Chapter-II

TRADE POLICIES AND EXPORT PROMOTION STRATEGIES OF INDIA

This chapter deals with the historical perspectives and structural changes in Indian foreign trade policies after independence. In this context, it also covers the export promotional measures by the Government of India and package for tobacco sector in foreign trade policy for the period of 2009-14.

2.1 AN OVERVIEW OF TRADE THEORY

Trade behaviour is not completely determined by trade policy; but policy prescription is a major weapon to influence volume, composition, direction and determinants of trade.\(^1\) Trade policies form an integral part of the overall economic policies of the government and reflect economic priorities to be fulfilled through intervention into the market. Therefore foreign trade was not left to the principles of market mechanism alone.

Theory of comparative advantage: A theory that focuses on the relative (not absolute) advantage in one economic activity that one nation enjoys in comparison with other nations.

Classical trade theories: The major theories of international trade that were advanced before the 20\(^{th}\) century, which consist of mercantilism, absolute advantage and comparative advantage.

Modern trade theories: The major theories of international trade that were advanced in the 20th century, which consist of product life cycle, strategic trade, and national competitive advantage.

Theory of mercantilism: A theory of that holds the wealth of the world (measured in gold and silver) is fixed and that a nation that exports more and imports less would enjoy the net inflows of gold and silver and thus become richer.

Theory of absolute advantage: A theory that suggests that under free trade, each nation gains by specialising in economic activities in which it has absolute advantage.

Product life cycle theory: A theory that accounts for changes in the patterns of trade over time by focusing on product life cycles.

Strategic trade theory: A theory that suggests that strategic intervention by governments in certain industries can enhance their odds for international success.

The Heckscher-Ohlin (H.O.) theory states that the main determinant of the pattern of production, specialisation and trade among regions is the relative availability of factor endowments and factor prices. Regions or countries have different factor endowments and factor prices. "Some countries have much capital other have much labour. The theory now says that countries that are rich in capital will export capital - intensive goods and countries that have much labour will export labour - intensive goods".²

According to Posner\(^3\) in an article, he analysed the effect of technology on trade. Technological changes as a continuous process which influences the pattern of international trade. A technological innovation in the form of production of a new good in one country leads to the limitation gap and the demand gap in other country.

Karvis\(^4\) has explained four factors which influence availability. They are: Natural resources, technical change, product differentiation, and Government policy. Firstly, it is the availability of scarce natural resources that determines the trade pattern of country. The second factor is the availability of technical knowledge possessed by a country for producing a particular commodity which it exports. The third factor is predict differentiation which confers temporary monopoly of production on the innovating country so that it is able to export its commodity until the importing country imitates. Government policy influence trade in a negative way. Tariff polices, Transport costs, cartelisation etc., tend to eliminate from trade those goods which are available to country though a domestic production at slightly higher cost. Thus unavailability of commodity is the result of lack of natural resources, technical knowledge, product differentiation or protectionist polices.

Linder, S.B.\(^5\) has propounded a theory that explains the volume of trade in manufacturers as proportion of national income between different pairs of trading countries. Linder argues that as a country's per capita income grows, its representative - demand pattern causes an expansion in the domestic production of certain manufacturers.

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This expansion causes such reduction in the costs of these manufacturers that they become to country's new comparative advantage exports. In this way, a country comes to export its representative demand product.

Varma\(^6\) in his book entitled "Foreign Trade Management in India", the trade policy regime of India since independence has gone through three distinct phases, which clearly portray the shifting paradigm of policy approach from inwardness for openness.

Thirlwall\(^7\) in his study reveals the development literature abounds with the models of export-led growth and it is claimed both historically and in the contemporary world economy that growth of exports can be taken as engine of growth.

Chenery and Strout\(^8\) states that there is almost no example of a country which has for a long period sustained a growth rate substantially higher than its growth of exports and strout. In the present era of globalisation and liberalised policy regime export promotion strategies occupy the central stage. Although the trade policy is the jurisdiction of Central Government the role of State Governments is no less significant because export production is a local activity which is highly influenced by the activities and policies of State Government. Thus concerted and planned efforts are required not only at country level as a whole but also to push up the growth of exports.

Johnson\(^9\) has classified the production and effects of factor growth into five types. Growth is neutral if it increases the production of exportable and importable goods in the same proportion. It is anti-trade-biased or import-biased, if it increases the production of importable in greater proportion than the production of exportable in greater proportion than the production of exportable. It is pro-trade-biased or export-biased or ultra-export-biased if growth reduces the domestic production of importable. It is ultra-pro-grade-biased or ultra-export-biased if growth reduces the domestic production of importable. Finally it is ultra-anti-trade-biased or ultra-import-biased if it reduces the production of exportable. “In-formal terms, it will be pro-trade-biased, ‘neutral’ or ‘anti-trade-biased’, according as the output-elasticity of supply of importable goods is less than, equal to or greater than unity. Formally, ultra-pro-trade bias means a negative output elasticity of supply of importable and ultra-anti-trade bias a negative output elasticity of supply of exportable”.

