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Export Promotion Incentives

Instrument of Economic Growth

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ABSTRACT

Export promotion was recognized as one of the important objectives of the Five Year plans. Various supporting measures like the export entitlement scheme, the duty drawback scheme, export promotion capital goods Scheme etc. were introduced. Exports are the result of a series of steps which include improved technology of production, financial arrangement, export marking, packing, consumer preferences in the buyer countries, disadvantage in pricing due to domestic factors such as internal taxation, import restrictions, high prices of indigenous raw material or poor quality of locally available material. Most developing countries have resorted to a number of export promotion measures. With a view to make exports an effective instrument for promoting greater economic activity and employment a number of schemes which have been in existence for some time now are strengthened and improved. our export promotion measures should be directed towards the realisation of the end of creating right commerical image. Exprots are vital for self-sustined growth, and therefore export promotion incentives should be considered as a base of international trade of the country. for which the need of the hour is a long term export strategy.

1. INTRODUCTION

Export policy as a conscious effort in influencing the volume and composition of export trade was clearly recognized from 1962. Export promotion was recognized as one of the important objectives of the Five Year plans. Various supporting measures like the export entitlement scheme, the duty drawback scheme, export promotion capital goods Scheme etc. were introduced.

Exports are the result of a series of steps which include improved technology of production, financial arrangement, export marking, packing, consumer preferences in the buyer countries, disadvantage in pricing due to domestic factors such as internal taxation, import restrictions, high prices of indigenous raw material or poor quality of locally available material. These have to be evaluated along with international factors such as tariff barriers in importing countries, trade group and common markets and their restrictions international monetary policies etc.

2. NEED FOR EXPORT INCENTIVES

Most developing countries have resorted to a number of export promotion measures. India, too, has been providing export incentives to Indian exporters because of the following reasons:

a) The manufacturing units in developing countries, being small and new, have considerably less expertise in the field of international marketing.
b) The scale of production is very low, and consequently the production cost of our items is high, apart from the cost-push and demand-pull inflation in the country.
c) Manufacturers in India have a lucrative domestic market with a good profit margin and less competition, and therefore, concentrate more on local sales.
d) Various tariff and non-tariff barriers, certain difficulties and deficiencies regarding export production and export marketing, and the hazards involved in foreign trade transactions provide little commercial inducement to Indian manufacturers and merchant to strive for export expansion and diversification.

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e) Lastly, some advanced countries, including Japan have offered incentives and attractive terms to buyers to boost their exports. There fore in this highly competitive world Indian exporters are handicapped and can't win their share of international market with-out the support of the government through the provision of export incentives.

The Uruguay Round of Negotiations concluded during 1994 earmarked the end of Multi-Fiber Agreement (MFA) in Textile trade by the end of 2004 and the Globalisation and phasing out of quotas in 3 stages has enforced all the signatory countries to employ the free market principles from January 2005 onwards. In this scenario, the basic principle in international trade is that it is only the products that are traded and not duties. Therefore, every government is subject to provide either duty exemption schemes or duty remission schemes which re commonly known as "Export promotion schemes". To promote exports from India, Government has framed many special schemes as:

1. Export promotion Capital Goods Scheme.
2. Duty Exemption and Remission schemes
   Duty Exemption Schemes include-
   (i) Advance Authorisation
   (ii) Duty free Import authorisation
   Duty Remission Schemes include:-
   (i) Duty Entitlement pass book scheme
   (ii) Duty Drawback Scheme.
3. Gem & Jewellery Export Promotion Schemes
4. Diamond Imprest Authorisation.
5. 100% Export Oriented Units and Units in STPs/EHTPs/BTPs
6. Special Econimic Zones.
7. Free Trade & Warehousing Zone
8. Export and Trading Houses
9. Served from India Scheme (SFIS)
10. Vishesh Krishi and Gram Udyog Yojna (VKGUY)
11. Focus Market Schem (FMS)
12. Focus Product Scheme (FPS)
13. High-Tech Products Export Promotion Scheme.
14. Marketing Development Assistance
15. Market Access Initiative (MAI)
16. Assistance to States for Infrastructure Development of Exports.
17. Spices Export Promotion Scheme.
18. Financial Assistance for Agriculture.
19. Financial Assistance Schemes for Marine Products Exports.
20. Transport Assistance Scheme.
21. Duty Draw Back.
22. Income Tax Exemptions & Deductions.
23. Central Jales Tax Exemption/ Reimbursment for Exproters.
24. Foreign Direct Investment.

