Plan, Singh said "it is relevant to ask whether this is feasible since the economy is currently slowing down". However, he added, the slowdown should be seen as a short-term phenomenon reflecting highly unsettled conditions in the world economy. Growth rates, he added, were being revised downwards in all the countries for the current year.

While, we leave it to our readers to assess the adequacy or inadequacy of the measures announced in the Annual Supplement of Foreign Trade Policy, in the context of the present performance of Indian garment export sector and its future growth prospects, though The Stitch Times feels that with the present declining trend in Indian garment exports and the major export destinations of Indian garments confronting being in poor state of financial health, the Commerce Minister should have and could have taken his Commerce Secretary and the Prime Minister's assessment on the issue. This has not been done, to our belief.