Attempts to Resusticate Exports and Indian Rupee - Too Little, Too Late

By: Dr. H.K. Sehgal

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(Views expressed in this article are the personal opinion of the author)

The wide-arm welcome extended by India Inc. to the announcement of Annual Supplement 2012-13 to the Foreign Trade Policy 2009-14 should infuse some cheer to otherwise depressing scenario that presents the Indian economy in a gloomy shade. This was indeed sorely wanted and should hopefully enthuse at least the exporters to perform better or at least as good as they had done during the last fiscal, recording an increase of 20.3% increase in our export performance, which is what has been proposed for the current fiscal.

The Present Scenario

Without diluting what our Commerce Minister has stated in his speech while presenting the Annual Supplement was, I must acknowledge, is candid, and reflected the true, though not complete picture. He said, "It is indeed a difficult task to present a policy which aims for rapid growth in exports in the face of weak global demand and the unabated persistence of the global economic crisis, which erupted 4 years ago. The Euro Zone crisis poses a real risk of destabilizing the fragile recovery and sinking the world in to yet another recession." He continued, "The Indian economy has also not remained insulated from these developments and the GDP figures of last quarter are indeed a cause of serious worry. The Index of Industrial Production (IIP) has also highlighted the slowdown in manufacturing. The Gross Fixed Capital Formation has also slipped to less than 30%, indicating the deceleration in investment. The weakening of the rupee will have its own implication on our annual import bill. Clearly, Indian economy is passing through a difficult phase."

Some of the facts, which have not been brought out by the Minister were indeed important like galloping Current Account Deficit due to preponderance of our imports over our exports; steep, almost frightening depreciation of Indian rupee, which lost within a sport span of 3 months, some 20% of its value against US dollar and our exports having gone into negative zone – both of which were unprecedented and steep and consistent rise in inflation and growing deficit financing, much beyond the comfort zone for the RBI and downgrading of India by a credit rating agency, which, if read together with what the Minister has stated, would provide clearer background and better understanding of what we are already in.

To say the least, the situation, both internal and external, is depressing and in such a situation, any good news, howsoever small, is a welcome relief and that is what seems to reflect from the acclaim that the India Inc. promptly announced.

Underlined philosophy of 2012-13 Supplement to Foreign Trade Policy

The Minister, while presenting the Supplement, outlined the following underlined philosophy of his FTP announcement.

1. Give a focused thrust to employment intensive industry because we view exports not only in terms of their economic contribution, but as a means of generating gainful employment.
2. Encourage domestic manufacturing for inputs to export industry and reduce the dependence on imports.
3. Promote technological upgradation of exports to retain a competitive edge in global markets.
4. Persist with a strong market diversification strategy to hedge the risks against global uncertainty.
5. Encourage exports from the North Eastern Region given its special place in India's economy.
6. Provide incentives for manufacturing of green goods recognizing the imperative of building capacities for environmental sustainability and
7. Endeavour to reduce transaction cost through procedural simplification and reduction of human interface.

What has been offered in the policy announcement?

Highlights of Annual Supplement 2012-13

1. Two per cent Interest Subvention Scheme was available only to handlooms, handicrafts, carpets and SMEs till 31st March 2012 would now would be extended to ready made garments, among others, as well, and continued till 31st March 2013.
2. Zero Duty EPCG Scheme had come to an end on 31st of March 2012 which has now been extended up to 31st March 2013.
3. Henceforth, even if the benefit of TUFS and SHIS has been availed, additionally the Zero Duty EPCG Authorisation can be availed for another line of business by the same applicant.
4. Introduction of a new Post-Export EPCG Scheme: Exporters if they choose to, may import capital goods on payment of duty in cash and subsequently receive duty credit scrip on completion of export obligation. Presently under EPCG scheme, catalysts are allowed only once for the initial charge. It has been decided to permit a second charge of the catalysts.
5. Status holders are issued Status Holders Incentive Scrip (SHIS) to import capital goods for promoting investment in up-gradation of technology of some specified labour intensive sectors like leather, textile and jute, handicrafts etc.. It is now decided that up to 10% of the value of these scrips will be allowed to be utilized to import components and spares of capital goods imported earlier. Such a dispensation was not available earlier.
6. At present these scrips are subject to Actual User Condition and are not transferable. Since a status holder may or may not have manufacturing facility, it is now decided to allow limited transferability of SHIS scrip. However, such transferee shall have to (a) be a status holder and (b) have manufacturing facility.
7. The present policy allows scrips under different schemes of Chapter 3 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, Served From India Scheme (SFIS) 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. Earlier only scrips under SFIS were so permitted for procurement of goods from domestic market. Now all scrips would be permitted to source from domestic market so as to encourage manufacturing, value addition and employment.