2.2 COMPLEXITIES IN COMMODITY EXPORTS FROM DEVELOPING COUNTRIES

Developing countries, whose major exports revolved round the primary commodities, confront many obstacles in the export market. The declining trend in exports for natural commodities, in the wake of over expanding synthetics, the protectionist strategies of the developed countries and the trade barriers: all these work to their disadvantage. A brief over-view of the literature reflecting these issues is considered crucial for a better understanding of the role that the commodity boards could play in the emerging scenario of international commodity exports.

2.3 DECLINING TRENDS IN COMMODITY EXPORTS

Maizels\textsuperscript{10} through his economic analysis major technological developments in electronics, computer science and synthetic material have had substantial adverse effects on the consumption of natural raw materials. This trend may continue and future technological innovations could well lead to the virtual collapse of a number of traditional raw material markets. As a result of this, declining trend in commodity exports, there is bitter competition among developing countries to earn much needed foreign exchange either by underselling or subsidising their commodity exports. If any developing country is reluctant to do so, the importing developed counties or their Trans National Companies (TNCs) take up measures like country substitution, releasing previous stocks recycling and ocean bed exploration so as to bring down prices of commodities and raw materials exported by developing countries.

2.3.1 Lower Prices for Export Commodities of Developing Countries

Professor Kaldor\textsuperscript{11} observes that there is a crucial difference between commodity markets and the markets for industrial products in the process of price formation. Commodity prices are generally determined in highly competitive markets, whereas the prices of industrial products are generally determined on a "cost plus" basis. The industrial enterprises can adjust their outputs as demand varies, but in commodity markets, changes in prices keep supply and demand in balance generally through falling prices for commodities. The efficiency of the commodity market system depends crucially on the willingness of the traders to absorb or release stocks in response to price


charges. The willingness, however, is reduced in a period of unstable prices, a circumstance which in turn increases the variation in prices. The abnormally, high interest rates during 1980s increased the cost of holding stocks. This factor hindered the normal capacity of holding stocks by traders of importing developed countries and lead to further depression of prices there is an imbalance between supply and demand.

2.3.2 Trade Barriers and Export of Tobacco from Developing Countries

Durcan and Lutz\textsuperscript{12} opined that contrary to the general declining trend of agricultural exports, imports of tobacco from developing countries have done surprisingly well in the industrial markets, particularly in the European Economic Community (EEC). The preferential trading arrangements for tobacco exports from ACP countries important under the Lome' Convention, seems to be the important factor in this result only nine EEC countries import more than 50 per cent of tobacco production. This may be for high concentration of techno-capital intensive cigarette industries in these countries (as cigarette is mostly the end product of tobacco i.e. nearly 90 per cent tobacco production is used for cigarette making).

EEC countries also have some non-tariff barriers like subsidising local tobacco production, duty free preference for tobacco from within EEC countries, etc. they have a common agricultural market policy adopted to maximise tobacco production within EEC countries. This policy guarantees minimum prices for all types of tobacco. These prices are sufficiently high so as to ensure adequate returns to the EEC farmers. To safeguard against the imports of low priced tobacco, a common tariff is applied to goods coming

into EEC. In addition to this, intervention or guaranteed reserve price is also fixed for
different types to tobacco produced internally. Duty free treatment for EEC and EEC
performance areas will give the United Kingdom (UK) tobacco industry considerable
incentive to shift from the present 100 per cent FCV tobacco used for cigarette to a blend
of cigarettes using burley and aromatic tobacco or to use a large proportion of lower
quality, duty-free FCV tobacco from these countries. Italian burley will have the
advantage of buyers premium plus zero duty. Greek and Turkish aromatic tobacco will
also enjoy the advantage of zero duty.

Narayana Rao\textsuperscript{13} observes that the shift may reduce the import requirements of
Indian FCV tobacco and as a result may have an adverse effect on imports of Indian
tobacco into the UK. As UK and Ireland joined EEC and the consequent adoption of
Common Customs Tariff (CCT) will have an adverse effect on Indian exports to these
countries in two ways. Greece, Turkey and Italy and others, which earlier did not enjoy
Commonwealth preference of 1 Sh. 6½ P., would have duty entry. But now they can
have to pay CCT begging from 1975. The quality requirements of some of the EEC
countries such as West Germany are rather exacting and acting as some trade barrier.
These countries have also stringent pesticide reside laws with respect to tobacco.

