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SUMMARY SHEET

EXPORT-IMPORT POLICY

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1 EXIM Policy

1.1 Introduction

EXIM policy is a **set of guidelines** and instructions related to the **import and export of India**. **Trade policy** is prepared by the **Central Government (Ministry of Commerce).** In general, the **EXIM policy** aims at **encouraging exports**, **enhancing export potential**, **facilitating imports,** and creating **favorable balance of payment position**.

Government of India appointed **the Import and Export Policy Committee** headed by Mr. Mudaliar in 1962 to review India's trade policy. The recommendations were accepted and the then Commerce Minister Mr. V.P. Singh announced **the first Export Import Policy on April 12, 1985**. Initially the policy was made on a three-year basis with the main aim of **facilitating production** and **strengthening the economic base** of India. Currently the policy is **announced for the period of five years**. It is **reviewed after every one year** and updated if some modifications and new schemes are required. This periodical review implies that the policy **successfully incorporates the necessary changes** as per **domestic and international environment**.

On broader terms the **general objectives** of the policy are:

1. To **accelerate the growth of exports.**
2. To provide **access to imported essential raw materials** and **inputs** required for augmenting production.
3. To **enhance** the **technological strength** of Indian industries, thereby improving their **competitiveness** and generating **employment**.
4. Finally, to provide consumers with **good quality products and services at competitive prices** while at the same time creating a **level playing field** for the **domestic producers**.

The **discussion on EXIM policy** can be best **divided into two periods:**

1. **Pre-Reform** Period (before 1991), and
2. **Post-Reform** Period (after 1991)

1.2 Pre-Reform Period (Before 1991)

To analyze the trade policy of India during the pre-reform period can be divided in **four phases:**

- **Phase I (1952-53 to 1956-57)**
- **Phase II (1956-57 to June 1966)**
- **Phase III (1966-67 to 1975-76)**
- **Phase IV (1975-76 to 1990-91)**

1. In the **first phase**, **liberalization measures** were announced for **both imports and exports**. This led to **remarkable increase in imports, but exports failed to pace with imports**.
2. In the **second phase**, trade policy was reformulated to be in line with the planning policies. **Imports** were **controlled** and **import substitution** measures were **incorporated**. On the export side, **robust export promotion drive** was launched through **diversification of exports**. Still Government **failed** to achieve good results in **exports**. So, in order to **control imports** and boost exports India resorted to **devaluation in 1966**.
3. This marked the **beginning of the third phase** of trade policy from **June 1966**. The policy started showing **positive results after the Fourth Five Year Plan,** but this effect continued till 1975-76.
4. During the **fourth phase** Government of India adopted **import liberalization again** but this time it was **done to promote export**. We now give a brief of both the approaches.

1.2.1 Import Substitution

Import Substitution is **substituting the imported goods with the locally produced goods** in order to meet the internal demand. After independence, import substitution was a **major element of the trade policy**.

As a result, India adopted an **inward-looking strategy for development**. This constituted the **primary objective of the policies till the mid-1970s,** and it was based on the **Imports and Exports (controls) Act of 1947** and the **Import Trade Control Order of 1955**. Import substitution policy implied that **incentives** were given to the **firms which produced an imported item** that was not produced domestically earlier.

1.2.2 Export Promotion Strategy

Export Promotion Strategy **promotes only the industries those has potential for competing with foreign products**. In India a variety of measures were undertaken to promote exports.

- A **liberal import policy** was announced for **59 priority industries** which included a number of **export-oriented industries**. A **new import scheme** was launched which **enabled** the **registered exporters to obtain raw materials** and **other components against export** of specified items.
- In the **1970s**, **several export promotion measures** were put in place in the form of **export incentives** and **export services** to generate higher exports on a sustained basis.
- In **1980s export competitiveness** received **large attention** and policies were prepared after intense discussion. By then it became clear that **production for exports cannot be separated from production for the domestic market**. **Domestic industrialization** is necessary to have an **integrated trade policy**.
- A major component of the **first EXIM policy** was the provision of **access to essential raw materials and capital goods** which resulted in **technological upgradation** and **reduced costs**. The trade policy in the 1980s continued to emphasize on licensing mechanisms and high tariffs in order to isolate the Indian economy from external competition.

