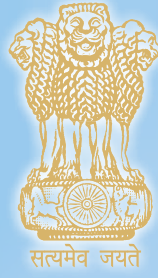


Working Paper No. 1/2017-DEA



**REVIVING AND ACCELERATING  
INDIA'S EXPORTS: POLICY ISSUES  
AND SUGGESTIONS**

**By**

**Dr. H.A.C. Prasad  
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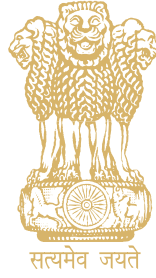
**Shri Salam S. Singh  
Shri Rajesh Kumar Sharma**

**January 2017**

**Government of India  
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## **Disclaimer and Acknowledgements**

The views expressed in this paper are those of the authors and do not necessarily reflect the views of the Ministry of Finance or Government of India.

The authors are grateful to Shri Shaktikanta Das, Secretary (EA) and Dr. Arvind Subramanian, Chief Economic Adviser, for their encouragement; FIEO for organizing the meetings with different stakeholders in different places, and also SICCI in Chennai; the different EPCs, SIAM and MAIT for providing valuable inputs; and Mr. Unnikrishnan, FIEO, Dr. Pralahathan, EXIM Bank of India and Dr. Arun Goyal, Academy of Business Studies for their suggestions. The authors would also like to thank the office staff of Dr. H.A.C. Prasad for their assistance in preparing this paper and coordinating with stake-holders. However, errors, if any, are the responsibility of the authors.

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# **EXECUTIVE SUMMARY AND CONCLUSION**





# Executive Summary and Conclusion

This paper based on both desk research and interactions with stakeholders makes a comparative analysis of trade of world, India and its trading partners; examines the various dimensions of India's trade with special reference to exports; points out the immediate and medium term concerns in India's export front; outlines major strategies and policy reforms along with specific suggestions, both general and sector specific to revive and accelerate exports and also achieve the goal of reaching a respectable share in world exports.

Current Trade Environment: Global and India: The world trade scenario continues to be gloomy with merchandise trade value growth slipping into negative territory in 2015 for the first time since the negative growth in 2009, in the aftermath of the 2008 global financial crisis. While both world merchandise trade growth and world GDP growth were in negative territory in 2009, in 2015 only world trade growth was in negative territory. Even world merchandise trade volume growth at 2.7 per cent was slower than the world GDP growth of 3.2 per cent in 2015. While the Indian economy is one bright spot in the global landscape, becoming one of the fastest growing emerging market economies in the world, in the export front, India was also not immune from the global shocks with export growth being negative at 15.5 per cent in 2015-16. Even India's export volume growth which usually has been above world export volume growth was below it in 2015. However there are some green shoots in recent months with export growth becoming positive in September (4.6 %), October (9.0 %), November (2.4 %) and December 2016 (5.5 %). Export growth is expected to be positive in the coming months as low base effect will continue. Many export items/sectors have moved from negative export zone in 2015-16 to positive export zone in 2016-17 (April-December).

## India's Merchandise Exports: Major concerns, Strategies and Policy Reforms

Immediate Concern: The major concern today is how to revive India's export growth given the international situation particularly with the world trade volume growth of just 1.9 per cent in 2016 which is the lowest since the 2009 financial crisis and in the wake of the rising non-tariff measures (NTMs) by different countries. The WTO's fifteenth trade monitoring report on G20 trade measures, issued on 21 June 2016, shows the application of new trade-restrictive measures by G20 economies increased compared to the previous reporting period, reaching the highest monthly average registered since the WTO began its monitoring exercise in 2009.

Medium Term Concern: India's share in world exports is still very small at 1.6 per cent in 2015 compared to China's 13.8 per cent. In the medium term, India should aim at raising its share in world exports to at least a respectable 5 per cent. For this, India's exports (of goods) should reach around US\$ 882 billion by 2020 which means India's

export growth rate needs to be around 27 per cent CAGR in the 5 years (2016-2020) assuming that global growth continues at the present CAGR of 1.5 % (2010-15). While achieving this high export growth rate looks formidable, India had achieved growth rates higher than this in 2004-05 (30.8 %) and in 2010-11 (40.5 %). But then the World economic situation was better and the base was lower.

## Major Strategies and Policy Reforms

- 1) Demand Based Export Basket Diversification: In most of the top imports of the world and our major trading partners, the presence of India's exports is very small. In 2015, India's export share in the top 100 world import items at 4 digit HS level were more than 5 per cent only in 5 items. These are Petroleum oils, not crude; Diamonds, not mounted or set; Articles of jewellery & parts thereof; T-shirts, singlets and other vests, knitted or crocheted; and Insecticides, fungicides, herbicides packaged for retail sale. In 2015 India exported 96.5 per cent of items in the World's top imports at 4 digit level and 83.2 per cent at 6 digit level in terms of numbers. But in value terms, both these form only 1.6 per cent. The ranks of items in World top imports and ranks of India's exports of these items to the world show a great deal of mismatch in priorities. Similar is the case in different important markets like US, EU, Japan, etc. Till now our focus was on exporting what we can (or supply based), now we have to shift to items for which there is world demand and we also have basic competence. A demand-based export basket diversification approach which can give a big push to exports is needed.
- 2) Tariff and FT Policy Issues and GST Implications: Two fundamental reforms needed in India's trade sector are (a) Rationalizing tariffs, (b) Streamlining export promotion schemes also in the light of GST.
  - (a) Rationalizing Tariffs: While with the present global situation it may not look like the right time to suggest lowering tariffs, a lot of rationalization can be done, as India's average MFN applied tariffs are relatively higher than other emerging economies and particularly all the BRICS economies except Brazil and India's bound tariffs are higher than all these countries. However India's average applied non-agricultural tariffs at 10.1 per cent are relatively lower than its average applied total tariffs at 13.4 per cent in 2015 (WTO data)/ 16.1 per cent in 2015-16 (customs tariffs data). But realized tariffs (BCD) after taking into account all exemptions based on customs revenue collections is very low at only 2.8 per cent, while realised total tariff collections are at 8.7 per cent in 2015-16. It was 2.3 per cent and 6.8 per cent respectively in 2014-15. The slightly higher rate in 2015-16 compared to 2014-15 is due to higher collection rates under budget heads Gold, Steel & related items, PoL, Animal & Vegetable fats & oils. But the interesting point is that the realized tariff (BCD) of only

2.8% in 2015-16 is less than one-fourth the average applied tariffs. For agriculture and non-agricultural items realized tariff are 9.6 per cent and 2.5 per cent whereas applied tariffs are 32.7 per cent and 10.1 per cent respectively in 2015.

Thus India's realized tariffs are very low and even lower than the applied tariffs of many ASEAN countries. If the refunds and customs duty drawbacks are deducted from gross customs revenue then the net realized total tariffs is 7.9 per cent in 2015-16 lower than the 8.7 per cent without deductions and the net realized tariffs (BCD) would also be lower than 2.8 per cent. Since refunds and drawbacks are mainly in non-agricultural sector, the realized non-agricultural tariffs (BCD) would also be lower. The low realized tariffs are due to the large duty concessions and exemptions given under the Foreign Trade (FT) policy. Most of these are in sectors like machinery including electrical machinery which could be due to the EPCG scheme. PoL items, organic chemicals, plastics & articles, iron & steel items, metals, aircrafts & vessels, gold and optical, photographic items are the other big value items which have resulted in lower realized tariffs.

One important implication of the above analysis is that though different rates of tariffs are levied not just with the motive of revenue generation, but for various reasons including protecting the domestic sectors, providing differential treatment to sectors, avoiding inverted duties, etc, there is scope for India to reduce its applied tariffs substantially and simultaneously withdraw most of the export promotion schemes. This will not cause any revenue loss. In fact revenue can be higher if applied tariff rates are kept slightly above the current realized tariff rates along with plugging leakages in the form of export incentives. Exporters will also not be affected as the import duties are lower. Instead they can benefit due to lower transaction costs. Even in the WTO negotiations, India can make major gains by even reducing bound rates even if it were not up to the applied rates. With GST, many of the other duties (other than BCD) will get input tax credit. Thus only duty drawback at a reduced rate to cover the reduced BCD would be needed. Sectorally, there is scope to lower duties in many items, while retaining higher duties for some sensitive items. This will also impact India's FTAs/RTAs/PTAs which have been negotiated. There is scope for better negotiations of new ones.

- (b) Streamlining Export Promotion Scheme: The implementation of GST will bring in a new dimension to the FT policy and the export promotion schemes in particular. GST will replace many taxes related to imports

currently levied like additional duties of customs (CVD), special additional duty of customs (SAD), service tax, cesses and surcharges related to supply of goods or services, and service tax. Exports would be zero rated. Thus a whole lot of duties will be replaced by GST which is likely to result in lower total duties. With this the duty drawback schedule needs to be reworked as it will be mainly basic customs duty which needs to be rebated while GST has an input tax credit system. Export promotion schemes also have to be suitably reformulated. For example, with the lowering of duties for capital goods over the years, the relevance of the EPCG scheme has become less. For many capital goods imports, the duties have become 'nil' or 'low'. With GST, the components other than BCD are covered under the input tax credit scheme. BCD is very low for many capital goods items. The customs collection rate (BCD) of budget heads machinery (excluding machine tools) and electrical machinery were only 2.7 per cent and 2.1 per cent respectively in 2015-16. An exercise needs to be done to list out the major items where still relatively high import duties are levied and where EPCG scheme is being availed. For such items zero duties or near zero duties can be levied and simultaneously the EPCG scheme can be withdrawn. This can, not only help in lowering our average MFN tariffs of non-agricultural items, but also reduce the transaction costs. While abolishing EPCG scheme, a selective approach of levying zero or low duties for capital goods which are mainly imported and status quo in the duties for capital goods where domestic manufacturing is also important, can even help in the Make in India cause.

- 3) Export competitiveness: Real Effective Exchange Rate (REER) defined as the weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differentials helps in evaluating the competitiveness of a country. India's REER 36 currency trade and export based indices show appreciation since February 2014 with intermittent volatility indicating that Indian exports are less competitive. However REER doesn't capture the difference in India's competitiveness between different countries/groups of countries and also competitiveness vis-à-vis major competitors in major markets. For this we need to dissect the REER into bilateral real exchange rate (BRERs). Bilateral real exchange rate measures nominal exchange rate between two countries adjusted for relative price differentials of two countries. India's BRER has depreciated sharply in recent months with Argentina, Brazil, Egypt, Iran, Kenya, Malaysia, Mexico, Nigeria, Russia, S. Africa and Turkey and depreciated marginally with Australia, Indonesia and Sweden. It appreciated with other developed and advanced countries. Thus the countries where India is competitive are the BRICS partners except China, major Latin American countries, some ASEAN and African countries.

Among developed countries, the major country with which India's BRER has depreciated is Australia. However to see the export competitiveness of India in a particular market, we need to see not only India's BRER but also the BRERs of other competitors in the particular market as well. In the US market, only the BRER of Mexico with US is higher than that of India, which means that the other competitors like China, Japan, and Korea are more competitive than India in the US market. In the Euro area, only Russia's BRER is above India's and all other competitors like China, US & Korea are more competitive than India. In the Chinese market, only Brazil's BRER is above India's and all the other three competitors, Korea, Taiwan, and the US are more competitive than India. In the Japanese market, only Australia's BRER is above that of India. While the BRERs of all competitors are appreciating, the other competitors like China, USA, Australia and Korea are more competitive than India in the Japanese market. In the Singapore market, only Malaysia's BRER is above India's and all other competitors like China, USA, and Taiwan are more competitive than India. In the Hong Kong Market in recent months, all the competitors like China, Taiwan, USA and Japan are more competitive than India. India's foreign trade policy needs to take into account the difference in India's competitiveness in different markets as revealed by the BRER.

Export competitiveness can also be seen by looking at price competitiveness. A sample exercise for select US imports at six digit level shows that US unit value imports from India have been generally lower than that of US unit value imports from the World. This could be either due to India being more price competitive or India exporting low value items to US under the six digit category. However even after having price competitiveness, a country may not be able to penetrate a market for various reasons like FTAs/RTAs, besides tariff and non-tariff barriers which may affect the country's exports more than that of others due to differing composition of exports.