The trend in the world tobacco exports is on the increase. It is estimated as 8.8
per cent during 1970s. But Indian exports declining to the tune of 6.7 per cent during the
same period. So India is not able to take advantage of the growing world exports. For
example, Indian efforts to penetrate the West German markets have so far not achieved

\textsuperscript{13} Narayana Rao, G.V. “Problems in marketing of FCV tobacco”, \textit{Eastern Economist}, Vol. 61, 1973,
p.314.
any tangible results in spite of the fact that West Germany is the biggest consumer of tobacco in the enlarged EEC. A close look in its market operations reveals that the cost factor is influencing its purchases. Even though West Germany has German origin tobacco cultivators in Brazil to be patronised, but mostly the low prices of Brazilian tobacco was attracting the German market.

Moreover, an export of Brazilian tobacco has been rising rapidly in all directions. The Brazilian tobacco is not only considered cheaper, but its leaf processing, handling and packing standards are known to be of extremely high order which is an additional factor in favour of that country. Further incidence of freight of Brazilian leaf for destinations in Europe is comparatively less vis-à-vis exports from India. The unit has been rising. Still it is far less than the prices of Canada and USA. But there is a considerable decline in the prices Canadian and US leaf attracted increased international demand for their tobacco, since they are considered to be of the highest quality.

Among the tobacco exporting developing countries, India has a special advantage like large domestic market for its tobacco accounting for more than 60 million kgs. which may smoothen the export price fluctuations. To make Indian tobacco more competitive, its cost of production should be reduced, partly through supply of inputs like fertilisers and coal at reasonable prices apart from raising yield levels through research and improved cultural practices.

Narayana Rao further observes\textsuperscript{14} that there is a subdued demand for top-grades vis-à-vis the increasing preference for medium and low grade leaf. This has resulted in

\textsuperscript{14} Ibid.
certain imbalances in the domestic market of FCV leaf. On the one hand, there is a continuous emphasis on improving leaf quality at the producer's level through adoption of new technology. On the other, the farmers find it difficult to dispose off their best quality leaf at reasonable prices. This acts as a disincentive for effecting improvement in leaf quality. The trend towards buying increased quantities of medium and low grades in place of high grades is possibly due to the manufacturer's anxiety to keep down the leaf costs in the wake of growing incidence of tax on cigarettes in major consuming countries. So the buyers are becoming increasingly price conscious in their anxiety to bring down the cigarette manufacturing costs.

2.4 HISTORICAL PERSPECTIVES AND MILESTONES OF INDIA'S FOREIGN TRADE

India enjoyed a privileged status with respect to both absolute advantages as well as comparative cost advantage. It has a long history in foreign trade activities before the British entered India, during the days India was under British rule, patterns and direction, of foreign trade was determined more by political consideration than by principles of international trade. In pre-independence days, India's foreign trade served three major purposes. Firstly it served as a channel for siphoning off a surplus of the Indian economy to Britain. Secondly, it ensured cheap and steady supply of agriculture products and raw materials for the British industry. Thirdly, it provided an exclusive and protected market in India for the manufacturers from Britain. After the independence the Indian Government brought in significant changes in foreign trade policy. The policy aimed at rapid industrialisation in particular and economic development in general. In place of free trade prescription, protection of indigenous industry through variety of controls like
import duties and preference for indigenous goods in respect of government purchases were accepted as main trade policy of the country.

2.5 STRUCTURAL CHANGES IN INDIA'S FOREIGN TRADE AFTER INDEPENDENCE

The first phase is known as the age of structuralism covering the first decade of planning—1950 to 1960. The stress was on the development of basic and heavy industries. This was the period when export fatalism was prevalent among the development economists. Therefore import substitution was essential for the economy to become self-reliant. The first priority should be given to industrialisation and export earnings will occur as a consequence of industrial growth. Due to the potential of a huge domestic market, exports need not be the ‘engine of growth’ for the economy, which may be relevant in the case of economies with limited domestic market. The export composition has its own limitations – traditional commodities have low-income elasticities and are susceptible to ongoing substitution towards alternative materials. The primary commodities, which constitute the bulk of export items of the developing countries like India, are subjected to secular deterioration in terms of trade. Import competition was restricted to protect domestic import-competing industries. This was required to manage balance of payments position, which requires control of imports. This was implemented by way of exchange and tariff policies and also by elaborate administrative mechanism – exchange control with quantitative trade restrictions. Imports were regulated by a rigid licensing system and were allowed on the principles of essentiality and indigenous non-availability.
2.5.1 Transition

The period covering early 1960's to 1990 witnessed export promotion and import liberalisation for export. In the earlier phase, there was import restriction and adoption of a number of measures for export promotion. The imports were, in general, highly restricted, though there was some liberalisation since the mid-1980s. Further, many of the import liberalisation measures were for export promotion. Export promotion efforts were officially granted equivalent status with import substitution. During the Third Plan, the institutional framework for promoting exports was broadened and certain fiscal incentives like drawback of import duty and refund of excise duty and income tax concession were introduced. There was export promotion scheme providing import entitlement against exports in respect of a number of manufactured and processed products. A limited scheme of direct subsidies for certain products was also operated to promote exports of non-traditional products. A major development soon after the Third Plan was the devaluation of the Indian rupee on June 6, 1966. The rupee was devalued by 36.5 per cent, and export promotion schemes like import entitlement and cash subsidy were withdrawn and the import and industrial policies were liberalised with a view to removing bottlenecks in production.