3. IMPORTANT EXPORT INCENTIVES

With a view to make exports an effective instrument for promoting greater economic activity and employment a number of schemes which have been in existence for some time now are strengthened and improved. A brief description of some of these schemes given below:-

a) Assistance to States for Infrastruture Development of Exports (ASIDE)

The ASIDE scheme aims at encouraging the active participation of state government for development of export infrastructure. The scheme provides an outlay for development of export infrastructure which is distributed among the states on the basis of export performance in the previous year. Objectives of the scheme are- a) opening of inland container depots(ICD) and container freight stations b) development of infrastructure c) creation of new state level export promotion industrial parks, d) participation of equity in infrastructure projects and e) Stabilizing power supply etc.

Total outlay released under ASIDE scheme to state to state and central sector are given below:

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Table 1
Total Outlay through ASIDE (Rs. Crore)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08*
Total Outlay	325.46	350.00	424.86	500.99	450.00	569.00
Releases to State	241.00	252.00	313.84	383.00	358.92	260.21
Releseas to Central Sector	84.46	98.00	111.04	117.99	90.28	110.16
Total Releases	325.46	350.00	424.88	500.99	449.17	371.37

* Releases an on 10th Dec. 2007. Source:- Annual Report, Ministry of commerce & Industry 2008-09.

b) Marketing Development Assitance (MDA) Scheme

In view of the prevailing macro economic situation with emphasis on exports and to facilitate various reassures being undertaken to stimulate and diversify the country" export trade, Government of India is implementing a scheme called "Marketing Development Assistance (MDA) scheme" through department of commerce, ministry of commerce & industry to provide support to the exporters as well as eligible organizations for their export promotion activities.

MDA is intended to provide financial assistance for a range of export promotion activities implemented by EPEs, ITAs on a regular basis every year; this scheme is administered by DOC. Assistance is given to the deserving exporters on the recommendation of export promotion councils and other export organization for development of exports and for meeting the expenditure on export promotion schemes and projects for development of foreign markets for Indian products and commodities.

Assistance given to exporters included participation in trade fair, export promotion seminars meeting of buyer & seller abroad or in India. Exporting companies with an FOB value of Exports of Value upto Rs. 15 crore in the preceding year will be eligible for MDA assistance for participation in trade delegation/BSMs/Fairs /Exhibitions abroad to explore new markets for export of their specific product (s) and commodities from India in the initial phase. This will be subject to the condition that the exporter is having complete 12 months membership with concerned EPC etc. and filling of returns with concerned EPC/Organisation regularly. However, this condition would not apply in case of EPC for period of 5 years from the date of its creation.

"While the Ministry of Commerce & Industry is implementing "Marketing Development Assistance" Scheme, the ministry of Textiles, through the office of the Development commissioner for Handlooms, is implementing "Handloom Export Scheme" to stimulate and diversify the export trade of handloom products. The guidelines of this scheme have also been same as MDA guidelines except in few categories.

Unlike MDA Scheme, the eligibility of Annual Export Turnover of member exporters has been restricted to Rs. 5 Crores instead of Rs. 15 crores (as prescribed in MDA Scheme), in order to cater to the exporters, considering the decentralized nature of the handloom industry". If exporters travel to focus area as Latin America, Africa, CIS region, ASEAN countries, Australia and New Zealand then they are provided assistance for participation in trade fairs abroad and travel grant. In other areas, financial assistance without travel grant is available. MDA assistance is available for exporters with annual export turnover upto Rs. 10 crores.

c) Market Access Initiative (MAI) Scheme

The market access initiative scheme is a plan to promote India's exports on a sustained basis. The scheme intended to provide financial assistance for medium term export promotion efforts with sharp focus on country or product. Under the scheme financial assistance is available to export promotion councils, industry and trade associations, agencies of state govt. Indian commercial missions (ICMs) abroad and other eligible entities as may be notified. Assistance is given for the following components-

i. Market studies
ii. Opening or setting up of showrooms
iii. Warehousing facility
iv. Display in international departmental stores
v. Publicity campaigns
vi. Participation in international trade fairs, BSMs etc.
vii. Research and product development
viii. Reverse visits of the prominent foreign buyers etc. from project focus counties
ix. Sales promotion campaigns
x. Brand promotion

During the year 2007-08 (up to December-2007), a total of 109 projects/ export promotion events and 15 market studies/export promotion surveys were undertaken with the assistance of grant-inaid, sanctioned under the MAI scheme, by different export promotion organizations/trade promotion organizations/national level institutions etc.

