# Focus on T&C under Foreign Trade Policy (FTP) 2009-14 (Part-I)

By: Ajay Kumar

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## Abstract

The increments in the current account deficit due to high surge in imports and severe declines in exports are worrisome for Indian economy growth story. These odds have attracted the attention of government. And Government got an opportunity to take mid-course corrections with its 3rd annual supplement in FTP 2009-14 to have catalytic impact for boosting India's exports further. Under the third annual supplement announced on 5th June 12, the government has again broadened some of the ongoing policy supports. The government has now focussed more on employment intensive sectors and have administered some more fiscal incentives through focus market scheme, focus product scheme and market linked focus product scheme. A major thrust has also been given under this supplement for promoting domestic value addition and value added exports from India. Since Textile and Clothing (T&C) Sector of India is known for its labour intensive character and there is a need to promote exports with more value addition in this sector, an evaluation of FTP supplement in the context of T&C sector is warranted.


The Govt. of India, Department of Commerce announces Foreign Trade Policy (FTP) once in every five years. The current foreign trade policy covers the period 2009-2014. The FTP is updated through various annual supplements during the period and the modifications, improvements and new schemes are notified by Director General of Foreign Trade (DGFT).

The policy announcement on 27th August 2009 for FTP 2009-14 was amid the adverse economic climate when world trade was under its most severe declining trend (12% decline in year 2009). Hence, the short term objective of FTP during its first year was to arrest and reverse the declining trend in exports from India and to provide additional support especially to those sectors which have been hit badly by recession in the developed world. The Government announced and followed a mix of policy measures including fiscal incentives, institutional changes, procedural rationalization, enhanced market access across the world and diversification of export products and markets. Improvement in infrastructure related to exports; bringing down transaction costs and providing full refund of all indirect taxes & any kind of levies, were other major objectives in its trade policy. The policy helped exports from India. Though India was not affected to the same extent as other economies of the world, yet Indian exports suffered a decline of USD 4 billion during 2009-10 (from USD 183 billion exports in 2008-09 to USD 179 billion in 2009-10), due to a contraction in demand in the traditional markets of Indian exports, that is, in USA and other western markets.

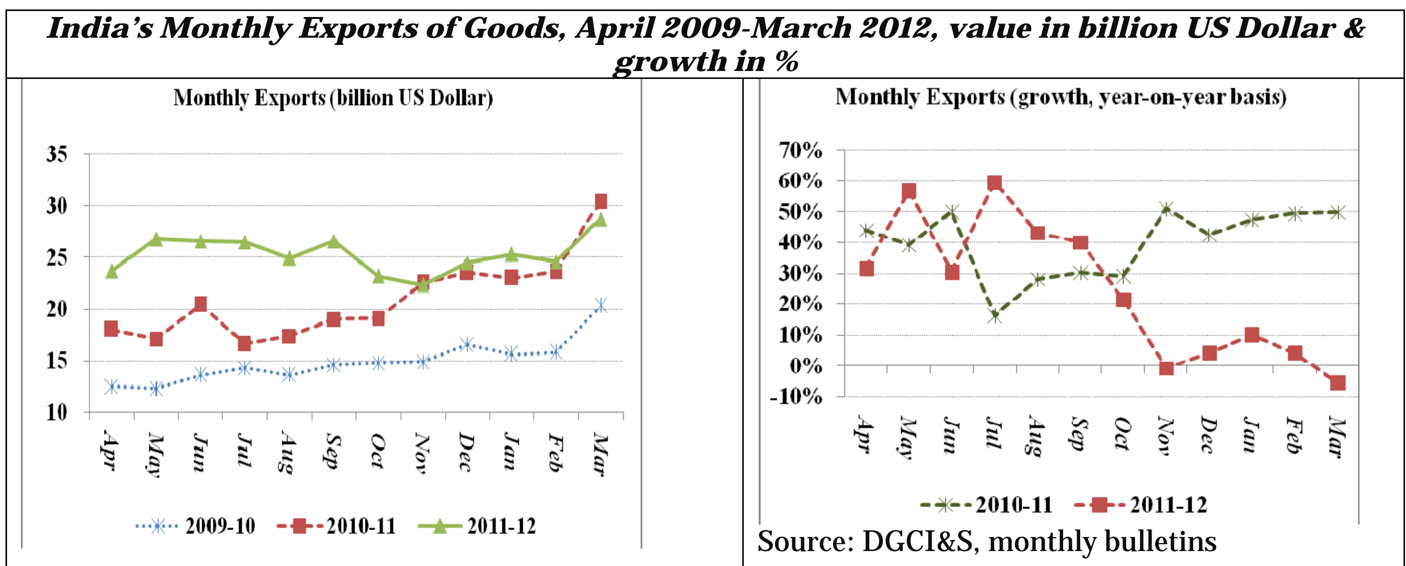
In the second supplement to the foreign trade policy during 2010-11, that was effective from 23th August 2010, the government focussed attention on continuity and stability