The Government in 1970 announced an Export Policy Resolution. The important policy instruments followed by the government were: (i) import replenishment licenses (REP), (ii) cash assistance scheme, (iii) duty drawback, (iv) supply of inputs at international prices, (v) concessional export credit and insurance, and (vi) facilities for export marketing and publicity. This reflected a reversal of earlier policy of withdrawing incentives. Since 1975-76, the Government followed the policy of import liberalisation,
with a view to encourage export goods. There has been an increased emphasis on enhancing maintenance imports in order to promote capacity utilisation of export-oriented industries. The important components of the liberalised import regime are Open General License (OGL), Import Replenishment (REP), Simplified Procedures, Export Oriented Units (EOU), Free trade zones, canalisation, direct foreign investment, joint ventures and foreign collaboration.

The EXIM policy of 1983-84 provided further impetus for exports by a number of incentives. The new regulations and tariff rates in the subsequent EXIM policies indicate a move towards removing obstacles to efficiency and modernisation.

2.5.2 Trade Policy Reforms

The Trade Policy Reforms were made an integral part of the economic policy reforms, which were initiated since July 1991. This was actually motivated by the balance of payments crisis of the period, which necessitated liberalisation of trade regime. The salient features of the trade policy reforms have been the following:

2.5.3 Exchange rate adjustment

The rupee was devalued, to make the exchange rate more realistic and to encourage exports and discourage imports.

The role of subsidies in export promotion was substantially reduced by abolishing the Cash Compensatory Support (CCS). The import entitlement scheme for exporters known as replenishment license (REP) was modified as EXIM scrip, which was also later withdrawn. Import liberalisation was promoted by substantially eliminating licensing,
quantitative restrictions and other regulatory controls. There has been a considerable reduction in the import duties. As tariffs have been cut across the board, the average tariff rate came down from 127 per cent in 1990-91 to less than 50 per cent in 1995-96. There has been further reduction in subsequent years. Convertibility of the rupee – A scheme of partial convertibility of the rupee was introduced in March 1992, known as LERMS (Liberalised Exchange Rate Management System). Full convertibility on the current account was introduced in 1994 and steps for capital account convertibility were initiated. A new law was enacted for import export activities known as Foreign Trade (Development and Regulation) Act, 1992.

2.5.4 The changing face of the Economy

In the Indian Economic History, the year 1991 is considered to be an important milestone since that year the country saw radical changes in its approach to economic development. The radical changes brought through the New Economic Policy 1991 was due to many factors. Importing among them was the crisis in Balance of payment. The country had $ 1 billion in the form of Forex reserve which was just sufficient for meeting two weeks of imports. The country faced risk of defaulting on debt servicing. The fiscal deficits were mounting. The financial support from international bodies started declining. The growth of economy did not indicate any signs of improvement. To avoid Forex crisis and default in debt servicing and improving rapidly the growth of economy and sustaining it required a bold departure from the economic policies followed earlier. The government felt unless it changes the economic policy radically, it may not be possible to bring the economy on the right track.
The new Economic policy introduced in 1991 with the policy of liberalisation, liberated the industrialists from the bureaucratic clutches, represented by a system of licensing, which came in the way of faster development of economy. Freedom was given to the industrialists to proceed with industrial activity without any interference or control by Government. Through the process of globalisation, the open market economy was ushered in. The market became global. MNCs entered the country. Indian companies went overseas. Through the process of privatisation, some of the public sector undertakings were made to becomes private through the sale of shares so that competitive spirit was inculcated in the public sector industries. Along with these, the government brought in a number of reforms in order to hasten-up growth of economy, reduction of inflationary rate and fiscal deficit, improving debt servicing and making Indians compete with world market. After one decade there is a need to pause and reflect on the country’s performance in general and particularly in the foreign trade sector since all the economic ills witnessed in 1991 centred on balance of payment crisis.

2.6 EXIM Policy (1997-2002)

Coincided with the Ninth Plan and it sought to consolidate the gains of the previous policy and to further carry forward the process of liberalisation. The principal objectives of the EXIM policy were stated as following:

1. To accelerate the country’s transition to an internationally oriented vibrant economy with a view to derive maximum benefit from the expanding global market opportunities.
2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.