Each of these export promotion activities can receive financial assistance from government ranging from 25% to 100% of total cost depending upon activity and implementing agency. Details about outlays during 2002-2007 and actual expenditure are given below:

Table 2
Assistance under MAI Schemev(Rs. Lakh)

YEAR	BUDGET	ACTUAL
2002-03	4200	1086
2003-04	4400	900
2004-05	10244	484
2005-06	4000	1991
2006-07	4000	3999
2007-08	4500	2733 (up to Dec. 2007)

Source:- Annual Report, Ministry of commerce & Industry 2008-09

d) Special Economic Zones

Special Economic Zones are a specially designed duty free enclave to be deemed foreign territory only for trade operations and duties and tariffs. Supply of goods to units in the SEZ is treated as exports and goods sold from the SEZ area into DTA shall be treated as if goods are being imported. In other words, inputs into the SEZ are duty free and supplies from SEZ to DTA will be subject to all duties of customs. In an SEZ, goods may be imported or procured from DTA without payment of duty required by it for its activities. To achieve rapid growth in exports and to provide an internationally competitive environment for boosting exports, Special Economic Zone Policy was announced in the EXIM Policy, 2000. To give transparency and stability to the policy, SEZ act was passed by the parliament in May 2005. This act came into force *w.e.f.* February, 10, 2006.

Table 3
SEZs Performance

SEZs	No	2005-06	2006-07
Government SEZs	7	1 965 6.70	25 550.00
SEZs (prior to SEZ act)	12	31 82.86	201 17.68
SEZs (after to SEZ act)	63	-	21 631.94

e) Foreings Direct Investment.

Generally speaking, FDI refers to capital inflow from abroad that invests in the production capacity of the economy.[1] And, it is usually preferred over other forms of eternal financing. This is so because it is non-debt creating, non-volatile and its returns depend upon the performance of projects financed by it. FDI also facilitates international trade and transfer of technical know-how, skills and knowledge.[2] The foreign direct investment is must for the accelerated economic growth of the country. The FDI encompasses:

i) Reinvested profits of foreign companies in India;

ii) External commercial borrowings; and
iii) Inter-company debt transfers among others.

Prior to July, 1991, FDI was allowed only on a case to case basis, with a normal ceiling of 40 per cent of total equity capital, although a higher percentage was permitted in certain industries if the technology was sophisticated and was not available in the country or if venture capital was mainly export oriented. After the liberalization, Indian Government has recognized the significance of FDI and formulated selective approach to attract the FDI. FDI not only facilitated the inflow of funds but also transferring the technology, innovative management and marketing expertise. Besides, helps expand host country market and foreign trade.

India has among the most liberal and transparent policies on FDI among the emerging economies. FDI up to 100 per cent is allowed under the automatic route in all activities/sectors except the following, which require prior approval of the Government:

i) Sectors prohibited for FDI;
ii) Activities/items that require an industrial license;
iii) Proposals in which the foreign collaborator has an existing financial/ technical collaboration in India in the same field;
iv) Proposals for acquisitions of shares in an existing Indian Company in financial service sector and where Securities and Exchange Board of India (substantial acquisition of shares and takeovers regulations, 1997 is attracted);
v) All proposals falling outside notified sectoral policy/CAPS under sectors in which FDI is not permitted.

Most of the sectors fall under the automatic route for FDI. In these sectors, investment could be made without approval of the central government. The sectors that are not in the automatic route, investment requires prior approval of the Central Government. The approval in granted by Foreign Investment Promotion Board (FIPB). In few sectors, FDI is not allowed. After the grant of approval for FDI by FIPB or for the sectors falling under automatic route, FDI could take place after taking necessary regulatory approvals from the state governments and local authorities for construction of building, water, environmental clearance, etc.

f) Duty Exemption/Remission Scheme

Under this schemes duty free import of inputs are allowed required for export production. Duty Exemption Scheme consists of (a) Advance Authorisation Scheme and (b) Duty Free Import Authorisation Scheme (DFIA). A Duty Remission Scheme enables post export replenishment / remission of duty on inputs used in the export product. Duty remission schemes consist of (a) DEPB (Duty Entitlement Passbook Scheme) and (b) DBK (Duty Drawback Scheme).

4. CONCLUSION

Exports are always the basic source of external income. Without handsome exports, no imports can be made. More deeply, if a country could not procure the required imports. It can not fulfil the needs of the inhabitants.

This phenomenon is just like a salaried person who maintains his expenses or family responsibilities out of his income. So, to establish a good welfare state and to maintain optimum living standards, the first step for any goverment is to arrange foreign exchange for imports. And exports are the only source of FRREX.

This way, expansion of exports are necessary for varied reasons as mentioned above. Goverment, keeping in view, this basic idea keeps on liberalising and facilitating the export trade. But, exports sometimes in lack of proper information and knowledge can not work with full potential.

If we have a look on latest figures supplied by the government, there is a negative trade balance of Rs. 189893 crorcs in 2006-07 (Source: DGICX & S, Calcutta) which is much more than the trade balance of nineties i.e., Rs. 10645 crores (negative) only.

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