# Speech of Minister of Commerce & Industry on Annual Supplement 2010-11 to the Foreign Trade Policy 2009-14 on 23.08.2010

Ladies and gentlemen, I have the privilege to present the first annual supplement to the Foreign Trade Policy.

2. Last year, when I presented the Foreign Trade Policy 2009-14 on 27 August, 2009, the world was passing through the greatest economic crisis we have seen in recent times. Economies and markets world-wide were in turmoil, causing a sharp contraction in international trade, adversely impacting global investment flows and rendering over 50 million people jobless. We witnessed the sharpest contraction in world trade in the last seven decades, falling at over 12%. The crisis which erupted from the heart of the capitalist world spread like a contagion, affecting all countries big and small. Most of all, it created a crisis of confidence, forcing many developed countries to resort to protectionist measures, adversely impacting the vulnerable and developed economies.

3. The Indian economy could not possibly remain insulated from these global developments. Though the fundamentals of our economy were strong, our growth rate was pulled down to 6.7%. Our exports also posted negative growth and labour intensive exports were worst affected. This was largely attributable to the severe contraction in demand in the

traditional markets of our exports in the developed world. Exports, which had grown by 48.1% during April to September, 2008, began declining from October 2008 and this decline continued through the first half of 2009-10.

4. Predicting the future is always a very risky proposition. At that juncture, it was especially so. And, few, if any, were willing to hazard a guess when the trend would reverse. It was under these difficult circumstances, that we announced India's Foreign Trade Policy in August last year and initiated a series of measures to take us out of the woods.

5. The immediate objective of the FTP 09-14, was to arrest and reverse the declining trend of exports. We adopted a multi-pronged strategy, providing a stabile policy regime, adopting a conscious market diversification plan, providing additional support to sectors hit badly by the global recession, encouraging technological up-gradation of export sectors, and undertaking simplification of procedures to reduce transaction costs.

6. Towards achieving these objectives, several steps were announced in the Policy. Some of the important steps taken included addition of new markets under the Focus Market Scheme, coverage of Africa, Latin America and large part of Oceania under FMS and the Market Linked Focus Product Scheme, increase in incentives available under the Focus

Market Scheme from 2.5% to 3% and for FPS & MLFPS from 1.25% to 2%, introduction of EPCG Scheme at zero duty for specified sectors, and the grant of additional duty credit scrip to status holders.

7. Over the last one year, we have maintained a close watch on the performance of the policy in practice. We have been in a constant dialogue with all our key stakeholders in industry and the exporting community for a sectoral assessment of exports. The first review was undertaken in December, 2009 and thereafter in February 2010 which demonstrated that some sectors were still facing difficulties. Need-based additional support measures were announced in January, 2010 and March, 2010 for selected product groups / products. These measures included addition of 112 new products under FPS, addition of 113 new products under Special FPS, addition of 2037 new products under MLFPS (Market Linked Focus Product Scheme), addition of two new major markets, - China and Japan under MLFPS, addition of sesame seeds and minor coconut products under Vishesh Krishi and Gram Udyog Yojana (VKGUY), and providing incentives for approximately 300 products in apparel and readymade garments.

8. We can look back with a sense of satisfaction and now claim with humility that the immediate objectives of the policy were realized. The decline in exports was arrested. And, the trend

was reversed. Clearly, our steps were in the right direction. The measures initiated in the FTP 2009-14 and the subsequent interventions have placed export growth back on a positive trajectory. Exports which were steadily declining since October 2008 turned the corner in October 2009. Export posted an average positive growth of 19.6%, between October 2009 and March, 2010. In the first quarter of 2010-11, exports have grown by 32% compared to last year.

9. Exports from SEZs have shown a growth of about 67% in the first quarter of 2010-11 over the corresponding period in the previous year, and stood at about Rs. 59,000 crore. This is especially noteworthy as this impressive growth is over and above the sturdy 120% growth posted by SEZ exports last year, crossing a figure of Rs. 2,20,000 crores. The total direct employment in SEZs reached around 5.5 lakh persons and total investment in the SEZs amounted to around Rs. 1.66 lakh crores by June 2010. The SEZ as an instrument of policy for catalyzing export growth has lived up to the promise : they have attracted capital, boosted exports and increased employment.