- 4) Export Infrastructure and Logistics: India has made great progress in building airport related infrastructure, but is lagging behind in sea-port related infrastructure. Therefore, export infrastructure, particularly ports-related infrastructure, which affects trade, needs immediate attention. These include areas like deepening of drafts of berths; deployment of shore mobile cranes; upgradation and greater use of minor ports, better connectivity from ports to ICDs; reduction in inefficiency at Indian ports; reduction of tariffs for anchorage loading, etc; and better and cheaper port services. Infrastructure particularly near ports have to be improved and last mile connectivity provided by improving road connectivity. One important initiative that can be taken in this regard is the GPS tracking of export/import goods transported and also goods transported in internal trade to ensure smooth and speedy movement of export goods from place of production to the sea ports / airports.

- 5) Reforms related to Digital Infrastructure: Digital Infrastructure is as important as physical infrastructure for growth of industrial and trade sectors. To scale up the linkages, besides physical connectivity, virtual connectivity inside India's vast market as well as to external markets, needs to be improved. Businesses rely on landlines and fixed broadband to a much larger extent than consumers, and this sector is less competitive with a low density and low average speed of data flows, and these services are the most likely to bear the cost of regulation or lack thereof. India is less developed in the area of broadband due to barriers to competition and the general regulatory framework facing foreign investors. As pointed out in a OECD paper, removing the restrictions on foreign entry could be considered along with better pro-competitive regulation in fixed line broadband telecommunications to enable manufacturers and exporters to better integrate in global value chains and to expand exports in higher-end market segments. The more fundamental issue, however is to facilitate broadband infrastructure by addressing the multiple regulations and permissions needed at different layers of government. Some issues related to broadband are single window clearance for all right of way (RoW) proposals, along with minimal charges for ROW; unrestricted and de-licensed access to V-band; and open-sky policy. Tax related issues include GST exemption/lowest slab of GST for broadband. Addressing the above mentioned issues can help in making India's manufacturing and exports of even traditional sector like textiles, and leather more competitive and qualitative. E-commerce and E-payments will be greatly facilitated by a well-developed broadband infrastructure. If this is spread all over the country including villages it can lead to a virtual revolution.
- 6) Trade Facilitation: Greater trade facilitation by removing the delays and high costs due to procedural and documentation factors, besides infrastructure bottlenecks is another major challenge. Despite greater trade facilitation measures in recent years, the time to export and cost of exports are higher in India than China. While the documents and procedures related to exports have decreased from around 129 pages in 2012 to around 100-108 pages in 2016, further streamlining is needed to reduce the number to the barest minimum. Multiple compliance requirements both statutory and administrative need to be reduced along with judicial reforms with time limit for disposal of litigations.
- 7) FDI linked and Value Added Exports: Inbound FDI has played an important role in China's economic development and export success. Foreign invested enterprises account for over half of China's exports and imports; they provide for 30 per cent of Chinese industrial output, and generate 22 per cent of industrial profits and employ 10 per cent of labor. India needs to pursue this vehicle for export enhancement as it can help in better market access, sometimes secure markets and also help in technology and skill upgradation.

India needs to enhance exports of value added items. Technology intensive

and skill intensive exports can be taken as a proxy for value added exports. At present share of high-technology exports in India's manufactured exports is only 7.5 per cent (in 2015) whereas in 2014 it was 25.4 per cent in China, 47.2 per cent in Singapore, and 26.9 per cent in South Korea. Another way of looking at value added exports is by seeing the exports of products, by stage of processing. India's exports by stage of processing in 2015, show a greater share of consumer goods and intermediate goods. In countries like Hong kong, and Singapore, the share of capital goods is very high. In the case of Japan, USA and even China, this sector's share is high. So there is a need for India to move up the value chain.

- 8) Approach towards WTO and Mega FTAs: Brexit, slowdown in global growth and trade, rising protectionist measures in many countries, rising anti globalization sentiments even in developed countries, and now the US withdrawal from the TPP have all contributed in breaking up or slowing down in the formation of Mega FTAs. In many countries opinion has slowly started to veer back towards WTO negotiations. In the Indian case, this could be a blessing in disguise for India as we are not part of any major FTA/Mega FTA and their growth could have harmed our interest; our FTAs have benefitted our trading partners more than us, though some FTAs are just for strategic reasons; and the GSP benefits have been withdrawn for India but not for some of its competitors in important sectors. In this situation, successful WTO negotiations seems to be the first best option for India. The tariff reforms suggested earlier could help us in taking a more pro-active role in the WTO. The second best option could possibly be to have useful FTAs with some major countries while actively expanding our engagements with BRICS and ASEAN as we enjoy competitive advantage with many of these countries (as also revealed by the BRERs) and a part of our exports are directed towards these markets.
- 9) National Priority Sector for Exports and greater States' participation in Exports: Export sector should be accorded national priority sector status and there should be greater involvement by the local and state governments while framing and implementing trade policy. Based on available though imperfect data, the top states at present are Maharashtra, Gujarat, Tamil Nadu, and Karnataka with a share of 61 per cent in total exports. States need to play an active role in the export effort as they are also the beneficiaries of the resultant development. Devolution of funds to states could also include the criterion of export performance of states. Meanwhile state wise exports data needs to be compiled more systematically based on place of production rather than place of exports or place of receiving payments.
- 11) A Global Market Intelligence Cell (GMIC) in DEA: There is a need for a GMIC. This cell in DEA should compile global information on domestic regulations and barriers in goods and services which come in the way of greater trade between

India and the partner countries and greater inflow of investments to India. This effort needs to be supplemented by also posting officers well versed in these subjects in some embassies of major trading partners of India. This cell along with the officers posted in different embassies should also be proactive in helping Indian exporters by providing information on products/services in high demand; finding out why some products/services are not moving in these markets; and also actively facilitating exports when needed. The reports should be completed within a specified time frame and queries should be answered almost on a real time basis. The USA for example, is very proactive and comes with regular reports on other markets. The USDA Foreign Agricultural Service, for example comes up with a report called GAIN Report (Global Agricultural Information Network Report) at regular intervals which analyses comprehensively the markets of different countries for different products. It not only gives details of government policies, market entry opportunities and market barriers, but gives the details of the companies or major players in the market of a product with all details of products, brands, location of production end-use channels, etc. This is like a updated ready reckoner for policy makers and negotiators. The USTR in USA also comes out with regular reports on trade and investment barriers in different countries. Similar institutions are also there in EU, Japan, etc. India therefore, needs to have such an institution of its own where the market entry barriers, domestic regulations and related issues can be compiled and viewed from India's own perspective. Since private institutions lack the authority needed for such work, as an alternative, a semi-government institution could also be thought of to do this work.

- 12) Active involvement of Indian Missions abroad, EPCs and FIEO in Export Promotion: Indian missions have to be proactive in promoting India's exports. FIEO and other chambers should be given some tasks & handholding with targets. Marketing India should go hand in hand with Make in India.
- 13) Creation of an Ombudsman for Resolving Export Related Problems and Disputes: A number of export cases remain pending for a long time in the DGFT/DoC/CBEC and other related Departments. While CBEC/DoC are taking measures towards ease of doing business, the approach of field formations also has to change. At times, provisions of FTP, Customs/Central Excise/Service Tax Acts, etc. are interpreted differently at different locations. Hence, there is a need for a one stop mechanism or ombudsman to resolve export related problems and disputes within a time frame.
- 14) A clear-cut Agri Trade Policy: Agriculture sector is usually at the receiving end of any deficiencies in policy making, starting with the GATT negotiations when India and other developing countries were at the receiving end in Agricultural negotiations, though recently India was able to assert itself in the case of food



security negotiations at WTO. Even in FTAs/RTAs, agriculture is at the receiving end. While a focused agri-export policy is needed, even a stable agri-export policy has not been formulated, with any domestic shortage or excess affecting agri-exports and any external shortages/ excesses affecting the domestic sector and thus the agri-export policy. Steps need to be taken in areas like affordable credit, compliance to sanitary and phyto-sanitary conditions of export markets, good infrastructure and marketing for agri-products and moving from subsistence and domestic oriented farming to export oriented farming.

## **Some specific issues: Cross cutting and sector-specific**

### Cross cutting Issues

Issues related to Export Promotion Schemes: These include counting exports of alternate products for export obligation (EO) fulfillment and extending the Average EO period under EPCG Scheme; extending the 3% Interest Equalization Scheme to the merchant exporter; using turnover data instead of insisting on last 3 years production and consumption data, not insisting on Export Promotion ( E.P) copy of the shipping bill while filing redemption application after fulfilling the obligation and simplifying procedures and multiple points of interface in the case of advance license scheme; prompt disbursement of duty drawback amounts by the customs, and need for separate and higher duty drawback for auto components made out of aluminium in the case of Duty Drawback scheme; trading permission to EOUs; removing discrepancies related to classification, and cancelling the charges for rewards in the case of the MEIS scheme.

Trade Procedures and Facilitation: These include issues like implementation of 24 x 7 clearance of imports and exports in the real sense; customs single window including for related agencies; EDI Issues; facilitating exports through e-commerce; addressing the mismatch of remitters name with buyer's name given in the shipping bill; and having common customs procedures in all ports.

Issues related to FTAs/RTAs/CECAs: These include firstly, the effects of FTAs/RTAs of competing countries resulting in India's exports of LABSA (Linear Alkyl Benzene Sulphonic Acid) to Vietnam facing 5% import duty under ASEAN-India FTA, while Korea enjoys 0 % duty under ASEAN-Korea FTA; Pakistan enjoying 0 % duty for Cotton Grey fabrics imported to European Union due to the FTA between Pakistan and EU while India faces 8% duty; ASEAN countries enjoying 0 per cent duty on imports of polyethylene and polypropylene in China and Polyolefin in Vietnam due to China ASEAN FTA and FTA with Vietnam while India faces the normal duties; secondly, the general issues in India's FTAs/RTAs etc are examined. These include the inverted duty in the case of DTA Sales of EOUs which are allowed to sell 50% of their FOB export value in domestic tariff Area (DTA) subject to paying duties while these goods imported under FTAs/RTAs, are entitled for reduced Basic Customs Duty (BCD), including zero duty; need for additional Institutions for certifying Preferential Certificate

of Origin for exports to FTAs; need to limit access to Electronics sector in FTAs given our bitter experience with ITA-1; some classification Issues in FTAs/CEPAs/CECAs where India's HS Classification does not match with those of importing countries after the sixth digit under Comprehensive Agreements like India ASEAN FTA, resulting in denial of tariff preferences. Thirdly, some specific issues in some major FTA's/RTAs/CECAs of India are examined which include the need for early harvest of at least 95% of the remaining apparel lines for duty free access to Indian apparel exporters under India - ASEAN FTA; need to initiate review process for the 171 RMG products falling under ST (Sensitive Track) category of Malaysian Schedule to bring as many items as possible under the 0% duty regime in the terminal year of India-Malaysia CECA integration as Malaysia seems to be the major gainer in the RMG at present due to the FTA; issue of India's imports from Sri Lanka of items other than in India's negative list growing by 16.8 times in 2015-16 over 2000-01 while Sri Lanka's imports from India of items other than those in Sri Lanka's negative list growing by only 8.4 times; need for India to retain some sensitive items in India's negative list under Indo Sri-Lanka FTA as there are livelihood concerns and domestic prices have fallen drastically as in the case of rubber related articles; and need to include in the negative list some items like arecanut / betelnut, imports of which have increased 258.4 times during 2015-16 over 2000-01 and domestic production is enough to meet domestic requirement. Fourthly, some new useful FTAs which could be negotiated by India are examined. These include FTA with UK as many stringent conditions of EU may not be applicable now or with the same force and could help India which has been affected by withdrawal of GSP benefits by EU. Sectors like textiles and chemicals could be benefitted with this FTA. Some other new FTAs which could be beneficial for India are with Latin American and African countries; and Australia and New Zealand which can help engineering exports in general and automobiles exports in particular.

Transport and Export Infrastructure: While transport and infrastructure particularly near ports have to be improved and last mile connectivity provided by improving roads, some specific issues include port strikes and congestion in Nhava Sheva port; insufficient rakes that connect ICDs; high port charges, and charges by shipping companies / container freight stations.