8. Exports shipments from Delhi and Mumbai through post, through courier or through e-Commerce shall be entitled for export benefits under FTP.
9. Exporters will be henceforth permitted to give single revolving Bank Guarantee for different transactions.
10. At present duty free import of embellishments is allowed against exports of handloom made-ups, cotton made-ups and polyester made-ups. This facility will now be extended to the export of synthetic made-ups.
11. A challenging and significant EDI initiative, "e-BRC" has been launched by DGFT. "e-BRC" would herald electronic transmission of Foreign Exchange Realization from the respective banks to the DGFT's server on a daily basis. Exporter will not be required to make any request to bank for issuance of Bank Export and Realization Certificate (BRC). This will establish a seamless EDI connectivity amongst DGFT, banks and exporters. "e-BRC" would facilitate early settlement and release of FTP incentives / entitlements. This is a significant step to reduce transaction cost to the exporters.
12. MLFPS is being extended till 31st March 2013 for export to USA and EU in respect of items falling in Chapter 61 and Chapter 62.
13. 110 new items are being added to the Focus Product Scheme (FPS) list.
14. New towns are being declared as Towns of Export Excellence (TEE). These are Ahmedabad (Textiles), Kolhapur (Textiles), and Shaharanpur (Handicrafts).

Industry pleased

Trade and industry; more particularly the exporters have hailed the trade policy supplement as timely, raising hopes to help make Indian goods competitive in the world market. **Dr. A. Sakhtivel, Chairman, Apparel Export Promotion Council** expressed happiness on all the demands of the garment export industry being granted, including 2 percent interest subvention, 2 per cent Market-Linked Focus Product Scheme for the US and the EU and for giving a new post-export APCG Scheme. **M. Rafeeque, President of Federation of Indian Export Organisations** (FIEO) said that in the wake of contraction of global demand and Euro Zone crisis, the support extended through the FTP was "tremendous" and will help in imparting comnpetitiveness to exports. He said, "The extension of interest subvention to include a larger basket of goods is a great relief to export sectors. **CII President, Adi Godrej** welcomed most of the measures, stating, "All these measures would definitely give a boost to Indian exports and would help India to achieve its export target of $ 500 billion by 2012-14. He added that there is a need to work on port and freight infrastructure, which continue to be a hindrance for exports."

Ficci President R.V. Kanoria said that these measures will help boost exports and achieve this year's target of 20% increase in exports, stating, "We compliment the Commerce and Industry Minister for announcing initiatives employment creation and promoting technological upgradation of exports. The positive move of allowing duty-free scrips under export promotion schemes for payment of Excise duty is worth special mention. **Assocham** too welcomed the policy measures announced by Commerce Minister and said that these steps would also encourage domestic manufacturing. According to an official of Assocham, these steps would also encourage domestic manufacturing, adding “Considering that South-East Asian countries are currently showing a healthy growth trend, India should put special emphasis on export to these regions to take advantage of their buoyant market.”

Rakesh Vaid, President, Garment Exporters Association and his colleagues have expressed “the immense pleasure and gratitude” to Commerce Minister for “extending 2 per cent interest rate subvention to ready-made garments and also for restoring 2 percent Market Linked Focus Product Scheme for apparel exports to US and European Union, which will encourage and motivate the exporters to increase their exports...” He also expressed happiness over a new Post-export EPCG scheme, where exporters may import capital goods on payment of duty in cash and subsequently, receive duty scrips on completion of export obligation, which would obviate the monitoring and reporting requirements.” He appreciated the steps taken to cut down the transaction cost for exporters and also for promoting technological upgradation of exports.

DGFT’S response

Anup Pujari, Director General, Foreign Trade, when quizzed about whether the annual supplement to FTP be able to arrest plummeting Indian exports, he did not sound very sure, when he said “We have done what was possible to the best of our abilities and this is something where both the Commerce and Finance ministers came together along with related ministries. All the demands of exporters have been carefully taken in to account. The coordination level between ministries has been fairly high this time.” When asked if the steps announced so far in FTP culminate in India achieving $ 500 billion worth of exports by FY 2014, and particularly looking at the global economic scenario, if the present target of 20% achievement of growth over last year would be possible, he was once again cautious, conceding that the achievement of target would be difficult, but not impossible. “We are taking one step at a time to achieve this target. Some steps we took in the past three years may look minimal at a glance, but if you see all these steps together, they will yield results in the long run. The target is difficult, but not impossible. This year, we have set a modest target of 20% growth, because we are careful and we will be watching the situation carefully,” he clarified.