10. At the time of the announcement of FTP last year, I had announced that we shall take concrete measures for reduction of transaction costs. I constituted a Task Force on transaction costs under the guidance of the Minister of State, with a mandate to identify and suggest ways to achieve significant

improvement in efficiency of our export processes in order to reduce the money and time spent by the exporters. The Task Force included a large 'Group of Experts' comprising industry experts from six sectors viz. Agriculture, Chemicals, Readymade garments, Textiles, Engineering and Leather, and functional experts from six different areas viz. Custom house agents, CA/tax experts, Exim consultants, Export Managers, Logistics managers and Overall experts. Detailed structured discussions and consultations were held with stakeholders. Based on the expert interactions, stakeholder discussions and global benchmarking visits, several issues, spanning different agencies, have been identified, analyzed and prioritized according to their importance and ease of implementation. The Task Force is presently in the process of consultation with the concerned administrative Ministries to finalize modalities and timelines of implementation of agreed interventions. I hope to share the final report of the Task Force with you soon and am sure this will be a significant step in making our export competitive.

11. For expansion of our share of world trade we are actively engaging with rest of the world. India remains committed to the successful conclusion of the Doha Development Round. We are in favour of establishing a rule-based, fair and equitable global trading regime, which has development as its core objective, and which must respond to the aspirations of millions of people of the developing world. The Trade in

Goods Agreement with ASEAN has come into force in respect of Malaysia, Singapore, Thailand and Vietnam. This Agreement is expected to increase trade between India and ASEAN. Similarly the agreement with Korea has also come into force. These initiatives will provide new avenues for expansion of our exports. We are convinced that our enhanced and active engagement in international trade will contribute significantly towards realizing our aspiration to become a dominant economic player. We are now engaged in negotiations for a comprehensive economic partnership agreement with Malaysia, Japan and a Broad based trade and investment agreement with the European Union. I am optimistic that we shall be able to arrive at ambitious and balanced outcomes in these agreements over the next one year. We are also negotiating a services and investment agreement with ASEAN.

12. Our competitive strengths in industry and services have been amply displayed to the world. Our position as world leaders in IT is unassailable. Acquisitions abroad by our industry speak of our abilities as managers and technology leaders in the global space. There is nothing to daunt us from moving ahead with pride and confidence.

13. We must, however, take note that the recovery so far has been fragile and the economies around the world are still emerging out of the shadows of a grim recessionary period. The latest

IMF projections (April 2010) indicate that the world economy is recovering at varying speeds for different regions. There has been marginal improvement in some of the developed economies like US, UK, Germany, France, Japan etc. However, there is still nervousness in the markets about the fiscal situation and sovereign indebtedness in several high-income countries of Europe. In this setting, it is to be expected that the developed countries would aim at economic recovery through consolidation and export led growth. This would pose a challenge to our exporters in accessing overseas markets for their products. The uncertainty surrounding exporters' prospects, therefore, continues to linger. We are not yet out of the woods.

14. In this scenario, we have to be alert and vigilant. We continue to be sensitive and alive to all commercial concerns. During the last policy, I promised regular interaction with all stakeholders. We have been true to our word and have held a sustained dialogue with apex chambers of trade/commerce, Open Houses with exporters and sectoral reviews with EPCs.

15. While announcing the Policy last year, I said that we shall take stock of the situation so as to make mid-course corrections. Despite the measures announced in the FTP and additional support announced in January and March, 2010, some sectors continue to face difficulties. Moreover, there is still a shroud of uncertainty over the fragile nature of global

economic recovery. Even as global economic rebalancing is proceeding apace, it is not going to be easy patch for our exporters. In view of resource constraints our response has to be appropriately calibrated. It is simply not possible to sustain support to all sectors. What we must ensure is that those sectors which are still not doing well are extended necessary support. Further, we must be alive to our domestic situation i.e. inflationary pressures and unemployment. Food price inflation implies that we need to pay close attention to domestic availability. This is why we were obliged to restrict certain exports. We also have to be conscious of the need for and the inevitability of fiscal consolidation. Suffice it to note that the level of resources available today may not be available in the future.