Market Access Issues and Non-tariff barriers: These include export tax imposed by Indonesia and Malaysia on the raw materials like palm oil, sharp increase in anti dumping (AD) investigation on Indian exports, particularly, steel and related products by EU and USA; new certification norms by EU for supply of steel to the construction industry in EU and increasing NTBs by many countries on India's pharmaceutical exports.

### Sector Specific Issues

Some specific issues in different sectors other than the ones included under cross cutting issues are the following. These are in no way all inclusive and are just some examples.

Engineering sector: Lack of or non-effective PTAs/FTAs with African and Latin American countries; delay in release of shipbuilding subsidy affecting working capital; issue of Minimum Import Price (MIP) which has resulted in the share of the items in total exports of India tilting in favour of iron & steel from iron & steel products; and need for inclusion of aluminium under Core Industry Classification.

Automobile sector: Inadequate All Industry rate (AIR) duty drawback and cumbersome documentation process for brand rate ; need for rupee trading with Latin American and African countries; neighbouring markets like Sri Lanka and Bangladesh not giving India preferential treatment in vehicles trade despite not having vehicle manufacturing base ; need to set up an office of EXIM Bank of India in Latin America; need for improving port infrastructure to handle current automobiles exports and meet future demand; and need for dedicated auto desks and storage facilities at existing automobile exporting ports viz. Mumbai, JNPT, Chennai & Ennore.

Gems and Jewellery sector: Need for introduction of Turnover linked Presumptive tax on sale of rough diamonds at Special Notified Zone (SNZ), Mumbai and allowing trading without the return of diamonds imported for viewing and display in India; negotiating for reduction of duties on polished diamonds imported by Russia; introduction of a Job Work Policy for this sector; differential duty for lab grown diamonds; abolition of import duty on machinery used for detecting synthetic diamonds; and abolition of 2.5% import duty on cut and polished coloured gemstones to help further growth & diversification of studded jewellery exports and thus transforming India into a global jewellery trading hub.

Basic Chemicals, Pharmaceuticals & related products: Issue of environmental moratorium in major industrial estates in Gujarat, and the need to allow product mix changes & capacity expansion as a temporary measure; negotiation for reduction of the substantial increase in product registration costs and prolonged time lines ( 3-5 years) for registration in countries like USA, Russia, China and Brazil; need for additional testing labs to test and issue quality certificates; considering selective exemption of only crude palm kernel oil, which is a unique and critical raw material used by the soap and oleochemical industry from the requirement of minimum 20%FFA condition with actual user condition; and increasing the customs duty differential between crude oils and refined oils.

Textiles and Clothing (T & C) sector: Making power available at competitive rates including lower rates for non-peak hours which can be a game changer for textiles exports; FTA negotiations including formation of new FTAs in the light of duty disadvantage faced by India compared to competing countries like Bangladesh, Pakistan, Cambodia, Vietnam and Turkey which have zero duty or low duty access under different preferential arrangements; including cotton yarn under the 3% Interest Equalization Scheme and MEIS as there is excess production capacity in the spinning sector which needs to export its surplus cotton yarn to survive and sustain its activities; and allowing night shifts for females workers as done in some states.

Information Technology products: Adopting a two pronged strategy of firstly avoiding the past mistakes like helping imports of electronic goods rather than exports and secondly giving a big push to electronics hardware exports including a Hardware-Software combination and moving from assembling to building a robust manufacturing base with a well settled value chain in the electronics sector ; clarity on the role of state governments in Make in India and other programmes; encouraging domestic manufacturing and procurement; and resolving classification issues of IT products by creating a separate cell as numerous IT products get introduced into the market, sometimes with slight modifications with no specific classification available in the customs tariffs.

Agricultural exports: Addressing pests & diseases and pesticides residues issues in horticulture items by strengthening the backward linkages needed for exports; providing green channel at airport/seaports for horticulture items; negotiating for stationing local quarantine inspectors appointed by the importing country or third party inspectors of nearby countries or those living in India as it could help in reducing costs; development of Sea Protocol for horticultural items; importing planting material for having the new varieties for potential identified products such as grapes, oranges, bananas, etc., to enable the country to extend its seasonality window for production; facilitating import of patented grape varieties which are in demand in international markets for table grapes and processing purpose; introduction of international flights to/from Amritsar and Chandigarh to help exports from horticulture production areas in Punjab to Gulf countries; addressing procedural hurdles like sanitary import permit for genetic material for importing live animals, semen, embryos, vaccines, fodder, etc. specifically meant for cattle to help dairy sector; negotiating with Japan for zero duties on egg products as given for Mexico; promoting basmati rice exports to China with which India has signed an MOU and developed Standard Operating Procedures (SOP) for registration of rice mills/processing units; negotiating with the US regarding greater import tolerance of Buprofezin in rice grain and with EU on the maximum residual level (MRL) of Tricyclazole in rice exported to EU; implementation of Geographical Indication (G.I.) registration to further strengthen Indian rice in the export markets; brand promotion & publicity to help exports of basmati rice in markets like Iran and Saudi Arabia; Quick FSSAI product approvals for import of ingredients and negotiations for import duty reductions in major markets like USA, EU, China and neighboring countries like Sri Lanka and Nepal to help processed food exports; addressing pests and pesticide residues in spices; promoting organic farming by removing export restrictions ; need to consider extending accreditation of private laboratory facilities for spices with adequate safeguards; consider setting up an auction centre for large cardamom in North East; including value added pepper in MEIS and extending MEIS to exports of pepper to Group-A countries also which include some major markets; allowing export of coconut oil in bulk through other ports instead of only cochin port; promoting virgin and organic virgin coconut oils; and promoting export of coconut shell based activated carbon.

Leather exports: Need for market diversification as around 70% of India's leather sector exports are to EU and USA and slowdown in EU is affecting exports; need for setting up common facility centres and mega leather clusters to reap the economies of scale; developing Indian brands; and developing designs through engagement with designers by having Designers Fairs in India and sending Indian designers to places like Italy along with greater FDI inflow; providing proper facilities and awareness regarding environment compliance & management; negotiating for tariff concessions in major markets or through FTAs as countries like Vietnam, other ASEAN Countries, Bangladesh, etc. enjoy various concessions in these markets; and need to enhance tanning capacity & raw material availability along with establishment of bonded warehouses for storing imported leathers.

Marine Products exports: Easing the procedures for import of raw materials for value addition & job works like obtaining sanitary & imports permit (SIP); addressing the high duties for imports of value added products like skin pack, and good quality knives and other consumables required for efficient processing; notifying more ports for imports of marine products; negotiating with US regarding the incidence of rejection of marine products by US Customs which has been inspected and certified by Export Inspection Agencies (EIA) and if needed setting up U.S. approved inspection agencies for pre-export inspection to facilitate acceptance by U.S. Customs; and getting better access for marine products in Russian market which has stringent quality standards.

Project exports: Addressing the data issues as project exporters are not able to declare project exports in the shipping bill as it would result in the bill being considered as "free shipping bill" and thus not qualifying for any export incentives; promoting project exports in the SAARC and CLMV(Cambodia, Laos PDR, Myanmar and Vietnam) regions as the Middle East market is facing difficulties; need to consider giving incentives based on both supply of goods and services for project exports; including project exports in FTAs/RTA negotiations; promoting project exports through rupee trade particularly in African countries some of which have added Indian currency in their currency basket; and bringing down the requirement of Indian content under the lines of credit from 75% to say 50% on a case by case basis to promote project exports to Africa.

Conclusion: Thus a bird-eye view of India's exports sector and a bunch of interconnected issues along with some hurdles to exports are given in this paper. While removing the hurdles and addressing the sector-specific issues could help in the revival of India's exports, the major strategies and policies suggested could lead to acceleration of India's exports and help India reach a respectable 5 per cent share in world exports.



**CHAPTER 1**  
**INDIA'S TRADE**  
**PERFORMANCE IN THE**  
**GLOBAL CONTEXT**





## India's Trade Performance in the Global Context

### A) Economic Outlook: World and India

The world economic outlook continues to be shrouded in uncertainty. The World Economic Outlook (WEO) of IMF, published in January 2017 indicated that world output growth is projected to grow by 3.4 per cent and 3.6 per cent respectively for 2017 and 2018 (Table-1).

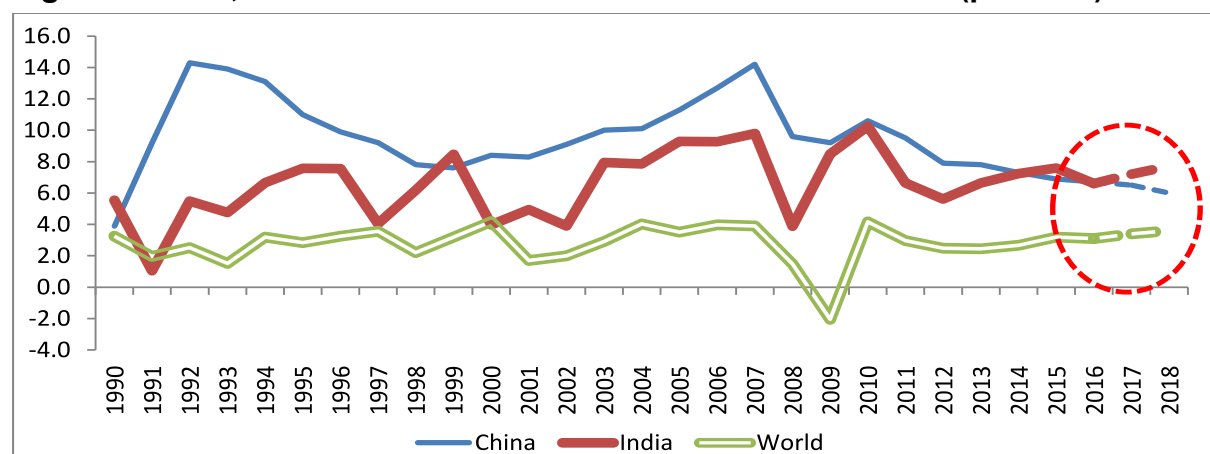
**Table 1. Overview of the World Economic Outlook Projections**

	Actuals		Projections		Diff. from Oct 2016 Projections	
	2015	2016	2017	2018		
World Output	3.2	3.1	3.4	3.6	0.0	0.0
Advanced Economies	2.1	1.6	1.9	2.0	0.1	0.2
United States	2.6	1.6	2.3	2.5	0.1	0.4
Euro Area	2.0	1.7	1.6	1.6	0.1	0.0
Emerging Mkt. and Developing Economies (EMDEs)	4.1	4.1	4.5	4.8	-0.1	0.0
Emerging and Developing Asia	6.7	6.3	6.4	6.3	0.1	0.0
China	6.9	6.7	6.5	6.0	0.3	0.0
India	7.6	6.6	7.2	7.7	-0.4	0.0

Source: IMF, World Economic Outlook Update, January 2017.

While Emerging and Developing Asia is the most dynamic in the global economy, it has also been affected by the global developments. In Asia, India and China continue to be the major growth drivers. India with a growth rate of 7.6 per cent in 2015 has overtaken China's growth of 6.9 per cent. Though it is marginally lower in 2016, growth projections of India for 2017 and 2018 are noticeably higher than that of China (Figure 1). Thus, the Indian economy is one bright spot in the global landscape, becoming one of the fastest-growing big emerging market economies in the world.