The major changes in policies in the pre-reform period are as follows:

1.2.2.1 Duty Drawback Scheme (DDS) (1954)

This scheme was introduced in 1954 with the objective to **reimburse exporters the tariffs paid on the imported materials and the excise duties paid on domestically produces inputs** which enter into export production. In this process, the **application form for the drawback was simplified**. In 1980-81 'Duty Drawback Committee' was formed and the scheme was made more effective through the **introduction of quick payment**. Under this, the sanctions were given within 24 hours and actual payment within 15 days. However, **importance** of duty drawback scheme has **declined** since 1981 due to the **initiation of an advance license system** which allows exporters to import duty-free inputs.

1.2.2.2 Replenishment Licenses (1957)

Government launched the Import Entitlement Scheme (IES) in 1957 which aimed at **helping the exporters in procuring imported raw materials required for export production**. In 1965 exporters are allowed **replenishment licenses** on the production of **bank certificates** showing the **actual proceeds from exports.** However, IES was **withdrawn after the devaluation** of the Indian Rupee in 1966 but was soon **reintroduced** in a revised form. The new name of the scheme was **Import Replenishment Scheme** (IRS). An IRS license **permits the exporters to procure items that are restrictive in the import policy** subject to the limits specified.

1.2.2.3 Policy for Export/Trading Houses (1960)

According to this policy, **exporters who fulfill minimum export requirements in a specific period** are granted the **status of Export Houses**, **Trading Houses** or **Star Trading Houses**. The benefits include the **increase in the grant of renewals**, **licenses** being made **fully transferable,** and allowing **import of raw materials** which have limited permits or are listed under canalized items.

1.2.2.4 Free Trade Zones (1965)

In order to **make Indian products competitive** in the global market and **give momentum to exports**, **Government set up Free Trade Zones** (FTZs). In Free Trade Zones, **goods** can be **imported**, **manufactured,** and **exported without the intervention of customs authorities**. The first FTZ was set up in Kandla in 1965 and other FTZs were Santacruz (Mumbai), Falta, Noida, Cochin, and Madras. Santacruz is mainly for electronic goods but other FTZs are multi-product in character.

1.2.2.5 *Devaluation of Rupees (1966)*

By **1960s** it became quite necessary to **conserve scarce foreign exchange** reserves and to have **sustained increase in export earnings** as India was facing **severe balance of payment crisis** at that time. Thus, in order to **restore** the **competitive potential of exports** and as a solution to the Balance of Payment problem, the **value of Indian Rupee was reduced** by 36.5 percent on June 6, 1966. This led to rise of 57.5 percent in the price of foreign exchange in terms of Indian Rupees.

1.2.2.6 *Cash Compensatory Support (C.C.S) (1966)*

It was designed to give **compensation for un-rebated indirect taxes paid by exporters on inputs** and **market development costs**. The scope of CCS was gradually extended over the years, the proportion of total exports eligible for CCS rose from 20 percent in 1970s to 40 percent in 1980s. Multiplicity of rates was reduced from 17 to 7 under the new provisions of CCS in 1986. By 1991, 283 items were given grants under CCS. However, after trade liberalization, it was felt that CCS had become expendable and was abolished in July 1991.

1.3 Post Reform Period (After 1991)

A **liberalized trade regime was started in the 1990s**. This marked a remarkable turnaround from the earlier controlled environment. The **new trade policy** was in line with the **wider economic reforms** that were initiated in 1991. It was realized that **all the policies** (trade, exchange rate and industrial) should be a **part of an integrated policy framework**. This will improve the **efficiency** and **productivity** of the whole economic system. Thus, the trade policy enclosed many changes in the export incentives.

