Chapter 6

PROBLEMS AND PROSPECTS OF READYMADE GARMENT EXPORTS FROM INDIA TO THE UNITED ARAB EMIRATES
### CHAPTER VI

**Problems and Prospects of Readymade Garment Exports from India to The United Arab Emirates**

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6.1 Problems related to the Readymade Garment Exports from India to the
Unites Arab Emirates

In today’s competitive market, it is very difficult for an exporter create a niche in the market without encountering difficulties and problems. Problems arise in various areas of trade like arrangement of finance, recovery of debts, rejection of a consignment, change in government policies, labour unrest and many such unexpected situations. They could be of personal or professional in nature. On the basis of survey, personal observations and interview, the study has revealed the following most common problems related to readymade garment exports from India to UAE.

6.1.1 Market Research

It is a tedious task for an exporter to survey the potential market and draw effective conclusions on that basis. The slightest error on the exporter’s part could lead to the failure of the garment item to survive in the new market. Market Research is the study and in-depth understanding about an area or country which is partially or completely unknown to the person conducting the research. There have been many cases where the exporter has suffered terrible losses in the prospective market inspite of conducting a preliminary market study/ research, the only reason being faulty or incomplete and hurried method of conducting the research. Any kind of research involves time. Proper time has to be allocated for market research apart from
observation of the market trend, statistical analysis, conversations with the buyers and working out a suitable price keeping in mind the purchasing capacity and economic standard of the buyers and consumers. Exporters can conduct the research themselves or can avail the services of a research agency.

**Table 6.1**

**Percentage trend illustrating the importance of Market Research to the Readymade Garment Exporters**

<table>
<thead>
<tr>
<th>Market Research</th>
<th>Readymade Garment Manufacturer Exporter (%)</th>
<th>Merchant Exporter (%)</th>
<th>Sub-Contracting Manufacturer Exporter (%)</th>
<th>Indenting Agent (%)</th>
</tr>
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<tr>
<td>In-depth Market research</td>
<td>24.5</td>
<td>11.8</td>
<td>4.9</td>
<td>2</td>
</tr>
<tr>
<td>Partial Market research</td>
<td>16.7</td>
<td>17.6</td>
<td>4.9</td>
<td>1</td>
</tr>
<tr>
<td>No Market Research</td>
<td>8.8</td>
<td>4.9</td>
<td>2.9</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 6.1 shows the percentage trend of the importance of marketing research to the readymade garment exporters. 24.5% out of the 50% readymade garment manufacturer exporters conduct in-depth research when targeting a potential market whereas 16.7% conduct partial research. 8.8% do not conduct any kind of market research as they feel it's not necessary. Out of the 34.3% merchant exporters interviewed, 11.8% of them conduct an in-depth market research, whereas majority of them i.e. 17.6% conduct a partial market research. Amongst the sub-contracting agents, 4.9% of the exporters opt for an in-depth research in order to penetrate and capture the foreign market whereas an equal number of them conduct a partial market.
research. The sub-contracting agents do not take the concept of marketing research very seriously since they get all the specifications and design patterns from their international source. Out of 3% of the indenting agents approached, 2% of them opted for in-depth research since they need to keep themselves updated on the latest market trends in order to facilitate better trade leads. It is observed that the concept of Market Research is still not very popular amongst the readymade garment Indian exporters.

6.1.2 Quality Control and ISO certification

Quality Control refers to the stringent quality check levels adopted by various export firms on the basis of the fabric used (strength, contents and colour), the stitching neatness, the cleanliness and the label/tag requirements. ISO certification is a renowned method of ensuring the buyer about the quality of the garment item. ISO certification still has to capture the psyche of the Indian garment exporter as most of them stick to stringent quality checks rather than any acclaimed title of certification.

Table 6.2 illustrates the percentage trend of the importance of Quality Control to the readymade garment exporters. Merely 31.4% of the respondents (garment exporters) from Mumbai followed stringent Quality Control and were ISO certified or accredited with another title ensuring the buyers of the product quality. 47% of the garment exporters did not opt for any external quality control certification.