**Figure 1: India, China and World GDP Growth Rate since 1991 (per cent)**



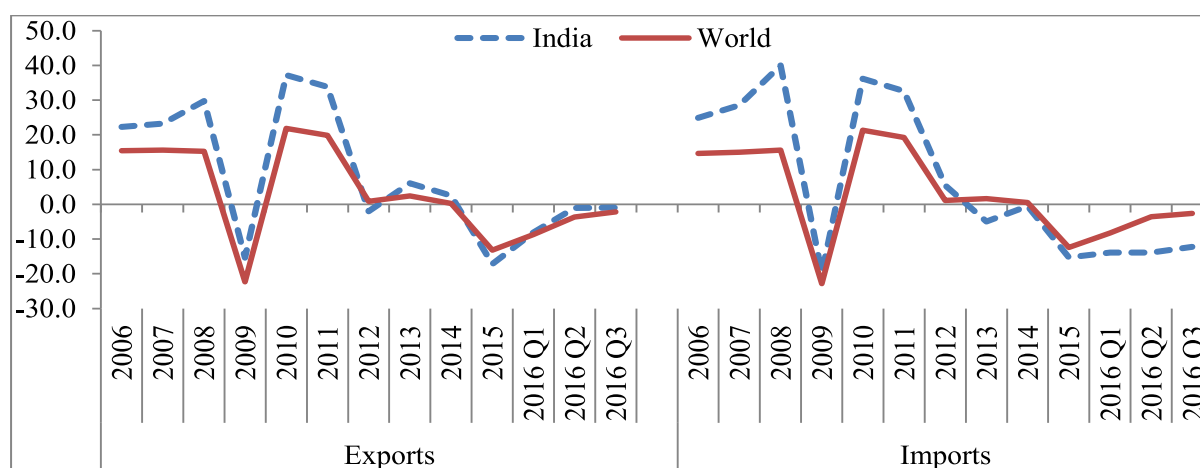
Source: Based on IMF's WEO January 2017 data; Note: 2017 onwards are Projections

## B) Merchandise Trade Environment: World and India

### Trade and GDP Growths: India and World

World merchandise trade value which was growing at 8.5 per cent compound annual growth rate (CAGR) from 1990 to 2007 - more than twice as fast as world real income, plummeted in 2009 in the aftermath of the 2008 global financial crisis, rebounding sharply in 2010, basically due to the low base effect. However, since then, it has weakened and slipped to negative territory in 2015 falling by 13 percent over 2014 to US \$ 16.0 trillion mainly due to fall in export prices by 15 per cent. World trade growth was at the lowest level in 2015 since the global financial crisis, when it had fallen by 22.3 per cent in 2009 to US\$ 12.6 trillion. There is a slight revival in world trade growth in value terms in the first two quarters of 2016 though it is still in negative territory, while in the case of India greater revival in export growth can be seen, with 2016Q3 export growth being only marginally negative. (Figure 2).

**Figure 2: World and India: Export and Import Value Growth -2006 to 2015**

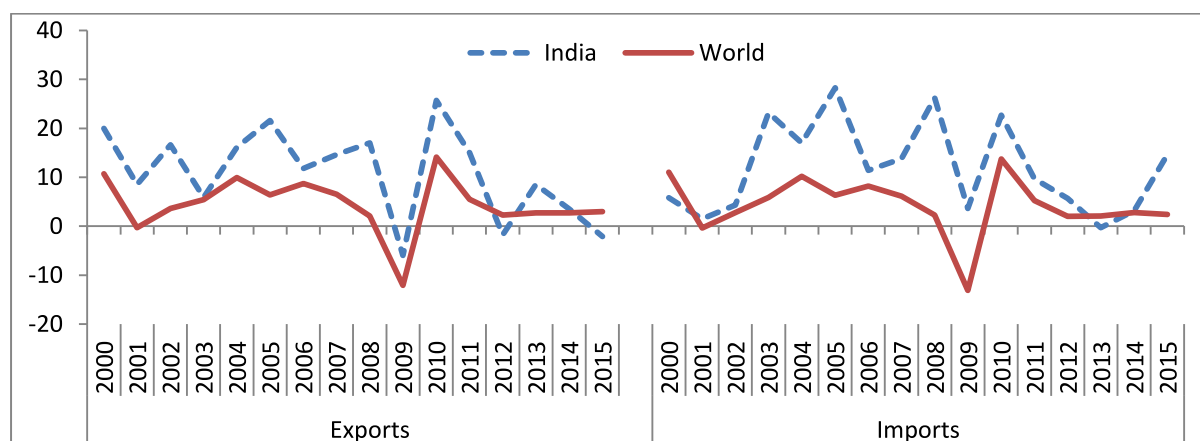


Source: Based on WTO data

The major reasons for global trade slowdown include subdued global growth reflecting lower demand; slowdown and rebalancing in China; weaker commodity prices with world energy prices dropping by 45 % in 2015 (as per the World Trade Statistical Review 2016), slowdown in investment and declining capital flows to emerging market and developing economies, rising protectionist measures in major markets and disruption in growth of global value chains.

World merchandise trade volume growth which plunged sharply into negative territory in 2009 has only slowed down in 2015, but continued to be in positive territory. However India's export volume growth which also plunged into negative territory in 2008-09 has dipped marginally to negative territory in 2012 and 2015. India's trade volume growth has been generally above that of world trade growth except in one or two years (Figure 3).

**Figure- 3: World and India: Merchandise Export and Import Volume Growth (%)**



Source: Based on WTO data

As per the World Bank data, the share of world merchandise trade to GDP which was 51.9 per cent in 2008 fell sharply in 2009 to 42.3 per cent following the economic crisis but bounced back quickly to 46.9 per cent in 2010 and 50.6 per cent in 2011. It declined slightly between 2012-14, before falling significantly in 2015 to 44.9 per cent. In fact as per the IMF data, in 2015 the growth in volume of world merchandise trade at 2.7 per cent was lower than the world GDP growth of 3.2 per cent, while in 2016 the former was only 1.9 per cent compared to the 3.1 per cent of the latter.

### World Trade Prospects

As per WTO press release (September 2016) world trade volume (merchandise) is expected to grow by just 1.7 percent in 2016 which is well below its April forecast of 2.8 per cent and the lowest growth since the 2009 financial crisis. The WTO has however pointed out that certain trade related indicators have improved, including export orders and container port throughput, but overall momentum in trade remains weak. In 2017, trade volume is expected to grow by around 1.8 per cent to 3.1 per cent.

According to IMF’s WEO Update, January 2017, world trade (goods & services) volume growth is projected at 3.8 per cent in 2017 and the projection for 2018 is still better at 4.1 per cent. (Table 2)

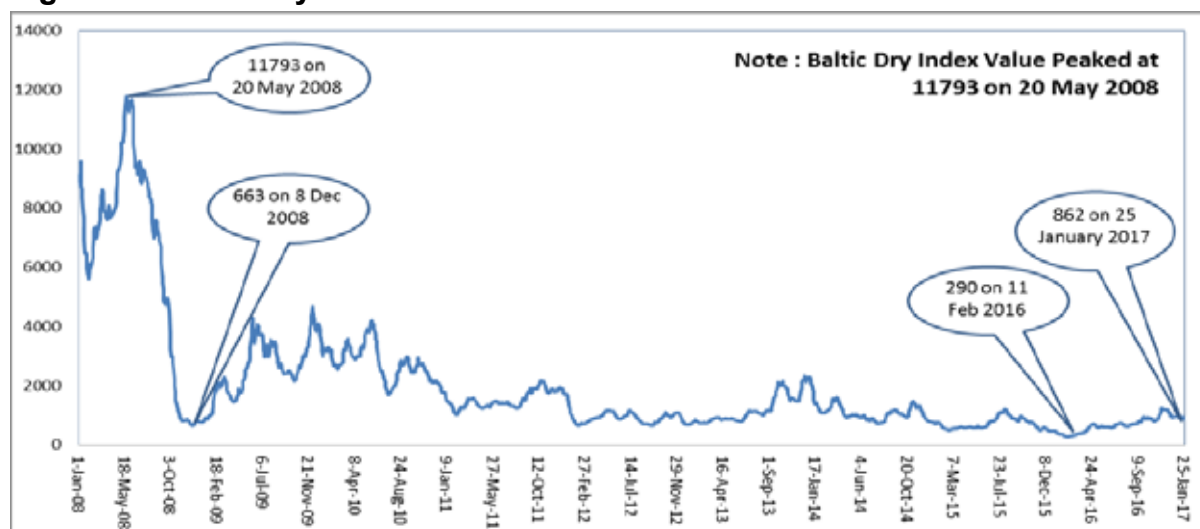
**Table 2. Overview of the World Trade (Goods & Services) Projections**

	Actuals		Projections		Diff. from April 2016 Projections	
	2015	2016	2017	2018	2017	2018
World Trade Volume	2.7	1.9	3.8	4.1	0.0	-0.1
Advanced Economies	4.0	2.0	3.6	3.8	-0.1	-0.3
EMDEs	0.3	1.9	4.0	4.7	0.1	0.4

Source: IMF, World Economic Outlook Update January 2017. Note: EMDEs-Emerging Markets and Developing Economies.

The Baltic dry index an indicator of both merchandise trade and shipping services shows some improvement of late with the index at 862 as on 25 January 2017, though it is way below the pre-2008 crisis level. (Figure 4)

**Figure 4 : Baltic Dry Index**



Source: <http://in.investing.com/indices/baltic-dry-historical-data>

### Partner countries Trade Growth and Export Shares

Trade of partner countries shows signs of improvement in exports with positive export growth in Q2 & Q3 of 2016 for Hong Kong and Japan and lower negative growth in Q3 2016 for the US and Singapore. But China's export growth has been negative for the last 6 quarters and increased in Q3 2016. Noticeably China's export growth to India mirroring India's imports from China has been positive in all quarters, though it is slightly low in Q3 2016. In the case of Hong Kong also, export growth to India is positive in all quarters and particularly high in the last three quarters. India's export growth in the last three quarters became less negative with 2016 Q3 export growth being only marginally negative (Table 3).

**Table 3: Growth Rate of Exports of Major Trading partners of India to World and India (Per cent)**

	China's exports to		EU 27's exports to		Hong Kong's exports to		Japan's exports to		Singapore's exports to		USA's exports to		India' exports to World
	World	India	World	India	World	India	World	India	World	India	World	India	
2014-Q1	-3.5	1.3	1.2	-3.5	-4.3	9.4	-4.0	-16.3	4.8	-17.8	2.4	-9.6	-0.5
2014-Q2	4.9	7.0	-2.0	-10.4	-3.0	3.5	-3.4	-14.9	2.4	-2.8	3.4	-15.5	9.0
2014-Q3	12.9	17.4	-1.4	5.1	-1.9	33.1	-1.9	-1.7	-0.2	21.4	4.1	2.6	1.4
2014-Q4	8.5	21.1	-5.1	6.5	0.4	22.7	-4.2	14.2	-7.1	-1.2	0.9	18.7	0.6
2015-Q1	4.5	23.0	-14.5	-6.6	-1.9	1.7	-6.1	2.7	-13.0	-0.7	-5.0	6.9	-14.7
2015-Q2	-2.3	0.9	-11.5	-5.8	-3.6	2.6	-10.2	1.6	-15.9	7.4	-5.6	20.4	-16.8
2015-Q3	-6.0	5.2	-12.4	-13.6	-1.7	1.1	-11.7	-0.2	-18.1	-16.2	-8.1	-4.1	-17.3
2015-Q4	-5.2	4.2	-10.4	-17.5	-3.1	2.6	-10.1	-4.5	-14.4	-6.5	-10.5	-19.0	-19.1
2016-Q1	-9.7	0.1	-5.5	-6.3	-7.2	13.1	-4.6	-1.4	-14.4	-7.8	-6.7	-2.4	-8.1
2016-Q2	-4.3	5.9	-2.2	-1.7	5.5	25.8	1.9	-0.9	-5.7	-10.0	-6.1	-15.2	-1.8
2016-Q3	-6.6	1.4	--	--	2.6	10.5	7.0	6.2	-0.7	-6.5	-2.2	-1.0	-0.5

Source: Based on World Trade Atlas (WTA) Database and WTO for India

Imports of partner countries from the world continue to be negative in the last 7-8 quarters for most of the trading partners, though it is becoming less negative in recent quarters. Interestingly, China's growth of imports from India, mirroring India's exports to China has been highly negative in most of the quarters since Q4 2014, while Hong Kong's import growth from India has been positive in the last three quarters. Growth in imports of Singapore and USA's from India have also turned positive in 2016 Q3 (Table 4)