- **Before 1991**, the foreign trade of India suffered mainly because of the **strict controls** also known as **'License Raj' regime.** Government took a major step in **August 1991** and moved towards **reducing controls** and **simplifying** the **procedures**. It was done to create a **conducive environment** for trade. The focus of the policies **shifted from regulations to the promotion and development** of foreign trade. The objective was to improve **competitiveness** and attain a **higher growth** profile.
- The period after 1991 is marked by the **elimination** of **most quotas** and **sharp tariff cuts.** The tariffs were as high as 350 percent which were lowered in phases and reduced to 20 percent by the end of the century. This resulted in the **opening up of India economy**. **Duties on capital goods** were also **reduced** to a large extent. All this led to an **acceleration in trade** and a far more **open environment**.

Now we list some of the changes to demonstrate the remarkable shift in policies.

1.3.1 Post Shipment Export Credit

EXIM Bank introduced new scheme 'Post Shipment Export Credit' which was **denominated in foreign currency to enable exporters to get credit**. It provided **credit** to Indian exporters at **internationally competitive rates of interest**. The interest rates were reduced from 11 percent to 9 percent.

- Later, the scheme was reformulated to promote exports and a major **simplification** of procedures was done. In 2004-2009 Policy, the concessional rate of interest on post-shipment that was available up to 90 days was extended for a maximum period up to 365 days.

1.3.2 Export Promotion Capital Goods

In this scheme Government provided a **reduced import duty of 15 percent for the import of certain capital goods subject to certain export obligation**. **Import of second-hand capital goods** under the EPCG scheme was **disallowed** to provide level playing field to the domestic capital goods industry. In 1994-95 the scheme was **extended to service sector**.

- In 1997 **duty on capital goods was reduced** to 10 percent. The EPCG scheme allows import of capital goods at 0 percent duty for exports of agriculture and their allied products. The threshold limit for agriculture is also reduced from Rs. 20 crores to Rs. 5 crores.
- In 2000-01 import of second-hand capital goods have been permitted. In 2004 additional flexibility was introduced for the fulfillment of export obligations. This was done to reduce the difficulties of exporters of goods and services.

1.3.3 Duty Drawback Facility

Government of India **decided to continue the Duty Drawback facility** in 1992-97 for exporters who had imported certain inputs under the Duty Exemption Scheme which was described in the earlier Exim policy. New rates were announced w.e.f. 1 June 1999.

- The new rates incorporated **changes in customs duty** as well as inclusion of surcharge. The rates were again revised in 2001. Duty drawback rates were rationalized in line with the changes in customs duties announced in the Union Budget 2001-02. All industry rates were reduced in respect of 726 items, left unchanged for 26 items and increased for 14 items with 30 obsolete entries deleted. The changes also included the **introduction of new products**.

1.3.4 Decanalisation

Earlier in India a large number of exports and imports were used to be canalized through the public sector agencies. Government of India announced a trade policy on August 13, 1991, and **decanalized 16 export items and 20 import items**. The decanalized items included newsprint, non-ferrous metals, and natural rubber. Importantly only eight items including petroleum products, fertilizers, and edible oils were to remain canalized. Recently in 2004-09 policy import of petroleum and petro goods were also decanalized.

1.3.5 Export-Import Passbook Scheme (1995)

An **alternative route of the Passbook Scheme** for some categories of exporters was opened up on March 31, 1995. **Credit on customs duty was given for exports**. In 1997, Passbook Scheme was replaced by a **new scheme 'Duty Entitlement Pass Book' (DEPB) scheme**. This scheme **extended the coverage** and aimed for more of **transparency**.

- In 1999-2000 the credit entitlement increased from 5 to 10 percent of previous year's performance. The scheme has been continued in 2004-2009 policy and has removed any kind of uncertainty for the exporters.