6.8% of the garment exporters did not find it necessary to conduct any kind of quality check on their finished item of produce whereas 14.8% conducted a preliminary check on their finished garments.
Table 6.2

Percentage trend illustrating the importance of Quality Control to the Readymade Garment Exporters

<table>
<thead>
<tr>
<th>Quality Control and ISO certification</th>
<th>Readymade Garment Manufacturer Exporer (%)</th>
<th>Merchant Exporter (%)</th>
<th>Sub-Contracting Manufacturer Exporter (%)</th>
<th>Indenting Agent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stringent Quality Check and have ISO certification</td>
<td>16.7</td>
<td>5.9</td>
<td>8.8</td>
<td>-</td>
</tr>
<tr>
<td>Stringent Quality Check without any ISO certification</td>
<td>23.5</td>
<td>18.6</td>
<td>2.9</td>
<td>2</td>
</tr>
<tr>
<td>Preliminary Quality Check</td>
<td>6.9</td>
<td>5.9</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No Quality Check</td>
<td>2.9</td>
<td>3.9</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

6.1.3 **Unstable Political Environment**

This is one of the most undesirable problems an exporter could encounter. When the political environment in a country is unstable, the exporters operations come to a halt. Any amount of planning tends to fail in such an environment. It is best to carefully analyze the situation and then decide on the next plan of action. Unstable political environment could imply revolution or civil disturbances, government actions which could delay or block payments, speculation of cancellation of trade licenses or either making void some important policies and schemes benefiting the traders. Most of the Gulf countries including the United Arab Emirates bear this risk since these countries represent Sheikhdoms which are governed by the Arab Rulers or Sheikhs and their heirs.
6.1.4 Commercial risks

Commercial risks refer to insolvency of the buyer leading to inability to make payments to the exporter, rejection of goods by the buyer subject to certain conditions and all other such problems which lead to any kind of commercial loss to the exporter. The commercial risks pertaining to any country mostly depend on the terms of trade and the method of payment approved. 25.5% of the exporters interviewed, claimed to have had to bear a loss at some point of their trade career for bearing such a risk and thus are extremely careful as far as contracts related to UAE are concerned.

6.1.5 Garment Design

The garment design is the deciding factor for an exporters success scale. If the garment design does not suit a particular market the exporter is likely to suffer losses for example exporting bold garments such as mini’s and micro mini’s to a conservative country or a country which follows a strict dress code would eventually be a loss to the exporter. Thus, market research helps an exporter to avoid such a situation along with the exporter’s ethical understanding and foresight. 70.6% of the respondents concentrated on the product design prior to exports. The remaining 29.4% exported whatever has been in vogue in other parts of the world irrespective of the design trends, that would suit the UAE market.

6.1.6 Documentation Error

The more complicated the documentation procedure is, the more blunders and errors are likely to happen. It is very important for the exporter to carefully read and then fill in all the forms pertaining to the export procedure. Even a small error in the documentation can give rise to a number of problems leading to the delay in the
shipment of the consignment. Garment Exporters must check and make sure that the packing list related to every consignment to be exported, is accurately filled in as per the contents of the package. All documents pertaining to exports need thorough verification before reaching the customs and port authorities. 67.6% of the respondents have revealed that the documentation process is not simple and clear. It still is complicated and vague and hence lot of time is wasted in rectifying and verifying the documents.