in trade policy. The major thrust was to maintain the supports to labour intensive sectors and for some specific sectors that were still struggling due to adverse demand conditions. Government also brought some medium term objective to enhance the competitiveness of exports by supporting upgradation in technologies, to examine the whole gamut of transaction costs in the entire value chain of exports. The government promoted adoption of market diversification plan, that is, to reach out non-traditional exports destinations and focussing more on emerging markets in Africa, Latin America, parts of Asia and Oceania. Thanks to exports stimulating foreign trade policy and recovery in demands, the exports from India increased from USD 179 billion during 2009-10 to USD 254 billion during 2010-11.

Between fiscal years 2010-11 and 2011-12, a growth of nearly 20% from USD 254 billion to USD 304 billion, is a good achievement. However, the increments in exports continued till September 2011 and from October 2011 onwards exports growth again dwindled into single digit. One can also observe the fact that India's exports have been faltering in line with the world trade. After 13.8 per cent expansion in 2010, world trade decelerated to 5 per cent in 2011 and in its forecast last year for 2012, the WTO rued a further fall to 3.7 per cent this year. So the outlook is not very encouraging outlook from world demand.

The increments in the current account deficit due to high surge in imports and severe declines in exports are worrisome for Indian economy growth story. These odds have attracted the attention of government. And Government got an opportunity to take mid-course corrections with its annual supplement to have catalytic impact for boosting India's exports further.

## Chart-1 Monthly Exports

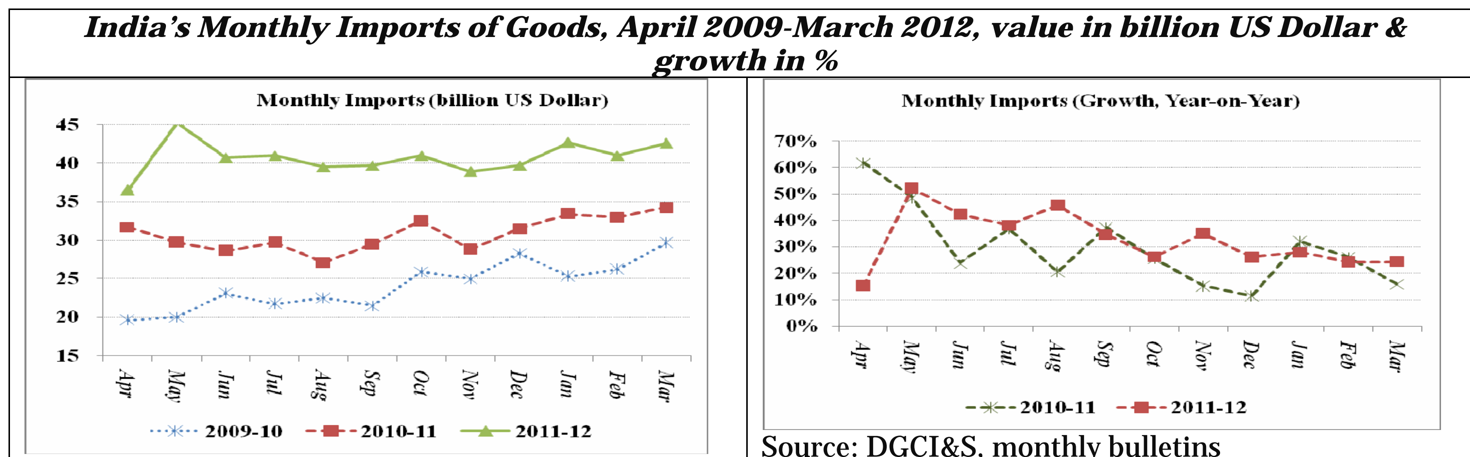



***India's Monthly Exports of Goods, April 2009-March 2012, value in billion US Dollar & growth in %***

Source: DGCI&S, monthly bulletins

## Chart-2 Monthly Imports

***India's Monthly Imports of Goods, April 2009-March 2012, value in billion US Dollar & growth in %***




Source: DGCI&S, monthly bulletins

## Table-1 T&C Trade

| **T&C and Overall Export-Import in USD billion** | | | | |
|---|---|---|---|---|
| | T&C Export | Overall Exports | T&C Import | Overall Imports |
| 2009-10 | 22.1 | 179 | 3.4 | 288 |
| 2010-11 | 26.6 | 254 | 4.2 | 353 |
| 2011-12 (P) | 34 | 311 | 5.3 | 458 |

(P)-Provisional *T&C data for 2011-12 are estimates and Textiles include Cotton, Jute, Coir and Handicraft.
Source: Foreign Trade Statistics of India (Principal Commodities & Countries), DGCIS.