1.3.6 Convertibility of Rupee on Current Account and Capital Account

- In 1991, the Government of India **devalued the rupee by about 18 percent against five currencies**.
- The finance minister announced the **liberalized exchange rate mechanism system (LERMS)** in the Budget for **1992-93.** It was a **dual exchange rate** under which **40 percent of foreign earnings** were to be given at the **official exchange rate** and the rest **60 percent** were to be exchanged at a **market-determined rate**.
    - ➢ The **foreign exchange exchanged at the official rate was used to import of essential items** (like crude oil, petroleum product fertilizers, etc.) and the **foreign exchange converted at the market rate was used to fund all other types of imports**. Thus, **LERMS commenced partial convertibility of the rupee on the trade account**.
- Further, the **1993-94 Budget** introduced **full convertibility of the rupee**. This allowed foreign exchange earners to **convert 100 percent of their earnings at the market rate**. Full convertibility on the current account was announced in the Union Budget 1993-94.
- The objective of the exchange rate system has been to ensure that the **exchange value of the rupee is realistic** and can sustain a **proper current account balance**.

2 Foreign Trade Policy

2.1 Foreign Trade Policy (2004-09)

In 2004, the United Progressive Alliance government adopted National Foreign Trade Policy (NFTP), 2004-09 as a tool of export promotion replacing the earlier Export Import Policy (EXIM). The policy intended to encourage exports by enhancing the competitiveness of Indian products in the global market. This was expected to generate employment and help in poverty alleviation.

2.1.1 Objectives

The aim of NFTP (2004-09) was to **generate employment**. With this end in view, it identified two means- **Increase in exports-GDP ratio** and a larger **emphasis on labor intensive exports**. To meet this objective, the NFTP 2004-09 set itself a target of, **doubling India's contribution to global trade from 0.8 percent to 1.5 percent by the end of 2009.** Accordingly, this will act as an effective **instrument of growth** by giving a push to **employment** especially in **rural** as well as **semi-urban areas**.

2.2 Foreign Trade Policy (2009-14)

Owing to the **global crisis of 2009**, countries all over the world were affected in different degrees. Overall, the economic indicators like **consumption, capital flows, and trade** have taken a hit. IMF estimated that the **global trade** to decline by 11 percent in volume terms and WTO forecasted the decline to be near about 9 percent. Though the adverse impact on India was not of same magnitude, as compared to the other countries yet **exports suffered**. This was mainly due to a **contraction in demand in the foreign markets for India's exports**. It was indeed a herculean task to formulate the foreign trade policy in such a grim economic situation.

Thus, it was needed that strategy and policy instruments to pursue the strategy are set in such a manner that it will catalyze the growth of exports.

2.2.1 Objectives

The **main objectives** of Foreign Trade Policy (2009-14) were:

- **To arrest and reverse the declining trend of exports.**
- **To double India's export of goods and services by 2014.**
- **To double India's share in World's merchandise trade by 2020.**
- **To simplify the application procedure for availing the benefits.**

In general, the policy aimed at **enhancing the potential to export**, improving **export performance**, encouraging **foreign trade,** and earning **foreign exchange**. As India's exports were affected by the global recession, FTP (2009-14) was of great importance. The decline in exports led to the closure of many export-oriented industries which resulted in large unemployment as well.

Targets:

- The **target for exports was set at $200 Billion** to be achieved by **2010-11** by having an **annual export growth of 15%.**
- To **come back on the high growth path** and for that export growth rate target was 25% for the next three years, i.e., 2011-14.

To achieve these objectives, the Government would follow a mix of policy measures including fiscal incentives, institutional changes, and diversification of export markets.

2.3 Foreign Trade Policy (2015-20)

The Foreign Trade Policy 2015-20 was announced by the Minister of Commerce and Industry, Smt. Nirmala Sitharaman on **April 1, 2015**. This policy has been announced at the time when **several other measures** were also been undertaken by the Government of India such as **'Make in India' and 'Digital India'.** The policy puts a great focus on **improving the 'Ease of Doing Business'** in India, with an emphasis on both the **manufacturing and service sectors**. The policy describes the strategies related to the **products** and **markets** needed to **promote trade, develop infrastructure and enhance the overall system of trade**. It also helps to enable India to **counter external challenges** and keep up the pace in line with the global trading architecture.

The target is to **double India's share in world trade by 2020** by **rationalizing** the **provisions** given for **imports and exports** and by creating a mechanism to resolve the complaints and dispute related to trade.