6.1.7 Rigidity of Labour Laws

This is one of the most common problems a garment exporter faces in the export business. Garment production is extremely labour intensive hence it is necessary for the exporter to strive in order to achieve maximum labour productivity. With most of the Indian garment manufacturers and exporters upgrading their machinery and production technology under the TUFS introduced by the government, the proportion of labour (mostly unskilled) tends to reduce but due to the rigid labour laws in India, it gets very difficult for the firms to cut down the work force whenever necessary. Availability of additional skilled workers at the time of increased production is very difficult. When time is a deciding factor, it is of no use employing unskilled workers for the job which requires skill and experience as it will only lead to increased wastage and additional costs to be borne by the exporter. It is very important to keep the workers under vigilant control but, at the same time, motivated and professionally happy as it is the employees who are the binding strength of the export firm. Their grievances should be attended to and effectively sorted out as soon as it is bought to the notice or else petty problems develop into major problems which invariably effect the functioning of the export firm.
Another problem pertaining to the workers is their safety while using the different garment manufacturing machinery and suitable, healthy work atmosphere. The garment manufacturer exporters should pay due attention to the seating arrangement of the workers / tailors (especially in line assembly), the lighting effect, the use of protective gadgets while using any machine known to be dangerous and recommended to be handled with utmost caution, the placement of the electric boards and generators and many such things, the negligence of which can have fatal results leading to large scale loss’ for the firm.

6.1.8 Labour

Labour issues are one of the major problems faced not only by the export organizations but by all business organizations at the national as well as international level. The garment industry constitutes of skilled, semi skilled and unskilled employees. Unionization is a trend which is catching up amongst the employees and laborers. If the labour are not happy with the work or pay scale of the organization, it doesn’t take time for them to collectively join some union and express their demands in a more aggressive manner. And once that is done, production for exports take a back seat thus hampering the flow of orders.

89.2% of the respondents (readymade garment exporters) said that Labour problem is a very crucial affair to deal with. It calls for utmost patience, understanding, convincing ability and leadership skills on the part of the exporter.
6.1.9 **Infrastructure**

Infrastructure is an important element influencing the foreign trade of a country. In India, one of the major problems related to developmental growth is that of poor infrastructure which includes transport facilities, roads, freight costs, power and water supply as well as waste and disaster management facilities. The transport facilities and roads are still not at par with the major competing countries. Due to the heavy monsoon and very hot and humid summer experienced in Mumbai and other parts of the country, the roads get damaged frequently which in turn acts as a major hindrance to the flow of trade. Accessories, trims and fabric sourced from a local/national or international market does not reach the exporter on time facing a delay in production and the delivery of the consignment, in extreme cases the order is cancelled altogether. The freight rates also are expensive as compared to the competitors elsewhere. The seaports and airports are the backbone of India’s exports. However, the services offered by the ports are inadequate and infrequent moreover they are ill equipped to handle the mega sized cargo ships efficiently. Out of the exporters approached, 22.5% attributed poor infrastructure as one of the major constraints in the free flow of garment exports.

6.1.10 **Government Red Tape**

The Government of India puts in a lot of effort to boost up the country’s exports. However it is observed that the incentives provided to the readymade garment exporters either do not reach them at all or are delayed to such an extent that the advantage of the incentive gets nullified.\(^1\) There are incidents wherein the incentives reach the wrong hands whereas genuine garment exporters face undue harassment.\(^2\) Such situations should be avoided and the incentives must reach the
needy garment exporters which can enable them to contribute towards the promotion of India’s readymade garment exports.\textsuperscript{3} Strict Action is taken against the crooked garment exporters whose heinous tricks are bought to the governments notice. Such faulty exporters are exposed and blacklisted thus ostracizing them from the garment exporters community. However, the deeds of such corrupt exporters seldom come to light. Corruption in the government system thrives on a large scale which again is another problem faced by the garment exporters.

81.4\% of the garment exporters expressed that corruption prevailed at all stages of the export process, while 18.6\% of them felt that the system has changed for the better. Exporters have expressed mixed views in this regard. Some of the entrepreneurs strongly believe that it is upon the Government of India to boost up and encourage the garment industry to gain leviathan growth in the economic scenario. Only then will India be in a position to compete with China. The exporters have suggested the strong support of the government authorities as in the case of China.

6.1.11 Fluctuations in Exchange Rates

The foreign exchange rates fluctuate inevitably. When the exchange rates fluctuate variably, it directly affects the international trade transactions and the return on investments for the exporter. Trade partners can protect themselves from the loss due to fluctuations in the exchange rate by a contract stating the payment terms and conditions in a very clear and concise manner. Devaluation and Revaluation of currency is another problem the exporters have to reckon with. Devaluation is the deliberate downward adjustment in the official exchange rate which reduces the currency's value while revaluation is an upward change in the currency's value. Under
a fixed exchange rate system, devaluation and revaluation are official changes in the value of a country's currency relative to other currencies. Under a floating exchange rate system, market forces generate changes in the value of the currency, known as currency depreciation or appreciation.