3. To enhance the technological strength and efficiency of agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and encourage the attainment of internationally accepted standards of quality.

4. To provide consumers with good quality products at reasonable prices.

2.6.1 EXIM Policy for the period 2002-07

Contains a comprehensive package to give a massive thrust to exports. The new policy removed all quantitative restrictions on exports. The policy was geared towards doubling India's present exports of USD 46 billion to more than USD 80 billion over the Tenth Five Year Plan by 2007. This envisaged a compound annual growth rate of 11.90 per cent.

2.6.2 India Foreign Trade Policy 2004-09

A comprehensive Foreign Trade Policy (FTP) for 2004-09 as announced on 31st August 2004 and its Annual Supplement was released for the year 2007-08 on 19th April 2007. Stability of policy regime (2004-09) has yielded very positive results and in the last 3 years, India’s merchandise exports have almost doubled, and are expected to surpass the objective of FTP of doubling India’s Merchandise Exports by 2009. The Government adopted a policy aimed at attaining as rapidly as possible self-sufficiency
with regard to capital equipment and important raw materials. This line of thinking resulted in foreign exchange constraints since India did depend upon other countries for certain goods and services. This necessitated that right blend of give and take policy to be adopted in foreign trade, which aimed at helping the country in rapid economic development. Trade is not an end in itself, but a means to economic growth and national Development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity. The Foreign Trade Policy is rooted in this belief and built around two:

2.7 MAIN OBJECTIVES OF THE FOREIGN TRADE

(i) To double our percentage share of global merchandise trade within the next five years;
(ii) To act as an effective instrument of economic growth by giving a thrust to employment generation.

2.7.1 Export Objectives

India has set a target of achieving one per cent of world trade by 2009. Thus world exports are assumed to grow at the historic level of around 4.6 per cent till 2006-08. CAGR (Compound Annual Growth Rate) calculations are dome to reach one per cent of world trade by the terminal year of the medium-term, which is assumed to be $80.48 billion. India will have to increase exports at a CAGR of 11.9 per cent in order to reach one per cent of world trade.

2.7.2 Price competitiveness

Price competitiveness is examined by comparing the unit value realisation of the commodities across the competing countries. In diamonds and jewellery items, though
India is among the top exporters to US, its unit values are the lowest among top 10 exporters to US. This clearly shows that India is catering to the lower end of the market of these items and not the high value items. There should be strategy to move towards high value items in this sector. In cashew nuts, India’s unit values are relatively higher. Only UK and Venezuela have higher unit values. In many items in the marine sector, agricultural sector, pharmaceuticals, textiles, leather, engineering and some electronic items. India is competitive, though in items like footwear and engineering goods, China and some Asian countries are more competitive.

2.7.3 Product-group identification

After the analysis of the three markets, other dominant markets were also examined, and the following products were identified.

(a) Engineering goods.
(b) Chemicals and allied products.
(c) Agriculture and allied (including plantations and marine sector).
(d) Gems and jewellery.
(e) Leather and footwear items.
(f) Textiles.
(g) Other items (all other items besides the main categories named above).

The strategy combines an analysis of both demand and supply sides to help evolve a comprehensive approach. It examines both the imports baskets of our major trading partners (USA, Japan and EU) and India’s export basket and arrives at focus
products and focus markets for India. Identification of focus items is based on promoting items with high potential in world demand besides existing high export items.

2.8 Export Promotional Measures by the Government of India for the period from 2009 to 2014

Foreign Trade Policy (FTP) from 2009 to 2014 has been announced for the next five years with the immediate objective to reverse the decline in exports and provide succour to exporters. The FTP’s objective is to achieve an annual export growth of 15 per cent with an annual export target of US$ 200 billion by March 2011. For the rest of the three years of the FTP, India should be able to come back on the high export growth path of around 25 per cent per annum. It is expected that India’s export of goods and services would be doubled by 2014. The long term policy objective for the government is to double India’s share in world trade by 2020. In order to meet the these objectives, the government would follow a mix of policy measures including fiscal incentives, institutional changes, procedural rationalisation, enhanced market access across the world and diversification of world markets. Improvement of infrastructure related to exports, bringing down transaction costs and providing full refund of all indirect taxes and levies, would be the three pillars, which will be to support the country to achieve this target.

The FTP would provide adequate confidence to exporter’s to maintain their market presence even in a period of stress. A special thrust needs to be provided to employment intensive sectors which have witnessed job losses in the wake of recession.

2.8.1 Schemes for encouraging Exports

Both Customs and Excise are closely related to the export benefits. Exports are
given top priority in India. In fact, practice of giving encouragement to exports is followed by almost all nations.