2.3.1 Highlights of Foreign Trade Policy (2015-20)

Two new schemes have been introduced for the merchandise and service sector:

- **Merchandise Exports from India Scheme (MEIS)** - This is designed for export of specified goods to specified markets. It **subsumes** the existing schemes '**Focus Market Scheme'**, '**Market Linked Focus Product Scheme, Focus Market scheme, Agri-Infrastructure Incentive Scrip and Vishesh Krishi Gram Upaj Yojana**. It also **revised the rates of reward** to the specific notified export goods to selected markets. These rewards are given as a percentage of foreign exchange earned (FOB).
- **Services Exports from India Scheme (SEIS):** This scheme is available to the **service providers** who are **located in India** as **against the scheme of 'Serve from India'** which give benefits to Indian Service Providers.

In both the Schemes the **duty credit scrips** can be used for **payment of Customs or Excise duty** as well as **Service tax**. There is also a welcome step and imperative boost for the Special Economic Zones as the **benefits of MEIS and SEIS** has been **extended to the units located in Special Economic Zones.**

Export Houses – The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been **simplified and changed to One, Two, Three, Four and Five-Star Export House.**

In addition to this there is **change for the Status Holders also**. The **method for calculating the export performance** meant for recognition of status holder has been **changed from Indian Rupees to US dollar earnings.** The export performance will also now consider only two previous years as against the previous three years under the earlier Foreign Trade Policy.

For the purpose of **Ease of Doing Business and Trade Facilitation** the following proposals are made:

- **Online procedure to upload digitally signed documents.**
- Creation of **profiles of importers and exporters** so that **repeated submissions are eliminated,** and **permanent records are maintained.**
- **Online facility for Terminal Excise Duty refunds** has also been provided.

To **encourage the 'Make in India' initiative**, the **export obligation** has been **reduced from 90 percent to 75 percent for domestic procurement under the Export Promotion Capital Goods scheme**. There is **higher reward** being given under MEIS for the products which have **high domestic content** and more **value addition done in India**. This will **promote the domestic manufacturing industry**. These flexibilities will encourage the exporters to enhance their productive capacities. Measures have been taken in **defense and hi-tech items** also. Further, **e-Commerce exports** of products like handloom, books, footwear, toys, and fashion garments through courier or post office would also be able to get the benefits under MEIS. These measures will provide employment, in addition, to capitalize on India's strength in these areas.

The transition to this new policy is quite smooth as the eligibility or usage of scrip and any other condition of export of goods or rendering of services would be governed by the earlier Foreign Trade Policy. Overall, we may appreciate the new Foreign Trade Policy (2015-2020) as it **emphasizes on simplification and mergers of existing initiatives**.

2.3.2 Seventh Trade Policy Review of India at the WTO

Recently, the final session of India's seventh Trade Policy Review (TPR) concluded at the World Trade Organization (WTO) in Geneva, Switzerland.

- The TPR is an important mechanism under the WTO's monitoring function in which member countries' trade and related policies are examined by the WTO with an aim to contribute towards improved adherence to WTO rules.

- India's last TPR took place in 2015.

Key Points

- **Appreciation for India:**
  - Introduction of **Goods & Services Tax** in 2016.
  - India's efforts in the implementation of **WTO's Trade Facilitation Agreement.**
  - Role played by India in furthering **"Ease of Doing Business"** in the country.
  - India's improved ranking in **"Trading across Borders"** indicator under the **Ease of Doing Business Report.**
    - **Trade Facilitation Agreement (TFA)** aims to speed up customs procedures and make trade easier, faster, and cheaper.
  - The steps taken by India for **liberalizing its** Foreign Direct Investment (FDI) **regime** and India's **National Intellectual Property Rights Policy, 2016.**