**Table 4: Growth rate of Imports of major trading partners of India from World and India (Per cent)**

	China's Imports		EU(27)'s Imports		Hong Kong's Imports		Japan's Imports		Singapore's Imports		USA's Imports		India's Imports from World
	World	India	World	India	World	India	World	India	World	India	World	India	
2014-Q1	2.0	11.9	2.5	3.6	1.0	9.6	5.6	-3.6	4.2	3.9	2.6	9.7	-12.0
2014-Q2	1.3	16.0	5.3	-0.4	-5.2	8.8	-0.7	10.8	2.7	10.7	4.9	1.2	-6.3
2014-Q3	1.2	-2.8	2.3	6.5	-8.5	15.6	-2.6	-6.1	-4.5	-42.5	4.1	8.8	10.3
2014-Q4	-1.6	-31.9	-7.6	-5.9	-0.7	21.0	-11.2	-5.8	-9.2	-0.6	3.8	15.8	8.4
2015-Q1	-21.4	-29.4	-14.9	-11.8	-6.9	-5.6	-21.8	-19.7	-21.5	-35.4	-1.6	4.4	-13.4
2015-Q2	-16.9	-19.4	-15.6	-8.6	-6.1	0.5	-20.3	-37.7	-18.9	-25.7	-4.4	1.1	-12.6
2015-Q3	-18.1	-16.1	-16.9	-12.0	-5.1	-3.5	-19.9	-19.6	-18.2	-13.4	-5.1	-2.2	-15.3
2015-Q4	-17.3	-3.8	-11.2	-13.3	-9.2	-14.5	-18.9	-42.3	-17.1	-42.4	-6.9	-8.2	-19.4
2016-Q1	-12.5	-20.2	-6.3	-1.6	-11.1	7.4	-12.9	-15.2	-10.4	-8.4	-5.5	1.6	-13.9
2016-Q2	-6.7	-12.2	-1.5	0.1	-3.2	12.7	-8.6	0.3	-7.7	-24.4	-4.7	-4.6	-14.9
2016-Q3	-4.3	-14.6			-0.2	5.6	-3.9	-7.9	-4.1	5.6	-2.3	1.9	-12.0

Source: Based on World Trade Atlas (WTA) Database and WTO for India

India's share in world exports increased from 0.9 per cent in 2005 to 1.6 per cent in 2015. Despite a near doubling in India's export share in World exports in the last 10 years, India's share in World exports is still very small, compared to China's 13.8 per cent in 2015 which increased from 7.3 per cent in 2005 (Table 5). India should aim at increasing its export share in world exports to atleast a respectable 5 per cent in the medium term.

**Table 5: Export Share to World: Cross Country Comparison**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
European Union (28)	38.8	38.0	38.3	36.8	36.7	33.9	33.2	31.4	32.1	32.4	32.7
China	7.3	8.0	8.7	8.9	9.6	10.3	10.4	11.1	11.7	12.3	13.8
United States	8.6	8.5	8.2	8.0	8.4	8.4	8.1	8.4	8.3	8.5	9.1
Japan	5.7	5.3	5.1	4.8	4.6	5.0	4.5	4.3	3.8	3.6	3.8
United Kingdom	3.7	3.7	3.2	2.9	2.8	2.7	2.8	2.6	2.9	2.7	2.8
Hong Kong	2.8	2.7	2.5	2.3	2.6	2.6	2.5	2.7	2.8	2.8	3.1
Russia	2.3	2.5	2.5	2.9	2.4	2.6	2.8	2.9	2.8	2.6	2.1
Singapore	2.2	2.2	2.1	2.1	2.1	2.3	2.2	2.2	2.2	2.2	2.1
India	0.9	1.0	1.1	1.2	1.3	1.5	1.7	1.6	1.7	1.7	1.6
Malaysia	1.3	1.3	1.3	1.2	1.3	1.3	1.2	1.2	1.2	1.2	1.2
South Africa	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5
World	100	100	100	100	100	100	100	100	100	100	100

Source: Based on WTO data

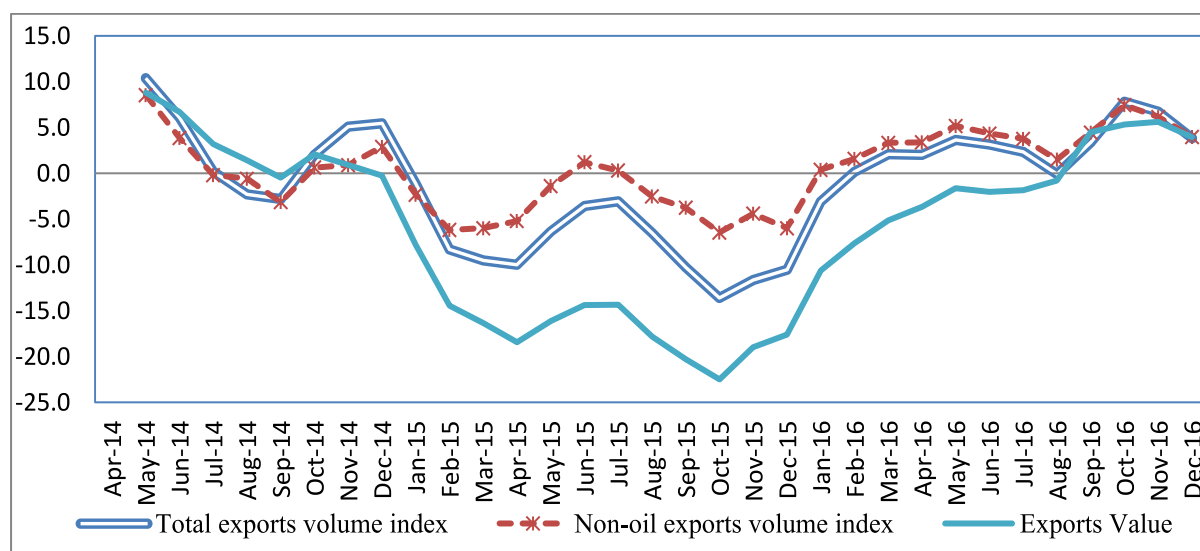
## C) Trends in India's Trade with special reference to Exports

### Export Growth: Value and Volume

One major factor affecting India's exports is global demand. As stated in UNCTAD (2013) report, global demand plays an important role in determining the export growth of a product. Empirical studies indicate that the exports of developing countries, especially in Asia, have low price elasticities but high income elasticities. The high income elasticities of exports indicate that export growth of developing countries is highly dependent on the economic performance of trading partners in general and developed countries in particular and low price elasticities of exports indicate that the developing countries may have limited flexibility in using price competition to maintain or increase exports. India's merchandise export growth has been declining continuously since late 2014-15 with slowdown in world growth and trade and was negative since December 2014. However there are some green shoots in recent months with export growth becoming positive in September (4.6 %), October (9.0 %), November (2.4 %), and December 2016 (5.5 %).

Export growth is expected to be positive in the coming months also as low base effect will continue. In April-December (2016-17) export growth has become positive at 1.0 per cent resulting in total exports of US\$ 199.3 billion. Non POL export growth was positive both in December 2016 (4.9 per cent) and April – December 2016 (2.2 per cent). Export volume growth (3 month moving average) continued to be positive for both total exports and non-oil exports. (Figure 5)

**Figure 5: India's Monthly Export Growth- Value and Volume ( Per cent)**



**Source:** Based on DoC and IMF data. Volume growth (3mma is calculated by DEA, BoP Unit).

**Note:** Volume index of total exports and non-oil exports is calculated from value indices calculated on the basis of dollar value of respective items and the price indices based on global prices of commodities given in the World Bank Pink Sheets and WPI adjusted with nominal exchange rate (wherever global commodity prices are not available).

## Composition and Sectoral Performance of Exports

The composition of India's exports has changed significantly over time with the share of petroleum products in India's export basket increasing dramatically from about 2 per cent in 1993 to as high as 18 per cent in 2010 with the growth of private sector oil refineries. With the fall in international crude oil prices, the exports of petroleum & petroleum products fell by 46.2 per cent to US\$ 30.6 billion in 2015-16 resulting in a fall in the share of this sector to 11.7 per cent from the 18.3 per cent in 2014-15. Engineering goods is the topmost sector of India's exports with 22.4 per cent share in total exports of India followed by gems & jewellery ( 15.0 %), textiles & allied products (13.7 %), chemicals & related products (12.3 %), petroleum crude & products (11.7 %) and Agri & allied products (9.9 %). The share of these six top exports constitutes 85 per cent of India's total exports in 2015-16.

**Table 6: Share in Total Exports**

Rank	Group/Items	2010-11	2014-15	2015-16
1	Engineering goods	19.6	22.9	22.4
2	Gems & jewellery	17.0	13.3	15.0
3	Textiles & allied products	11.5	12.0	13.7
4	Chemicals & related Products	8.3	10.2	12.3
5	Petroleum crude & products	14.6	18.3	11.7
6	Agri & allied products incl. Plantations	7.7	10.2	9.9
7	Plastic & rubber articles	1.9	2.1	2.4
8	Electronics items	3.3	1.9	2.2
9	Leather & leather manufactures	1.6	2.0	2.1
10	Marine products	1.0	1.8	1.8
11	Ceramic products & glassware	1.0	1.3	1.5
12	Ores & minerals	2.8	0.8	0.8

Source : D/o Commerce, M/o Commerce & Industry

Many export items/sectors have moved from negative export growth zone in 2015-16 to positive export growth zone in 2016-17(April-December). Some major export sectors/products of India which registered positive growth in 2016-17 (April-December) are Gems and jewellery (12.9%), marine products (21.0%) chemicals and related products (1.7%), electronic goods (1.5%), ores and minerals (37.7%) and Engineering goods (2.8%) (Table-7).

**Table 7: Exports: Sectoral Performance of Some Important Items**

	2015-16	2016-17 (Apr-Dec) (P)
Positive Growth	Chemicals & Related Products {1.3}	Marine products {21.0} Ores and minerals {37.7} Gems and Jewellery {12.9} Electronics Items {1.5} Chemicals and related products {1.7} Engineering goods {2.8}
Negative Growth	Textiles & Allied Products {-2.4} Gems & Jewellery {-4.4} Electronics Items {-5.2} Leather & Leather Manufactures {-10.4} Marine Products {-13.6} Engineering Goods {-16.8} Ores & Minerals {-18.1} Agriculture & Allied Products {-18.4} Petroleum Crude & Products {-46.4}	Textiles & Allied Products {-4.7} Leather & Leather Manufactures {-4.6} Agriculture and allied products {-4.0} Petroleum Crude & Products {-7.7}

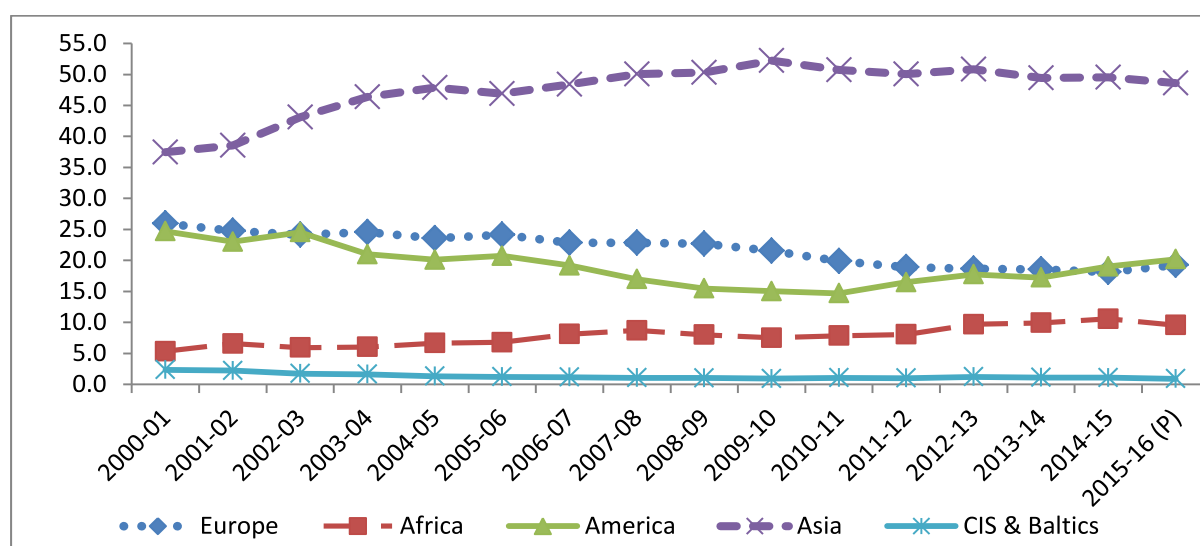
Source: DGCI&S data. Note: Figures in bracket { } indicates growth rate y-o-y;

## Direction of Exports

There has been significant market diversification in India's exports. Region-wise, while India's exports to Europe and America have declined, its exports to Asia and Africa have increased. India is better placed in the diversification of export destinations in 2015 as concentration of exports to its top ten export destinations is 50.6% as compared to top ten leading export countries of World like Hong Kong (81.2%), Japan (70.6%), Netherlands (68.0%), Republic of Korea (66.8%), UK (64.5%), USA (63.6%), Germany (59.8%), China (59.1%), France (60.0%) and Italy (57.3%).