16. I consider it prudent to persevere with the policy stance chartered last year and provide benefits for sectors that are still struggling. In order to ensure stable policy regime, we are continuing with certain important schemes which have helped exporters.

17. DEPB has been one of the most popular and exporter-friendly scheme for more than a decade. Despite the fact that this scheme has clearly been identified for early sunset, we extended it till 31.12.2010 in view of the difficult international economic situation and the contraction of demand in developed economies. Recognizing the fragile recovery and

the prevailing uncertainties, I have been able to obtain extension of DEPB one last time for a further period of 6 months - till 30.6.2011.

18. We continue our emphasis on technological up-gradation of export sectors in order to enhance competitiveness of our exports. Zero-duty EPCG Scheme, which I announced last August, has been very well received by trade and industry. It has contributed significantly to technological up-gradation of specified sectors for which it was announced. The scheme was to end on 31.3.2011. However, once again as a special exception, it has been decided to extend the zero duty EPCG Scheme for one more year, till 31st March, 2012. We are also enhancing the coverage of the zero duty EPCG Scheme for certain chemicals and allied products, rubber, marine products, sports goods and toys, and certain engineering products.

19. I had also announced Status Holder Incentive Scheme (SHIS) last year in order to contribute to technological up-gradation of various categories of export houses. This too was intended to come to a close on 31.3.2011. As another special exception, we are extending SHIS Scheme for one more year, till 31st March, 2012. Further, the scheme is also being expanded to broadly cover the new sectors being covered under the zero duty EPCG Scheme.

20. We are introducing a new facility of Annual EPCG authorization for the exporters. This is with a view to reduce the transaction cost and time for exporters, as they will not need to obtain multiple EPCG authorizations in a year.

21. Some sectors are still struggling to recover from the demand shocks of the global economic slowdown. For these sectors we are providing additional benefits.

22. In order to give immediate relief, a bonus incentive is being provided to sectors whose exports are still not doing well. This specially covers labour intensive sectors such as handicrafts, handlooms, silk carpets, leather and leather manufactures, sports goods, toys, and some bicycle parts.

23. In addition, certain new engineering and electronic items, finished leather, rubber products, other oil meals, castor oil derivatives, packaged coconut water, coconut shell worked items, instant tea and CSNL cardanol have been included for benefits under export incentive schemes.

24. The benefits for export of readymade garments to EU under MLFPS given earlier for a period of six months has been further extended by another 6 months up to 31.3.2011.

25. The facility of interest subvention of 2%, currently available for handicrafts, handlooms, carpets and SMEs, is being

extended for a number of specified products pertaining to leather and leather manufactures, jute manufacturing including floor covering, engineering goods and textile sector for the year 2010-11.

26. For carrying out further procedural simplification and with a view to reduce transaction costs, we are taking a number of steps in this annual supplement to the policy. Additional flexibility for transfer of scrip is being allowed under Agri infrastructure scheme for units in Food parks. Advance authorization for annual requirement will be exempted from anti dumping and safeguard duties and the advance authorization for physical exports and deemed exports will be brought under a single customs notification in order to facilitate clubbing and closure of authorizations. The requirement of chartered engineer certificate for advance authorization under ad hoc norms is being dispensed with and such norms are being made applicable to all cases of the same export product up to one year retrospectively also.

27. We had set a target for merchandise exports for 2010-11 at US$ 200 billion. Our total merchandise export for 2009-10 was US$178.66 billion. With the present growth trend, we are on course to achieve export target for 2010-11. In the remaining three years of this Foreign Trade Policy i.e. upto 2014, the country should be able to come back on the high export growth path of around 25% per annum. By 2014, we

expect to double India’s export of goods and services. It shall be our endeavour that industry and government work in tandem, and by working closely, we hope to achieve this target as well.

Thank you.