2.8.2 Basic concept is that goods and services are to be exported; taxes are not to be exported

Broadly, the export incentives for manufactures are:

1. Indigenous inputs without payment of excise duty or rebate if duty paid.
2. No excise charged on final product or rebate if duty paid.
3. Imported inputs without payment of customs duty, or rebate if duty paid.
4. No export duty on export of final product.
5. Bank finance on priority basis and concessional rate of interest.
6. Import of capital goods at concessional rate (under Export Promotion Capital Goods Scheme).
7. Exemptions/relaxations from income-tax.
8. Exemption from sales tax on final product (refund of Central Sales Tax paid on input in case of Export Oriented units. No Central Sales Tax for supply to Special Economic Zones).
9. Using bills of exchange executed by an exporter in relation to export transaction are fully exempt form stamp duty

2.8.3 World Trade Organisation (WTO) stipulation

As per stipulation of World Trade Organisation (WTO), no country can give 'export incentives' as such. The reason is that WTO intends to encourage free competition among nations. If incentives are given for exports, there will not be free competition. That is the reason why income-tax incentives on export income are being phased out. However, goods can be made tax-free export purposes, which is permissible
under WTO stipulations. Hence, all our export promotion schemes are directed towards ensuring that input as well as final products are made ‘tax-free’.

2.8.4 Input duty relief schemes

Various schemes have been devised to obtain inputs free from duty or to grant refund of the same. In some schemes, the unit has to be isolated from domestic production units, while in some schemes; the units producing goods for domestic production are also entitled to get of its free of cost.

2.8.5 Schemes where export production unit has to be isolated from domestic Production unit

There are schemes where units producing goods for export purposes have to be isolated from domestic units. The schemes are: Export Oriented Units (EOU), Software Technology Park (STP), Electronic Hardware Technology Park (EHTP), Bio-Technology Park (BTP) and Special Economic Zones (SEZ).

2.8.6 Schemes where domestic production unit can get inputs free from taxes

The schemes of EOU, SEZ, STP, BTP and EHTP are suitable where the unit is exclusively or at least predominantly for export purposes. There are other schemes where a unit producing goods for domestic purposes is also entitled to get inputs/capital goods without payment of customs duty/excise duty. These can be broadly classified as follows.
2.8.7 Relief of Excise Duty on Inputs

1. Cenvat credit of duty paid on inputs can be utilised for payment of excise duty on other final products. Alternatively, refund of duty paid on inputs can obtained.

2. Same result can be achieved by paying duty on final product and claiming rebate. In this case, additional benefit is that duty paid on capital goods will also get refunded indirectly. In first case, only duty paid on input is refundable.

3. Obtaining inputs without payment of excise duty under notification No.43/2001-CE (NT). This is advisable when there are one or two major identifiable input.

4. Rebate of duty paid on input under notification No.41/2001-CE(NT)

5. Excise portion of duty drawback.

2.8.8 Relief of Customs Duty on Inputs

(a) Advance Authorisation Scheme
(b) Duty Entitlement Pass Book scheme (DEPB)
(c) Duty Free Import Authorisation scheme (DFIA)
(d) Customs portion of duty draw back

2.8.9 Capital goods at concessional rate

Capital goods can also be obtained at concessional rate of customs duty under EPCG scheme.

2.8.10 Customs Duty Exemption and Remission Schemes

Under duty exemption schemes, inputs can be imported duty free export production. The schemes are: (a) Advance authorisation, (b) Duty Free Import Authorisation (DFIA).
2.8.11 Customs Duty Remission scheme

Under Customs Duty Remission scheme, duty on inputs used in export product is either replenished or remitted. There schemes are: (a) Duty Entitlement Passbook Scheme (DEPB), (b) Duty Drawback Scheme (under duty drawback scheme, replenishment is of excise duty, service tax and customs duty on inputs / input services.

2.8.12 Re-import of goods exported under duty exemption/remission scheme

Goods exported under Advance Authorisation/DFIA/DEPB can be re-imported in same or substantially same form, subject to conditions as may be specified by department of Revenue i.e., customs.

2.8.13 Value Addition (VA)

For purpose of duty exemption and remission schemes, Value Addition (VA) will be calculated as follows, when payment is received in free foreign exchange (except in gem and jewellery sector).

VA = \[\frac{(A-B) \times 100}{B}\]

A = Free On Board (FOB) value of export realised/ Free on Rail (FOR) value of supply received.

B = Cost, Insurance & Freight (CIF) value of inputs covered by authorisation plus any other imported materials used on which benefit of Duty Supplies to SEZ unit and developer/co-developer of SEZ will be eligible even if payment is in Indian rupees, in case of advance authorisation.

In case of exports to Rupee Payment Area (RPA) countries for which payment is not received in freely convertible countries.
2.9 Promotional measures through Duty credit schemes

Various exports promotional measures have been specified in Foreign Trade Policy. Exporter gets Duty Free Credit Entitlement Certificate under the schemes.