- **Concerns for India:**
  - India's trade **policy remained largely unchanged** since the previous review.
  - India continues to **rely on trade policy instruments** such as the **tariff, export taxes, minimum import prices, import and export restrictions, and licensing,** WTO said.
    - These are **used to manage domestic demand and supply requirements,** protect the economy from wide domestic price fluctuations, and ensure conservation and proper utilization of natural resources.
    - As a result, **frequent changes** are made to tariff rates and other trade policy instruments, which **create uncertainty for traders.**

- **India's Request:**
  - The ongoing pandemic has again brought to the fore, the importance of food and livelihood security and **urged for a permanent solution to Public Stock Holding (PSH) for food security.**

2.4 Foreign Trade Policy (2021-26)

- The Government of India and the Ministry of Commerce and Industry release Foreign Trade Policies (FTP) every five years; the latest FTP (2015-20) came into effect in April 2015. Although the policy expired in April 2021, it has been extended until March 2023. The new FTP 2021-26 will be enforced after this extension ceases.

2.4.1 Goals

- It will strive to make India a leader in the area of international trade with a goal to make India a **USD 5 Trillion economy.**

2.4.2 Key highlights

- The **District Export hubs** are to play a major role in the new Foreign Trade Policy.
- The policy will aim to boost exports.
  - Both merchandise and services, through
    - Systematically addressing domestic and overseas constraints related to the policy,
    - Regulatory and operational framework for lowering transactions costs and enhancing ease of doing business,
    - Creating a low-cost operating environment through efficient,
    - Cost-effective and adequate logistical and utilities infrastructure.
- It will enhance ease of doing business.

It will bring improvements in the operations of domestic manufacturing and services sector through infrastructure support.

- The policy will bring changes to regulatory and operational framework and lower transactional costs.

2.4.3 Significance

- ***Correcting the imbalances within India***: By improving operations of the domestic manufacturing and services sector in combination with efficient infrastructure support.
- ***Growth and employment***: By channelizing the synergies gained through merchandise and services exports.

Foreign Trade Policy (FTP) or Export Import (EXIM) Policy of India

- Foreign trade in India is regulated by the Foreign Trade (Development and Regulation) Act, 1992 and is guided by the EXIM Policy of the Government of India.
- FTP is a set of guidelines and instructions established by the Directorate General of Foreign Trade (DGFT) in matters related to the import and export of goods in India

2.4.4 Road to $5 Trillion by 2025

- India aspires to be a $5-trillion economy by 2025. To achieve this dream, it needs to:
  - Register a GDP growth rate of 8% or more in the next few years
  - Triple its exports to $1 trillion by 2025.
- This is a tough task, considering Indian exports have hovered around the $300-billion mark since 2011-2012. India's overall exports (Merchandise and Services combined) in April-October 2022 are estimated to be USD 444.74 Billion, exhibiting a positive growth of 19.56 per cent over the same period last year.
- In its 2019 report on what India must do for exports to reach $1 trillion by 2025, the high-level advisory group suggested:
  - Urgent reform of labour laws
  - Easing of regulatory controls
  - Lowering the cost of capital
  - Selection of right trading partners (given India's unhappy experience with FTAs)
  - Sector-specific strategies to drive exports, especially in pharma, biotechnology, textiles, and electronics.
  - The formation of a special committee to take quick decisions on foreign direct investment (FDI), including identifying and attracting potential investors.
- The government, on its part, seems committed to seriously working towards **its $5-trillion dream**. The Ministry of Commerce announced some of its plans for the new policy. These include:
  - **District Export Hubs**: The government will identify potential products and services in each district, identify agricultural and toy clusters, map GI products, set up district export promotion panels and district export action plans as part of this initiative targeted at small businesses and farmers.
  - **Correcting imbalances**: A persistent demand of exporters/importers is correcting the imbalances in India's international trade processes. At the meeting, the ministry committed to reducing "domestic and overseas constraints related to the policy, regulatory and operational framework for lowering transaction costs and enhancing the ease of doing business". It also spoke of creating "efficient, cost-effective and adequate logistical and utility infrastructure".

If FTP 2021-2026 delivers on the government's commitments and lives up to the industry's expectations, India as a $5-trillion economy is not a dream too far.