59.8% of the exporters have stated that they have borne losses at some point of time during their entrepreneurial career, due to steep fluctuations in the exchange rates. The remaining of them either received reduced returns on sales or have been neutral to any kind of change.

6.1.12 Increase in the Production Cost

Production cost implies the cost of input that goes into manufacturing a piece of garment. India is considered to be a country with cheap manpower and enormous resources related to the raw materials. Unfortunately, the picture isn’t as rosy as it seems to be. The heavy burden of direct and indirect taxes, the high cost of finances and raw materials seem to be one of the major constraints to export trade. Garment exports to the UAE depend on the quality of the finished piece. India is renowned for its high value readymade garments in the UAE. Being a major hub for re-exports, UAE has gained tremendous importance pertaining to its trade basket. The production costs need to be reasonable in order to attract more buyers from the UAE. The various taxes imposed by the government need to be revised and given due consideration in order to keep the garment exporters price at par with its competitors from other countries or else the Indian exporters wont be able to penetrate the UAE market on a mega scale.
6.1.13 **Global Competition**

Global competition is an uncontrollable and unavoidable phenomenon faced by all foreign traders. Global competition acts as the driving force to excel in foreign trade. Countries that have the whole hearted support of their government tend to be forerunners of the global game, for example, China. The Indian Government wholeheartedly supports the exporters and importers by introducing various incentives and schemes, but at the same time dis-regards its support when it comes to the imposition of various taxes and duties be it direct or indirect. Global competition benefits the ultimate consumers as they are offered garments of international quality and design at the most competitive price. In short, global competition is the motivational force for the Indian garment exporters to manage their costs and returns on investment in a manner that would ensure their presence in the international trade arena.

84.3% of the exporters stated that China was the major competitor in the field of readymade garment exports to the United Arab Emirates. Apart from China, readymade garments from South Korea, Bangladesh, Indonesia and USA too are a major concern for Indian exporters. These garments are not only reasonably priced but also are of very good patterns, cuts and designs. The major reason cited for these garments being so reasonably priced are the benefits of reaping economies of scale in production.

6.1.14 **Delay in Shipment**

The most dreaded problem an exporter encounters is the delay in shipment. A delay could lead to drastic consequences for the exporter, at times even cancellation
of the entire consignment by the importer/buyer. In today’s global market, time plays a very crucial role in determining the competitiveness of an exporter. Fashion and trends change very quickly hence if a time-bound consignment reaches the buyer after considerable delay, there are chances that the pattern of the garments ordered, is no longer in vogue and eventually the garment is categorized as ‘outdated’ or old fashioned resulting in a major loss for the buyer/importer. Undue delays many a times result in the change of season overseas, which again leads to large-scale cancellation of orders or heavy discounts given to the buyer.

Delay in sourcing the fabric or accessories, labour strike, production delay, error in documentation and delay in excise and customs clearance are some of the most common reasons responsible for the delay in shipment.

91.17% of the exporters expressed the delay in shipment to be the most dreaded problem in their line of business. Timing and product design are the essence of exports. An inadequacy or limitation in any one of them results in monetary as well as non-monetary loss to the garment exporter.

Competitive exporters tend to avoid any kind of delays and strictly follow an effective time management strategy. Program’s like Kaizan immensely help the exporter to work in a systematic and resourcefully planned environment.

6.1.15 High Interest Rates

Garment exporters constantly face the crisis of increase in interest rates which in turn hampers their margin of returns. Bank interest rates on short term loans for
textile and garment companies increase inevitably similar to the export credit rates, which puts the garment exporter in a tight spot.