1. Payment of Customs Duty in case of Export Obligation (EO) default
2. Exports which are not entitled to Duty Credit Scrips
3. Duty Credit Scrips and Goods Imported are Transferable
4. Duty Credit scrip to be debited with duty at effective rate
5. Export FOB value to include commission for calculations under promotional scheme

The Duty Credit Scrip can be used for importing inputs and capital goods which are freely importable.

2.9.1 Payment of Customs Duty in case of Export Obligation (EO) default

Duty credit scheme can be used for payment of customs duty in case of Export Obligation (EO) defaults but not for payment of penalty. Exporter can choose any one of the schemes i.e., Focus Market Scheme, Focus Product Scheme or Vishesh Krishi and Gram Udyog Yojana or but benefit of only one scheme can be availed (except the Status Holder Incentive Scrip), Duty credit scrip is valid for 24 months. These are termed as 'duty credit schemes'.

Following are common provisions applicable to all Duty credit Scrips.

2.9.2 Exports which are not entitled to Duty Credit Scrips

Following are not considered for purpose of Duty Credit Scrip entitlement of
Vishesh Krishi and Gram Udyog Yojana (VKGUY), Focus Market Scheme (FMS), Focus Product Scheme (FPS) (including MLFPS) and Status Holder Incentive Scrip.

1. Deemed exports

2. Export of imported goods covered under the export policy.

3. Export through transhipment.

4. Items which are restricted or prohibited for export.

5. Exports by SEZ units or SEZ products exported through Domestic Tariff Area (DTA) units.

6. Exports by EOU/EHTP/ BTP who are availing direct tax benefit/exemption.

2.9.3 Duty Credit Scrips and Goods Imported are Transferable

Duty credit scrip and items imported under the duty credit scrip are freely transferable. However, duty credit scrip under SFIS and Status Holders Incentive Scrip are not freely transferable.

2.9.4 Duty Credit scrip to be debited with duty at effective rate

In CC v. Meridian Apparels (2007) 212 ELP 228, importer cleared goods under EPCG scheme by utilising the duty credit certificate. Department contended that full duty will be payable and not concessional rate as applicable under EPCG scheme. Tribunal held that the scrip is required to be debited at effective rate only.

2.9.5 Export FOB value to include commission for calculations under promotional scheme

While calculating entitlement under various incentive scheme under Chapter 3 of Foreign Trade Policy, Export Free on Board (FOB) value will include foreign agency commission (but not discounts which are given directly to the foreign buyer) – DGFT

2.9.6 Freely importable as well as restricted item can be imported but not items in Appendix 37B

MF (DR) circular No.3/208-Cuss, dated 24-1-2008 had stated that only freely importable items can be cleared under export promotion schemes like served from India, VKGUY, Focus Market and Focus Product schemes, except a few items specified in Appendix 37B – same view in DGFT Policy Circular No. 5(RE-2008) / 2004-09, dated 28-4.2008. Now, restricted items can also be imported under these schemes w.e.f. 26-2-2009. However, items given in Appendix 37B of HBP Vol.1 are not allowed for import under promotional schemes are. These cover garlic, peas and other vegetables, coconuts, fruits, spices, tea, coffee, oil seeds, natural rubber and some capital goods like tractors, pumps etc.

2.10 Duty credit scrip before realisation of payment

So far, the duty credit scrip (and also Duty Entitlement Passbook) was being issued only after realisation of payment in free foreign exchange. Now, w.e.f. 1-4-2009, the duty credit scrips will be issued without waiting for realisation of foreign exchange. Procedure for issue of scrips before realisation and control over realisation has been specified in paras 3.11.11 to 3.11.12 of HBP Vol.1, 2009-2014. If foreign exchange is not realised, the excess credit allowed will be adjusted against future scrips. If there is no pending claim or cash deposit after expiry of 12 months, Regional Authority (RA) shall initiate necessary action. If status holder does not pay amount within 60 days, interest @
15% is payable. If exporter does not pay within 18 months of issuance of duty credit scrip, the exporter will be declared as defaulter and recovery will be made under Foreign Trade Development & Regulation (FTDR) act.

2.11 Bank guarantee / LUT for DEPB and other freely transferable incentive schemes

If application for DEPB or freely transferable incentive schemes under Chapter 3 of FTP is filed without BRC (Ban Realisation Certificate), applicant shall execute Band Guarantee in form Appendix 25C of Legal Undertaking (LUT) in form as per Appendix 25D of HBP, as per customs notification No.58/2004. This facility is available for applications w.e.f. 1-4-2009. BRC should be submitted within 12 months from date of issue of the scrip. Statement of Export Proceeds Realisation should be submitted. Validity of Bank Guarantee (BG)/ Legal undertaking (LUT) should be at least 24 months. Separate BG/LUT is required to be filed for different schemes. Records shall be maintained by RA and proper endorsement shall be made on scrips issued without Bank Realisation Certificate (BRC) – Director General of Foreign Trade (DGFT) Policy.