My view

The need for announcements made in the Annual Supplement for 2012-13 to Foreign Trade Policy stemmed from the grim scenario, both at national and international level. Only recently, the RBI had been liberal with monetary easing, which, indeed, went far beyond what was the market expectation – almost double of what the trade and industry were expecting. This was a well thought out and considered decision, though some quarters did express their strong views on this by calling it too much and too soon (see our feature on this in our last issue). Our considered opinion was that it was indeed good and welcome step, but thought it would have been better if this package could be supported by equally liberal help on other fronts, which the exporters badly needed. The present FTP chapter for the current fiscal seems to be fulfilling that gap.

First, extending 2% interest rate subvention to ready-made garments was one point that we have repeated been commending to the Government from time to time. There was an equally felt need for restoring 2% Market Linked Focus Product Scheme for apparel exports to the US and the EU, which certainly is bound to help our exports to these once very important destinations, even though these themselves are either working at low ebb like the US or are surrounded by the serious financial crisis. But then, it is in this very case, that we feel that we need to support our exporters for their fair share in the export pie.

Another important concession granted to the exporters is allowing the duty credit scrips to be used for domestic procurement. This will not only help revive the domestic manufacturing sector but also help most exporters to use their scrips. This should also encourage exporters to look into the domestic market for sourcing products instead of importing it from outside all the time, leading to import substitution. This could be reckoned as one of the important area of help by the Government to the exporters with multiple benefits.

Yet another major initiative could be seen in the form of electronic transmission of foreign exchange realization. This would certainly reduce the time lag between the remittances due and made. Earlier, when an exporter was exporting, he would get the money after six months. Then he would have applied to the Commerce Ministry to avail of the benefit against a certificate issued by the bank. On the other hand, the banks were facing difficulties in catering to small and marginal exporters, even if that problem did not exist for big exporters. This was tried as a pilot project since April 1 this year, but this will be made mandatory for all transactions very soon. This would now allow electronic transmission of foreign exchange realization from the banks to the DGFT server almost daily.

Further, the benefit of the Zero Duty EPCG Authorisation, which was not available to those, who were the beneficiaries of TUFS and SHIS, has now been made available to them as well. There are other small concessions like extension of facility of duty free import of embellishments which was hitherto been allowed against exports of handloom made-ups, cotton made-ups and polyester made-ups to the export of Synthetic made-ups should also be helpful for exports.

Lately, a more visible and embarrassing problem that stares India today is the free fall of Indian rupee to an all-time historical low of Rs. 57+ to a dollar which has sent shock-waves to every Indian and made the Government and the Reserve Bank of India scurrying for a cover. Notwithstanding the claims being repeatedly made by the PM, FM and Reserve Bank of India that rupee would regain its value and glory, the things have gone from bad to worse with no visible sign in near and even not so near future of any improvement. Even the latest tranche of “monetary easing” as widely and wildly announced by person no less than the Finance Minister himself, has turned out to be a damp squib. “A slew of measures to curb the rupee depreciation and improve the market sentiment” as announced by RBI with a high degree of expectation on the part of trade and industry has failed to enthuse or cheer anybody. The raising of existing limits on

FII investment from $15 billion to $ 20 billion or raising limit of ECB to $ 10 billion and other measures announced would hardly have an immediate effect on the deep slide of Indian rupee or bringing in much needed dollars to stem the continuing and disturbing fall in Indian rupee. Even its affect in the long term is going to be notable, as Indian rating has taken a beating from one credit agency to another; reducing India's standing to negative.

The sheer gravity of the situation within the country, as reflected in lowest growth of 5.3% in nine years, sluggish industrial growth of a mere 0.1 per cent, rupee losing its value and sheen by over 25% during last one year read along with the global economic scenario, would render all of our half-hearted and naive efforts meaningless. What is most unfortunate is that all this is happening when we have a Prime Minister "whom everybody in the world listens" as US President Obama said, but unfortunately no one in his own country seems to be trusting him for solving the mess that the present Government has successfully and perhaps irreversibly created.

To sum up, neither the Foreign Trade Policy nor the "slew of measures" announced by RBI can restore us our pie in exports nor hold back the free fall of Indian rupee.