The share of developing market economies in India's exports increased from 43 per cent in 2008 to 48 per cent in 2015 with the share of developed market economies declining from 56 per cent to 52 per cent. However there were variations in the composition of India's exports within developed and developing regions. The export share of Europe in India's total exports which was at 21.5 per cent in 2009-10 declined to 19.2 per cent in 2015-16 and the share of America increased to 20.1 per cent in 2015-16 from 15.0 per cent in 2009-10. The share of the USA increased from 10.9 per cent to 15.4 per cent in the above period. The share of India's exports to African countries increased from 7.5 per cent in 2009-10 to 9.5 per cent in 2015-16. However, the share of Asia has declined from 52.2 per cent in 2009-10 to 48.7 per cent in 2015-16. In Asia, the share of West Asia declined from 20.2 per cent in 2009-10 to 18.9 per cent in 2015-16, whereas the share of North East Asia declined from 16.2 per cent to 11.8 per cent mainly due to China's share in total exports of India declining from 6.5 per cent to 3.4 per cent. The share of ASEAN declined marginally from 10.1 per cent to 9.6 per cent in the above mentioned period (Figure 6).

**Figure 6: Share in India's Exports by Region (Y-oY)**

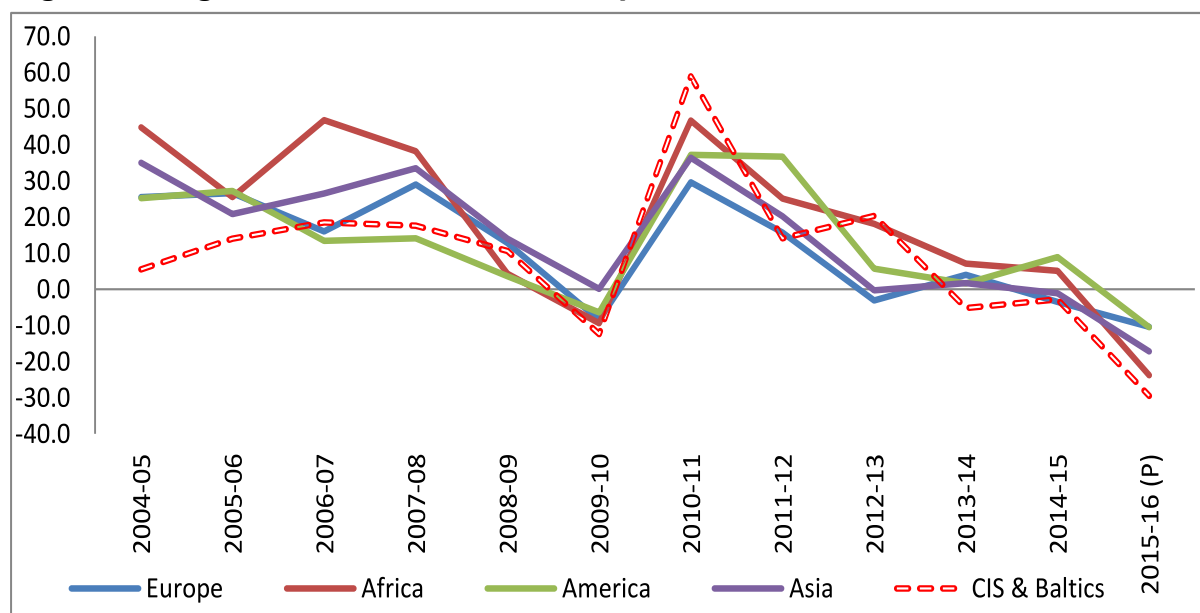


Source: Based on DGCI&S data



In 2015-16, India's exports declined to all major regions due to fall in international commodity prices and weak global demand. While growth of total exports fell by 15.6 per cent in 2015-16 as compared to 1.3 per cent in 2014-15, India's exports to major regions like Europe, Africa, America and Asia declined by 10.4 per cent, 23.7 per cent, 10.4 per cent and 17.2 per cent respectively in 2015-16. Exports to African markets suffered the most.. This also resulted in a 9.8 per cent fall in its share in 2015-16 over 2014-15. (Figure 7)

**Figure 7: Region-wise Growth rate of Exports of India**

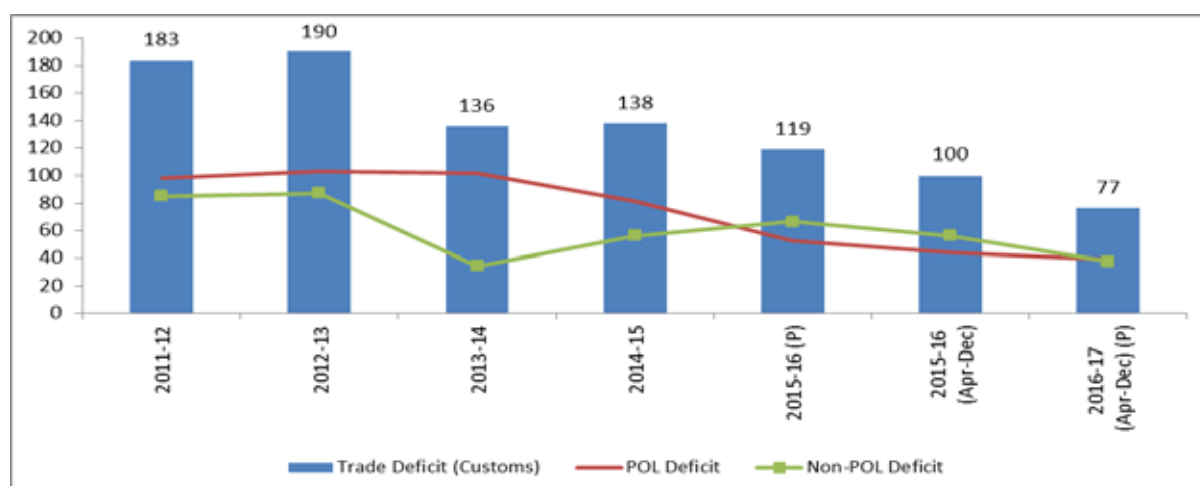


Source: Based on DGCI&S data

### Trade Deficit and Bilateral Trade Balance

India's trade deficit reached a level of US\$ 190.3 billion in 2012-13 due to increase in imports of crude oil with the rise in international crude oil prices and also increase in gold imports. However, trade deficit declined to US\$ 135.8 billion in 2013-14 as a result of the Government's policy to curtail gold imports, and to US\$ 118.4 billion in 2015-16 due to the fall in international crude oil prices. This trend continued in 2016-17 (April-December) with fall in the trade deficit by 22.1 per cent mainly due to fall in growth of gold and silver imports by 35.7 per cent and POL imports by 10.4 per cent. While total trade deficit has been falling in recent years, there is greater fall in non POL deficit by 30.1 per cent in 2016-17 (April-December) over 2015-16 (April-December) (Figure 8). Fall in Gold & Silver imports by 35.7 per cent partly contributed to this fall.

**Figure 8: India's Trade Deficit (US\$ billion)**



Source: Based on data of DGCI&S

Among India's trading partners, the top 5 countries with which India's bilateral trade balance is negative are China, Switzerland, Saudi Arabia, Indonesia and Iraq, while the top 5 countries with which it has surplus trade balance are USA, UAE, Hong Kong, UK and Singapore (Table 8).

**Table 8: India's bilateral trade deficit (US \$ million)**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
USA	5245	11365	10956	16653	20650	18558
UAE	1069	-843	-2822	1501	6888	10844
Hong Kong	905	2515	4372	5410	8028	6041
UK	1915	1498	2356	3777	4336	3665
Singapore	2686	8518	6133	5749	2685	412
China	-29273	-36570	-38669	-36168	-48456	-52693
Switzerland	-24111	-34146	-31048	-17514	-21064	-18322
Saudi Arab	-15701	-26424	-24212	-24185	-16945	-13927
Indonesia	-4218	-8161	-9548	-9898	-10961	-10312
Iraq	-8330	-18155	-17969	-17603	-13418	-9833
Total trade deficit	-119954	-183356	-190336	-135794	-137695	-118717

Source: Based on DGCI&S Data

India's total trade deficit is mainly contributed by its trade deficit with China which has increased continuously from US\$ 29.3 billion in 2010-11 to US\$ 52.7 billion in 2015-16. The share of India's trade deficit with China in India's total trade deficit increased from

24.4 per cent in 2010-11 to 44.4 per cent in 2015-16. India's major items of imports from China are telephone sets including mobiles, automatic data processing machines, diodes & other semi conductor devices, electronic devices, chemical fertilisers, etc. India's major items of exports to China are cotton yarn, refined copper and copper alloys unwrought, PoL items, granite, aluminium ores, other fixed vegetables & oils, cyclic hydrocarbons, cotton, polymers and iron ore. Iron ore exports to China which had fallen drastically by 21.1 per cent during 2015-16 has started to pick up in recent months with growth in these exports at 1142.7 per cent in April-November 2016-17. India's trade deficit with Switzerland is mainly due to import of gold which has fallen in the last 3 years. Moreover, a part of it is used in India's exports. India's trade deficit with Saudi Arabia and Iraq, is due to crude oil imports which is unavoidable, while trade deficit with Indonesia is due to coal and crude palm oil imports. Coal is a necessary import though domestic substitution is possible to some extent and crude palm oil imports could be monitored and substitutes like coconut oil can be used wherever possible given the low prices of coconut oil and the export duty levied on palm oil by Malaysia and Indonesia to increase prices of their palm oil exports. The inference from the above analysis is that, it is mainly India's trade deficit with China that needs to be monitored. While some imports from China need to be monitored, exports to China have to be increased substantially.

#### **D) Some recent measures taken to help exports**

The government has been taking steps from time to time to help exports. Various measures were taken during the year to boost exports, including expanded coverage of the Merchandise Exports from India Scheme (MEIS) and raising duty drawback rates for select sectors under the interest equalisation scheme. To promote indigenous manufacturing of electronic goods, many steps have been taken in the Union Budget 2016-17 which includes rationalization of the tariff structure with extension of differential excise duty dispensation to mobile handsets/ tablet computers and specified electronic equipment, withdrawal of duty exemption on charger or adapter, battery, wired headsets and for manufacture of mobile handsets and changing the excise duty structure on these items for supply to mobile handset manufacturers, etc.

Recently, steps were also taken to help Textile and Apparel Sector exports which include the following:

- Overtime hours for workers not to exceed 8 hours per week in line with ILO norms.
- Introduction of Fixed Term Employment under Sub section 1 (15) of the Industrial Employment (Standing Order) Act, 1946.
- Making employees contribution to EPF optional for employees earning less than Rs 15,000 per month.

- Moving from input to outcome based incentives by increasing subsidy under Amended-TUFS from 15% to 25% for the garment sector as a boost to employment generation.
- Special Scheme for remission of State levies by Ministry of Textiles for three years with rebate to be worked out by the Drawback Committee.
- Drawback at All Industry Rate to be given even when fabric inputs are imported under Advance Authorization Scheme.

**CHAPTER 2**  
**INDIA'S MERCHANDISE**  
**EXPORTS: MAJOR**  
**CONCERNS, STRATEGIES**  
**AND REFORMS**



### India's Merchandise Exports: Major concerns, Strategies and Reforms

#### **A) Immediate Concern**

The major concern today is reviving India's exports given the international situation particularly with just 1.9 per cent world trade volume growth in 2016 (the lowest since the 2009 financial crisis) and in the wake of the rising non-tariff measures (NTMs) by different countries. The WTO's fifteenth trade monitoring report on G20 trade measures, issued on 21 June 2016, shows the application of new trade-restrictive measures by G20 economies increased compared to the previous reporting period, reaching the highest monthly average registered since the WTO began its monitoring exercise in 2009. In the period mid-October 2015 to mid-May 2016, G20 economies applied 145 new trade-restrictive measures, or an average of almost 21 new measures a month. In the same period, G20 economies implemented 100 measures aimed at facilitating trade, averaging just over 14 per month. Since 2009, a total of 1,583 trade restrictive measures were imposed by G20 countries, and only a quarter of these measures have been removed. These restrictions cover over 6% of all G20 imports and 5% of global imports. In this situation reviving and maintaining a reasonably good export growth rate is the primary concern.