2.12 Credit can be utilised for payment of EPCG w.e.f. 1-1-2009

Credit obtained under duty credit scrips under chapter 3 of FTP can be used for payment of duty against imports under EPCG scheme w.e.f. 1-1-2009. Incentive/ rewards in case of exchange earned towards export obligation under EPCG.

Foreign exchange earned towards fulfilment of export obligation (over and above the average) will be eligible for incentives/rewards under promotional measures/schemes.
2.12.1 Declaration on Free Shipping Bills

For exports under Free Shipping Bill category, exporter shall state intention to claim benefit under Chapter 3 of FTP, w.e.f. 1-6-2008. The declaration should be in prescribed form such declaration is not required for export shipments under schemes of Advance Authorisation, DFIA, DEPB, duty drawback or EPCG.

2.12.2 Time limit for application of duty credit scrip

Application for duty credit scrip shall be made within 12 months from date of export or 6 months from date of realisation or three months from printing/release of shipping bill, whichever is later.

2.12.3 Cenvat Credit of CVD/Excise paid in cash or through debit is allowable

Cenvat Credit of CVD/Excise paid in cash or through debit under Duty Credit scrip shall be adjusted as Cenvat credit or duty drawback. Export performance cannot be transferred from one exporter to other. However, benefit under VKGUY, FMS, FPS can be claimed by supporting manufacturer on obtaining disclaimer Form Company/firm who has realised foreign exchange.

2.12.4 Procedural aspects of duty credit scrips

Procedural aspects of duty credit scrip have been given in Para 3.11 of HBP Vol. 1, 2009-14. Applicant can choose RA suitable to him. There will be single port of registration for export. This can be transferred. Split scrips can be issued. Import from warehouse is permitted. The scrip is valid for 24 months.
2.13 PACKAGE FOR TOBACCO SECTOR IN FOREIGN TRADE POLICY
2009-2014

2.13.1 Registration-Cum-Membership Certificate (RCMC)

Under EXIM policy, Exporters are entitled for certain benefits and concessions. For claiming these benefits the exporters have to obtain the RCMC from the concerned EPC or commodity Board. For Exporters of tobacco, Tobacco Board issues RCMC. Registration is granted for a period of 5 years which is valid from 1st April of the Licensing year.

2.13.2 Generalised System of Preferences (GSP)

Some of the importing countries like viz., European Union, Canada, U.S.A. Japan, Russian federation, Bulgaria, Poland, Australia, New Zealand, Norway, Switzerland, Belarus, Czech Republic, Hungary etc., give tariff concessions on imports of tobacco from India and some other countries. For claiming the tariff concession importer has to submit certificate of origin and authenticity to the concerned authority in his country.

Tobacco Board issues the GSP certificate to the Indian Exporter who will send the same to the importer. In this certificate, origin, type of tobacco exported is certified by the board based on the self declaration by the exporter.

2.13.3 Global System of Trade Preference (GSTP)

Tobacco board issues the origin certificate under GSTP for availing import tariff concessions by the importers from India. Countries adopting GSTP agreement: DPR Korea, Sri Lanka, Bangladesh, Pakistan, Chile, Egypt, Indonesia, Iraq, Malaysia, Mexico, Morocco, South Korea, Singapore, Tunisia, Vietnam, Yugoslavia (Serbia) and Romania.
2.13.4 Export of tobacco and Tobacco products—Provisions of Foreign Trade Policy

General export and import of unmanufactured tobacco and all tobacco products are under open license and hence can be imported or exported without any restriction. Export of unmanufactured tobacco is exempted from compulsory pre-shipment inspection Agmark certification by any Government. Agency subject to the condition that the exporter has a firm letter for the overseas buyer stating that the overseas buyer does not want pre-shipment inspection by any official Indian inspection agency and the said letter is filed by the exporter before the customer's authorities. Export of unmanufactured tobacco and tobacco products are not subject to any price controls like Minimum export prices restriction, and quota controls. There is no duties/cesses payable on exports of tobacco. Government of India had Tobacco Board Cess and A.P. Cess levied on export of tobacco.

This chapter mainly focuses an over view of trade theory, the complexities in commodity exports from developing countries and trade barriers and export of tobacco from developing countries. The historical perspectives and also mile stones of Indian Foreign Trade, structural changes in India's foreign trade particularly after independence, trade policy reforms, EXIM policy of the GOVT of India in various periods were discussed in detail. Finally, the researcher presented the main objectives of the foreign trade policy export promotional measures by the Govt of India for the period from 2009 to 2014 and export of tobacco and tobacco products provisions under foreign trade policy.