6.1.16 Freight

Freight includes various charges to transfer the goods from one place to another. It could be the shipping charges, the airline charges or any other transport charged by the specified carrier to shift the goods from one place to another. The freight charges could increase or decrease depending upon the workers unions and the change in government policies. The exporter should be well prepared to adjust such a change in order to ensure the smooth performance of his operations. Since UAE is strategically located in the Arabian Gulf, the freight for exports from India to U.A.E are not very high, as compared to India’s other trading partners, however changes in the government regulations and policies affect the freight charged for exports and imports.

6.2 Overall Prospects

The Readymade Garment Industry is the largest foreign exchange earning sector of the country. India has an advantage over other garment exporting countries due to easy availability of raw materials, cheap skilled labour and exquisite production of high end apparels with intricate embellishments. Readymade Garment industry if provided with better incentives would give the best performance in the years to come not only in the domestic market but also in the global market.

Garment exporters undoubtedly earn good returns but the stress involved in this line of business is tremendous. The prospects are positively motivating but the
hardwork that goes in cannot be matched with the percentage of returns. Modern day garment exporters have to be fashion savvy. They also need to have leadership skills, vocabulary excellence and most of all managerial ability to take up the mammoth task of exporting readymade garments internationally.

However the main challenge or threat in the global market is from countries like China, Indonesia, Korea etc which requires the immediate attention of the concerned authorities occupying higher posts at the different echelons of the economy such as Ministry of Textiles, Ministry of Commerce, Ministry of Finance at the Central Government level. Similarly, at the state levels, the concerned ministerial departments should look into the matter and do their best in the interest of the economy in general and readymade garment industry in particular which is, one of the most important foreign exchange earners of the Indian economy.

Moreover, the business fraternity including manufacturers, exporters, retail traders etc who are connected with the export of the readymade garments should make constant endeavors and efforts to enhance the efficiency and productivity of the industry and resort to economies of scale and iron out their weakness/ drawbacks to increase their competitive strength to operate most effectively, efficiently, productively and profitably in the global market on the strength of best quality product at the most competitive price. For this purpose they should undertake SWOT analysis, establish marketing research department, research and development programme, participate in exhibitions and fairs at the global level and concentrate at the ideology of "Service to the Customers"
6.3 Export Incentives offered by the Government of India (For the period 1991 to 2003)

The Government of India offers various kinds of incentives to the readymade garment exporters in order to encourage them to spread their international presence and reap the benefits of global trade. These incentives motivate the garment exporters to target and penetrate foreign markets and create a niche for themselves internationally. Below mentioned are some of the export incentive schemes popular with the readymade garment exporters. The prospects for Readymade Garment exports will be enhanced further if the exporters adopted the following incentives rigorously.

6.3.1 Duty Entitlement Pass Book Scheme (DEPB)

The Duty Entitlement Pass Book Scheme was introduced in the year 1997 after the value based advance licensing (VABAL) scheme and the old pass book scheme were replaced. Under this scheme, post export incentive of duty remission on inputs used for exports, is provided. The DEPB scheme aims to neutralize the incidence of customs duty on the import content of the export product by granting duty credit against the export product which is a fixed percentage of the gross FOB (Free on Board) value of exports. The credit available against the export products is issued by the DGFT which is prone to change inevitably.

All items, excluding those that are banned and black listed, can be imported under this scheme without being liable to pay the basic/special/ additional customs duty against the duty credit. This scheme is functional on a pre and post export basis. This is a kind of incentive which enables an exporter to import materials for his
export manufacture, at nominal costs giving the exporters many other benefits from their banks and other related institutions.

6.3.2 **Duty Drawback Scheme**

Duty Drawback means the rebate of duty chargeable on any imported materials or excisable materials used in manufacture or processing of goods which are manufactured in India and exported. Duty Drawback refers to a refund of the customs duty paid on the import of raw materials, packing material and other components. It also includes the refund of the central excise duty paid on the natural-available material used in the manufacture of the garment to be exported.