Under the third annual supplement announced on 5th June 12, the government has again broadened some of the ongoing policy supports. The government has now focussed more on employment intensive sectors and have administered some more fiscal incentives through focus market scheme, focus product scheme and market linked focus product scheme. A major thrust has also been given under this supplement for promoting domestic value addition and value added exports from India. Since Textile and Clothing (T&C) Sector of India is known for its labour intensive character and there are need to promote exports with more value addition in this sector, an evaluation of FTP supplement in the context of T&C sector is warranted.

The FTP under new supplement with its seven-point strategy would help to boost exports and may provide a new fillip to textiles sector.

***A seven-point strategy to boost exports in the annual supplement to foreign trade policy 2009-14 announced on 5th June 2012 includes:***

1. To give a focused thrust to employment intensive industry because exports are important not only in terms of their economic contribution but as a means of generating gainful employment;

2. To encourage domestic manufacturing for inputs to export industry and reduce the dependence on imports;
3. To promote technological upgradation of exports to retain a competitive edge in global markets;
4. To persist with a strong market diversification strategy to hedge the risks against global uncertainty;
5. To encourage exports from the North Eastern Region given its special place in India's economy;
6. To provide incentives for manufacturing of green goods recognising the imperative of building capacities for environmental sustainability; and
7. To endeavour to reduce transaction cost through procedural simplification and reduction of human interface.

**Continuation and Expansion of 2% Interest Subvention Scheme**

As part of the thrust to job creation, small scale units have been permitted to access loans at 2% below the market rate. It is through 2% interest subvention scheme. But it was earlier available only for few sectors like Handlooms, Handicrafts, Carpets and SMEs till 31st March 2012. Now it is extended up to the end of fiscal 2013, and is also being extended to labour intensive sectors namely, Toys, Sports Goods, ***Ready-made Garments***. The extension of 2 per cent interest subvention to readymade garments up to March 31, 2013, is a relief to garment exporters at a time when the interest rates are ruling at 11.5 – 13.5 per cent. However, it has not provided to all other segments of Textiles & Clothing Sector, such as, Home Textiles, Knitted Fabrics, Woven Fabrics etc, which has also been significantly contributing to the country's foreign exchange earnings and have been actively generating employment.

**Schemes for promoting exports competitiveness, investments and manufacturing**

There is a continuous need for Indian exporters to upgrade their technology and reduce their costs by enhancing or maintaining the competitiveness in exports market. Hence, promoting imports of capital goods for certain sectors under Export Promotion Capital Goods (EPCG) at zero percent duty could be important policy tools. The scope of Zero Duty EPCG scheme has been enlarged through current supplement on FTP on 5th June 2012 and its operation extended till 31st March 2013. Notably, Zero duty EPCG scheme allows import of capital goods for preproduction, production and post production at zero Customs Duty, subject to an export obligation equivalent to 6 times of duty saved on capital goods imported under EPCG scheme. In current supplement, the scheme has been available for exporters of all apparels & textiles, engineering & electronic products, basic chemicals & pharmaceuticals, plastics, handicrafts, chemicals & allied products, leather & leather products, paper & paperboard and articles thereof, ceramic products, refractories, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys.

However, this scheme is not available for units who are currently availing any benefits under Technology Upgradation Fund Scheme (TUFS) administered by Ministry of Textiles, Government of India. Though, there has been notification that the Zero Duty Scheme shall be available to such exporters who may have obtained benefit under TUFS (i) but the exact line of business in TUFS (say cotton yarn) is different from the line of

business under EPCG (say machinery for blast furnace); or (ii) if the exporter refunds such benefits availed under TUFS with applicable interest, before availing EPCG. Thus, there is not much support for the textiles units that have existing investment leverages through TUFS or want to avail the facilities with existing business line. The extension of Zero Duty EPCG scheme up to the end of current fiscal and conditional enlargement of the scope of zero duty EPCG scheme would provide some support to some of textiles units' applicants who can fulfil the refund or change in business line conditions.