#### **B) Medium Term Concern**

In the medium term, India should aim at raising its share in world exports to at least a respectable 5 per cent. For this, India's exports (of goods) should reach around US\$ 882 billion by 2020 from the current US \$ 267 billion in 2015, which means India's export growth rate needs to be around 27 per cent CAGR in the 5 years (2016-2020) assuming that global growth continues at the present CAGR of 1.5 % (2010-15). In case world export growth is faster than this, then our target growth rate will also change. While achieving this high export growth rate looks like a formidable task at present, India had achieved growth rates higher than this in 2004-05 (30.8 %) and in 2010-11 (40.5 %). But then the World economic situation was better and the base was also lower compared to the present. This ambitious goal could be achieved with some major strategies and reforms. Some such strategies and policy reforms are given below

#### **C) Major Strategies and Policy Reforms**

##### **C. 1 Demand based export basket diversification:**

The export concentration index shows that India's exports are less concentrated on a few products and are more homogeneously distributed among a series of products. It is better than many ASEAN countries and also improved in 2015 over 2010. The diversification index indicates a relatively higher divergence of India's exports from World pattern compared to developed and developing countries, though the index has

fallen in 2015 over 2010. Diversification of all other BRICS countries except China, ASEAN countries like Singapore, Thailand, Vietnam, and even Sri Lanka are higher than that of India. (Table 9)

**Table 9: Export Diversification and Concentration Indices- Selected Countries**

	2010			2015		
	NoP	CI	DI	NoP	CI	DI
China	255	0.11	0.45	257	0.10	0.42
Hong Kong	242	0.20	0.53	245	0.25	0.56
India	255	0.16	0.50	254	0.12	0.44
Japan	245	0.13	0.43	243	0.14	0.43
Russia	247	0.37	0.65	253	0.32	0.64
Singapore	247	0.27	0.48	249	0.24	0.48
South Africa	256	0.14	0.54	251	0.12	0.50
Brazil	251	0.16	0.52	252	0.13	0.55
Malaysia	252	0.16	0.47	254	0.17	0.44
Sri Lanka	177	0.21	0.75	196	0.20	0.73
Thailand	251	0.09	0.39	250	0.08	0.37
United Kingdom	260	0.11	0.30	258	0.11	0.34
United States	259	0.08	0.25	258	0.10	0.25
Viet Nam	239	0.11	0.57	251	0.16	0.55
World	260	0.08	0.00	260	0.06	0.00
Developing Ec.	260	0.12	0.21	260	0.09	0.19
Transition Ec.	257	0.32	0.58	256	0.27	0.57
Developed Ec.	260	0.07	0.18	260	0.07	0.18

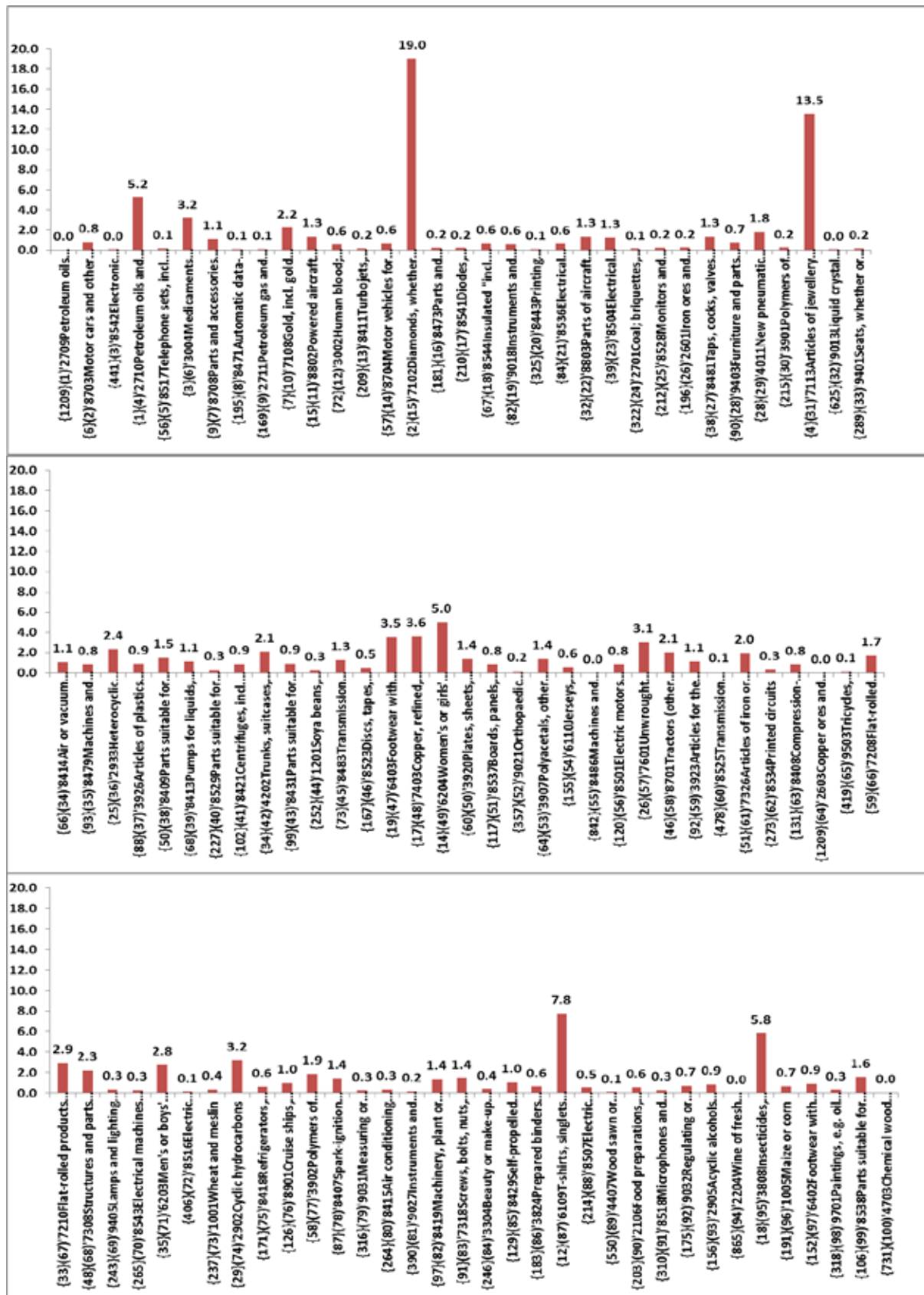
**Source:** UNCTAD.

**Note:** NoP-Number of products; CI-Concentration Index; Concentration index (CI), also named Herfindahl-Hirschmann Index, is a measure of the degree of product concentration. An index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports or imports are more homogeneously distributed among a series of products.; Diversification index (DI) is computed by measuring the absolute deviation of the trade structure of a country from world structure: The diversification index takes values between 0 and 1. A value closer to 1 indicates greater divergence from the world pattern. This index is a modified Finger-Kreinin measure of similarity in trade.

However to see whether India's product composition matches with world demand and demand of major markets, we have to use some amount of disaggregation. This can be done by matching India's top exports with top imports of world and major markets at 4 digit level. In 2015, out of the top 100 world import items at 4 digit HS level, India's export share in world imports of these items were more than 5 per cent only in 5 items. These are Petroleum oils, not crude; Diamonds, not mounted or set; Articles of jewellery & parts thereof; T-shirts, singlets and other vests, knitted or crocheted; and Insecticides, fungicides, herbicides packaged for retail sale. Among these top 100 items of world imports, India's exports were more than or equal to US\$ 2 billion only in 11 items. Besides the above mentioned 5 items, these include medicament mixtures, put in dosage; cars (incl. station wagon); gold unwrought or in semi-manufactured forms; parts & accessories of motor vehicles; women's suits, jackets, dresses skirts etc & shorts; aircraft, (helicopter, aeroplanes) & spacecraft (satellites), etc. India has a thin presence in almost all items in top imports of the world, with depth in its presence only in a few categories like diamonds and articles of Jewellery, some textiles items, PoL, some medicaments and some chemicals. (Figure 9)



Figure 9: India's share in World's top 100 Import Items at 4 digit HS in 2015



Source: Based on Trade Map data, Note: ( ) indicates rank of the item in world imports at 4 digit level; { } indicates rank of the item in India's exports at 4 digit level.

In the USA's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 500 million only in 8 items. These items are parts & accessories of motor vehicles; medicament mixtures, put in dosage; petroleum oils, not crude; diamonds, not mounted or set; women's suits, jackets, dresses skirts etc & shorts; articles of jewellery & parts thereof; crustaceans; bed, table, toilet and kitchen linens.

In the EU's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 500 million only in 12 items. These items are cars (including station wagons); petroleum oils, not crude; medicament mixtures, put in dosage; parts & accessories of motor vehicles; heterocyclic compounds with nitrogen hetero atom etc.; footwear, upper of leather; women's suits, jackets, dresses skirts etc & shorts; diamonds, not mounted or set; trunks, suit-cases, camera cases, handbags etc, of leather, plastic, textiles, etc.; T-shirts, singlets and other vests, knitted or crocheted; articles of jewellery & parts thereof; women's suits, dresses, skirt etc & short, knitted/ crocheted.

In the UK's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 200 million only in 7 items. These items are medicament mixtures, put in dosage; petroleum oils, not crude; women's suits, jackets, dresses, skirts, etc & shorts; articles of jewellery & parts thereof; footwear, upper of leather; trunks, suit-cases, camera cases, handbags etc, of leather, plastics, textiles, etc; T-shirts, singlets and other vests, knitted or crocheted.

In China's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 500 million only in 3 items. These items are refined copper and copper alloys, unwrought; diamonds, not mounted or set; and cotton yarn (not sewing thread) 85% or more cotton, not retail.

In Japan's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 200 million only in 3 items. These items are petroleum oils, not crude; heterocyclic compounds with nitrogen hetero atom etc.; and crustaceans.

In Singapore's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 200 million only in 3 items. These items are petroleum oils, not crude; articles of jewellery & parts thereof; and diamonds, not mounted or set.

In Hong Kong's top 100 import items at 4 digit level in 2015, India's exports were more than or equal to US\$ 200 million only in 4 items. These items are gold unwrought or in semi-manufactured forms; diamonds, not mounted or set; articles of jewellery & parts thereof; and articles of natural or cultured pearls, precious /semi-precious stones.

Thus in most of the top imports of the World and our major trade partners, the presence of our exports in their top imports is very small. In fact in 2015 India exported 96.5 per cent of items in the World's top imports at 4 digit level and 83.2 per cent at 6 digit level in terms of numbers. But in value terms, both these form only 1.6 per cent. The ranks

of items in World top imports and ranks of India's exports of these items to the world show a great deal of mismatch in priorities. Similar is the case in different important markets like US, EU, Japan, etc. Till now our focus was on exporting what we can (or supply based), now we have to shift to items for which there is world demand and we also have basic competence. A demand-based export basket diversification approach which can give a big push to exports is of primary importance.

## C.2 Tariff and Foreign Trade (FT) Policy Reforms and GST Implications:

While a lot of streamlining has been done in India's FT policy, there are many irritants which can be removed. Some such specific irritants are mentioned in the next chapter. However here two fundamental reforms are being suggested (a) Rationalizing tariffs, (b) Streamlining Export promotion schemes also in the light of the GST.