Duty Drawback is allowable if any manufacture, process or any operation is carried out in India. Thus, drawback is available not only on manufacture, but also on processing and job work, where goods may not change their identity and no ‘manufacture’ has taken place. All Industry Drawback rates are fixed by Directorate of Drawback, Department of Revenue, Ministry of Finance, Government of India. The rates are periodically revised, normally on 1st June every year. To avail of the drawback, the exporter should endorse upon the ‘shipping bill’, the description, quantity and other details to decide whether the goods are eligible for duty drawback.

The exporter must submit one extra copy of the shipping bill for drawback purposes along with a copy of the invoice. The three types of duty drawback rates are All Industry rate, Brand rate and Special Brand rate. The All Industry rate is decided by the Government of India on a regular basis and is applicable to all the units in the
industry. The Brand and Special Brand rate are decided by the Government on a special application made by a particular unit.

All the exporters use this incentive to gain benefits from the Government of India.

6.3.3 Special Economic Zones (SEZ's)

The Special Economic Zones in India have been set up with the intention to boost manufacturing, augment exports and generate employment in the country. A SEZ is termed as a specifically delineated duty free enclave, deemed to be foreign territory in India for the purpose of trade where goods going into the SEZ area from the Domestic Tariff Area (DTA) are treated as exports and goods coming from the SEZ into the DTA are treated as imports. At a SEZ, an exporter is exempted of income tax, service tax, customs and excise duty for imports or procurement of goods. Sales from a SEZ to a DTA are exempted from Special Additional Duty (SAD) which makes it almost 4% cheaper than imports.

6.3.4 100% Export Oriented Units (EOU)

The EOU scheme was introduced in the year 1980 vide Ministry of Commerce resolution dated 31st December 1980. The purpose of the scheme was basically to boost exports by creating additional production capacity. It was introduced as a complementary scheme to the Free Trade Zones/ Export Processing Zone (EPZ) Scheme introduced in the sixties which had not attracted many units due to locational restrictions. In an EOU, sales upto 50% of the FOB value of exports in the DTA is permitted. Import of necessary goods is allowed against free foreign exchange
whereas import of capital goods and raw materials are permitted under the Open General License (OGL). EOU’s are exempted from income tax, industrial license and central excise duty for the purchase of naturally available capital goods. 100% foreign equity is permitted in an EOU. EOU’s older than three years and having a good track record with a turnover of 5crores are exempted from furnishing a bank guarantee at the time of carrying out a job work in the domestic tariff area.

6.3.5 Status of an Export House, Trading House, Star /Super Star Trading House

Export firms that achieve an aggregate total export amount, as fixed by the Ministry of Commerce and Industry are entitled to enjoy an Export House/ Star Export House/ Trading House/ Star Trading House or a Premier Trading House status. The status varies on the total export amount. The criteria for the required status in the year 2003 were;

- One Star Export House/ Export House - 15 Crores (Rs)
- Two Star Export House / Trading House - 100 Crores ”
- Three Star Export House / Star Trading House - 500 Crores ”
- Four Star Export House - 1500 Crores ”
- Five Star Export House / Super Star Trading House - 2000 Crores ”

6.3.6 Export Promotion Capital Goods Scheme (EPCG)

Capital goods refer to any plant, machinery or equipment required for manufacture or production, directly or indirectly for rendering services including the ones required for replacement or technological upgradation. As per this scheme,
The import of capital goods for pre-production, production and post-production is allowed at 5% customs duty subject to an export obligation equivalent to eight times of duty saved on the capital goods imported to be fulfilled over a period of eight years from the date of issuance of license. Under the scheme, manufacturer exporters, merchant exporters, and service providers are eligible to import capital goods. The import duty on capital goods like machinery is waived by the government of India only if the company undertakes to export the goods produced within a stipulated time. For EPCG licenses, with a duty saved of Rs. 100 crores or more, the same export obligation is required to be fulfilled, but over a period of twelve years.

Apart from these, the Government of India has provided various other incentives in the recent years, to encourage the garment exporters and boost up the foreign trade of India. It is upon the individual exporters that how they take advantage of these incentives and utilizes them in the most apt manner without indulging in any kind of malpractices whatsoever.