Another important introduction is of a new Post-Export EPCG Scheme. Under this scheme exporters may import Capital Goods (CG) on payment of duty in cash and subsequently receive in the form of freely transferable duty credit scrip(s) on completion of export obligation. Since the duties have been paid upfront at the time of import of CG, the EO would be 85 % of normal EO. On the basis of export performance, a Duty Credit Scrip will be issued subsequently, by RA, in proportion to export obligation so fixed. This would obviate the monitoring and reporting requirements, as the scheme would be self-monitored. Reduced transaction cost coupled with comparatively reduced EO would make this scheme attractive. Many of textile and garment exporters would be benefited by this scheme.

Under the EPCG Scheme, at present, the condition of maintenance of average level of exports is not applicable to some sectors. Three new sectors are being added to this list, namely, Carpet, Coir and Jute. Handicrafts, Handlooms, Cottage Sector, Tiny Sector, Agriculture, Aquaculture (including fisheries), Horticulture, Pisciculture, Viticulture, Poultry and Sericulture are already in earlier list. This would provide substantial relief to these labour intensive industries, which find it difficult to maintain the average export obligation. Thus, informal segment of T&C like carpet, coir, jute, handlooms or cottage etc. would be benefited.

The EPCG scheme also envisages to aid investments at a time when companies have slowed down capacity addition in the wake of lower demand. Government recognizes exporters based on their export performance and they are called 'status holders'. Upto 31st March 2012, the benefit of Zero Duty EPCG Scheme was not available to such applicants who had availed benefit of Status Holder Incentive Scrip (SHIS). Status holders are issued Status Holders Incentive Scrip (SHIS) to import capital goods (CG) for promoting investment in up-gradation of technology of some specified labour intensive sectors like Leather, *Textile & Jute*, Handicrafts, Engineering, Plastics and Basic Chemicals. Status Holders of these sectors now shall be entitled to a Duty Credit Scrip @1% of FOB value of exports made during 2009-10, 2010-11, 2011-12 and 2012-13. Under new supplement on FTP 2009-14 now the benefit of Zero Duty EPCG Scheme would be extended if availed benefit has been surrendered or refunded by SHIS holder. It was also notified that up to 10% of the value of these scrips would be allowed to be utilized to import components and spares of capital goods imported earlier. Such a dispensation was not available earlier. This scheme is definitely going to help the investment in labour intensive sector like T&C. At present these scrips are subject to Actual User Condition and are not transferable. Now it has been notified to allow limited transferability of SHIS scrip. However, such Transferee shall have to (a) be a status holder and (b) have manufacturing facility.

To create modern infrastructure in retail sector, a concessional duty benefits under EPCG scheme has been extended for import of capital goods required by retailers having minimum area of 1000 sq. Meters. Such retailer shall have export obligation i.e. 8 times of duty saved, in 8 years. This would boost the organised retails and hence domestic market expansion for branded garments and some of textile products like made-ups, high quality fabrics etc.

The Government has also liberalized all scrips to source from domestic market to encourage manufacturing in domestic sector. For example-The present policy allows scrips under different schemes of Foreign Trade Policy, namely, Focus Product Scheme (FPS), Focus Market Scheme (FMS), Vishesh Krishi and Gram Udyog Yojana (VKGUY) Scheme, Status Holder Incentive Scrip (SHIS) Scheme, Market Linked Focused Product (MLFPS) Scheme and Agri. Infrastructure Incentive Scrip (AIIS) Scheme, for import of goods as per conditions of these Schemes. Now these scrips shall be permitted to be utilized *for payment of Excise Duty for domestic procurement*. Though there are few products from T&C sector pay excise duty. Excisable products from T&C shall be benefited by this scheme. This may be proven as an important measure for import substitution and encouragement of manufacturing sector in domestic market. Hence a good policy tools for generating more employment through manufacturing.

There is a notification regarding a concessional 3% duty EPCG scheme for FTP 2009-14 under which Imports of capital goods are allowed subject to payment of 3% Basic Customs Duty (BCD). Export obligation (EO) of 6 times of duty saved and Export Obligation Period (EOP) of 12 years is applicable to: (i) agro units, and (ii) units in cottage or tiny sector. EO of 6 times of duty saved and EOP of 8 years is applicable to those SSI units whose total investment in plant and machinery does not exceed SSI limit and landed CIF value is upto Rs. 50 lakhs. Many of small scale units of textiles shall be benefited by this relaxation.