- (a) Rationalizing Tariffs: While the present global situation of lower global demand and rising protectionist measures may not look like the right time to suggest lowering tariffs, a lot of rationalization can be done, as India's average MFN applied tariffs are relatively higher than other emerging economies and particularly all the BRICS economies except Brazil and India's bound tariffs are higher than all these countries.(Table 10 )

**Table 10: Sector Wise Average MFN and Bound Tariff Rates 2015: Comparison**

	Simple average final bound			Simple average MFN applied		
	Total	Agri	Non-Agri	Total	Agri	Non-Agri
EU (28)	4.8	10.9	3.9	5.1	10.7	4.2
USA	3.5	4.8	3.3	3.5	5.2	3.2
Brazil	31.4	35.4	30.8	13.5	10.0	14.1
China	10.0	15.7	9.2	9.9	15.6	9.0
India	48.5	113.5	34.5	13.4	32.7	10.1
Russia	7.6	11.0	7.1	7.8	10.8	7.3
South Africa	19.0	40.4	15.7	7.6	8.5	7.5
Singapore	9.6	23.3	6.5	0.2	1.1	0.0
Sri Lanka	30.4	50.1	20.2	9.3	23.7	6.9
Malaysia*	22.3	62.1	14.9	6.1	9.4	5.5
Thailand	27.8	38.5	25.5	11.0	30.7	7.7
Indonesia*	37.1	47.1	35.6	6.9	7.6	6.7
Vietnam	11.5	19.1	10.4	9.5	16.3	8.4
Myanmar*	37.1	47.1	35.6	6.9	7.6	6.7

Source: Based on WTO data. Note: \* 2014 data

However India's average applied non-agricultural tariffs at 10.1 per cent are relatively lower than its average applied total tariffs at 13.4 per cent in 2015 (WTO data)/ 16.1 per cent in 2015-16 (customs tariffs data). But realized import tariffs after taking into account all exemptions based on customs revenue collections is very low. For this an exercise has been done by us taking customs revenue collection, both total and budget-headwise, to calculate realized import tariffs, both basic and total. These

are compared with the applied and bound tariffs (both simple average and weighted average) as per WTO data and also customs tariffs data (latest) (Table 11).

**Table 11: India's Realized, Applied and Bound Tariffs for Select Budget Heads,**

B/H	Description of goods	Customs Revenue Collection Rate (Realized Tariffs)				Import Share (%) 2015-16	Avg. MFN duty Rate 2015 (WTO)				Avg Custom Tariffs 2015-16			
		2014-15		2015-16			Simple		Weighted		Simple		Weighted	
		Basic	Total	Basic	Total		Applied	Bound	Applied	Bound	BCD	Total Duty	BCD	Total
		1	2	3	4		5	6	7	8	9	10	11	12
01	Fruits, Dried & Fresh	9.1	11.0	7.5	9.5	0.8	33.4	95.4	37.5	94.6	37.7	39.9	49.1	51.9
02	Coffee, Tea & Spices	1.3	2.7	1.3	3.0	0.2	51.9	123.6	57.5	124.1	57.4	60.7	66.6	66.1
03	Anim. or Veg Fats & Oils	3.3	3.4	9.4	9.7	2.8	37.8	191.5	47.5	221.3	59.2	27.8	83.5	20.6
04	Beverages, Spirits etc	31.9	35.7	36.3	41.3	0.1	96.4	150.0	102.3	150.0	101.1	109.2	113.6	120.8
05	Mineral Substances	3.6	5.8	3.4	5.8	0.7	5.6	38.3	6.1	25.2	9.8	10.3	8.1	10.9
06	Ores, Slag and Ash	0.8	7.3	0.6	6.9	1.4	2.9	25.5	2.5	36.3	5.3	23.4	5.5	
07	Petro. Oils - crude		0.1		0.1	17.2					5.0		5.0	
08	Petro. Oils-other than Crude	2.1	12.9	1.9	22.0	1.1	5.8		5.8	0.0	10.0	23.9	10.0	23.9
09	Other Mineral Fuels	2.0	4.1	2.0	5.1	7.0	7.4	4.3	4.4	15.8	9.9	20.0	10.0	9.9
10	Inorganic Chemicals	3.6	10.0	3.7	9.7	1.3	7.4	39.7	7.2	37.1	9.5	26.1	9.5	26.0
11	Organic Chemicals	2.3	10.5	2.3	11.0	4.5	7.5	38.5	7.3	39.4	10.0	25.3	10.1	25.2
12	Pharmaceutical Products	3.9	7.7	4.3	8.5	0.4	9.8	30.0	9.9	31.3	9.6	20.3	9.9	20.3
18	Plastics & Articles	4.7	18.0	4.8	18.9	3.0	11.0	33.4	11.9	37.8	10.9	27.8	11.4	27.5
23	Man-Made Filaments	3.7	16.6	3.4	16.0	0.2	10.0	18.2	10.0	20.9	10.0	29.3	10.0	29.3
24	Man-Made Staple Fibres	2.9	13.1	2.8	13.5	0.2	9.4	13.8	9.6	17.6	10.0	28.0	10.0	29.0
28	Primary Mat. of Iron & Steel	2.2	15.4	2.2	15.7	0.9	4.5	37.3	3.0	39.7	15.0	23.4	15.0	23.4
29	Iron & Non-Alloy Steel	2.0	14.3	2.7	17.0	1.1	8.5	40.0	9.7	40.0	15.0	30.7	15.0	32.0
30	Stainless Steel	3.5	15.1	4.0	16.5	0.2	7.1	40.0	7.5	40.0	15.0	27.4	15.0	26.8
31	Other Alloy Steel, Bars, etc. Rods etc	2.9	14.5	4.6	18.5	0.7	6.7	40.0	7.7	40.0	15.0	27.5	15.0	29.5
32	Clocks & Watches & Parts Thereof	4.6	14.7	4.8	15.7	1.0	10.0	24.6	10.0	21.7	15.0	29.1	15.0	29.2
33	Copper	2.0	12.8	1.8	13.7	0.9	6.6	0.0	5.3	0.0	6.9	25.3	5.5	23.8
35	Aluminium	2.5	15.5	2.4	14.3	0.9	7.3	0.0	4.5	0.0	7.8	26.0	5.5	23.9
40	Tools, Implements & Articles of Base Metals	6.0	19.1	6.6	20.9	0.4	10.0	1.0	10.0	8.0	10.0	28.3	10.0	29.4
41	Machinery Ex. M tools Machine Tools etc	2.8	11.7	2.7	13.0	7.9	7.1	26.4	5.9	24.1	7.3	24.4	6.0	23.8
42	Machine Tools & Parts Accessories	3.8	13.0	3.9	14.6	0.5	6.8	38.1	7.2	37.6	7.4	26.3	7.4	26.3
44	Electrical Machinery	2.1	11.5	2.1	13.0	9.5	7.2	22.3	3.5	9.4	8.1	27.0	8.1	26.7
46	Motor Vehicles & Parts Thereof	10.9	29.0	10.8	30.6	1.3	21.4	24.0	13.8	33.7	28.8	51.1	16.7	38.0
47	Aircraft & Vessels	0.1	0.2	0.0	0.5	2.5	9.2	23.9	6.4	19.2	10.5	18.6	7.9	12.6
48	Optical, Photo, Measuring, etc. eMedical & Surgical Instr.	3.5	12.1	3.5	12.9	1.9	7.9	27.7	6.6	29.6	7.9	25.3	6.5	22.1
50	Project Imports	1.8	8.0	2.0	9.5	0.7					10.0	23.4	10.0	23.4
51	Baggage	0.3	0.4	0.0	0.0	0.0					100.0	36.1	100.0	36.1
52	Gold	4.2	5.5	4.4	6.5	8.3					10.0	10.3	10.0	10.3
	Gross Custom Collection Rate	2.3	6.8	2.8	8.7	100	13.4	48.5			16.1	32.2		
	Refunds Rate		0.4		0.3									
	Drawback (Customs) Rate		0.4		0.5									
	Net Customs Collection Rate		5.9		7.9									

**Source:** Computed from data from D/o Revenue (Colmn 1-4), DoC (Colmn 5), WTO (Colmn 6-9) and www.custada.in. (Colmn 10-13).

**Note:** (i) For 2015-16, data used for customs revenue collection rates are preliminary data. (2) Net customs collection rate = Gross customs collection minus refunds and drawback (customs) as percentage of total imports. (3) In 4 items, codes 01,22,23,24, there were specific duties for some items. Here only ad valorem duty items were considered for average customs tariffs given in columns 10-13.

**Some important findings of this exercise are the following.**

- While average applied tariffs of India as per WTO data base is 13.4 per cent in 2015, the average realized tariffs( BCD) is only 2.8 per cent, and average realised total tariffs if 8.7 per cent in 2015-16. It was 2.3 per cent and 6.8 per cent respectively in 2014-15. The higher rate in 2015-16 compared to 2014-15 is due to higher collection rates under Budget heads Gold, Steel & related items, PoL, Animal & Vegetable fats & oils. But the interesting point is that the realized tariff (BCD) of 2.8 per cent in 2015-16 is less than one-fourth the average applied tariffs (WTO data). For Agriculture and non-agricultural items, the realized tariffs (BCD) are 9.6 per cent and 2.5 per cent whereas applied tariffs (WTO data) are 32.7 per cent and 10.1 per cent respectively in 2015. Thus our realized tariffs (BCD) for non-agricultural goods are very low and even lower than the applied tariffs of many ASEAN countries.
- If the refunds and customs duty drawbacks are deducted from gross customs revenue then the net realized total tariffs is 7.9 per cent in 2015-16 (lower than the 8.7 per cent without deductions) and the net realized tariffs (BCD) would also be lower than 2.8 per cent. Since refunds and drawbacks are mainly in non-agricultural sector, the realized non-agricultural tariffs (BCD) would also be lower.
- The low realized tariffs are due to the large duty concessions and exemptions given under the FT policy. Most of these are in sectors like machinery including electrical machinery which could be due to the EPCG scheme. PoL items, organic chemicals, plastics & articles, iron & steel items, metals, aircrafts & vessels, gold, opticals, photographic items are the other big value items which have resulted in lower realized tariffs. The above results have important implications.
  - Though different rates of tariffs are levied not just with the motive of revenue generation, but for various reasons including protecting the domestic sectors, providing differential treatment to sectors, avoiding inverted duties, etc, there is scope for India to reduce its applied tariffs substantially and simultaneously withdraw most of the export promotion schemes. This will not cause any revenue loss. In fact revenue can be higher if applied tariff rates are kept slightly above the current realized tariff rates along with plugging leakages which at present are in the form of export incentives. Exporters will also not be affected as the import duties are lower. Instead they can benefit due to lower transaction costs.
  - In the WTO negotiations, India can make major gains by even reducing bound rates even if it is not lowered upto the applied rates.
  - With GST, many of the other duties (other than BCD) will get input tax credit. Thus only duty drawback at a reduced rate to cover the reduced BCD would be needed.

- Sectorally, there is scope to lower duties in many items, while retaining higher duties for some sensitive items.
- This will also impact India's FTAs/RTAs/PTAs which have been negotiated, while there is scope for negotiations at better terms for the new ones.

This could be the next major reforms and a detailed exercise needs to be done taking note of any sector-specific peculiarities.

### **(b) Streamlining Export Promotion Scheme:**

The implementation of GST will bring in a new dimension to the FT policy and the export promotion schemes in particular. GST will replace many taxes related to imports currently levied like additional duties of customs (CVD), special additional duty of customs (SAD), service tax, cesses and surcharges related to supply of goods or services, and service tax. Exports would be zero rated. Thus a whole lot of duties will be replaced which is likely to result in lower total duties. With this the duty drawback schedule needs to be reworked as it will be mainly basic customs duty (BCD) which needs to be rebated as items subsumed under GST will be covered under the input tax credit system.

Export promotion schemes also have to be suitably reformulated. For example, with the lowering of duties for capital goods over the years, many capital goods covered by the EPCG scheme have 'nil' or 'low' duties. With GST, the components other than BCD are covered under the input tax credit scheme and BCD is very low for many capital goods items. In fact, the customs collection rate or realized tariffs (BCD) of budget head machinery excluding machine tools and electrical machinery were only 2.7 per cent and 2.1 per cent respectively in 2015-16. An exercise needs to be done to list out the major items where still relatively high import duties remain and where EPCG scheme is being availed and where domestic production is not affected by any lowering of duties. For such items zero duties or near zero duties can be levied and simultaneously the EPCG scheme can be withdrawn. This can, not only help in lowering our average MFN tariffs of non-agricultural items, but also reduce the transaction costs. While abolishing EPCG scheme, a selective approach of levying zero or low duties for capital goods which are mainly imported and status quo in the duties for capital goods where domestic manufacturing is also important, can even help in the Make in India cause.

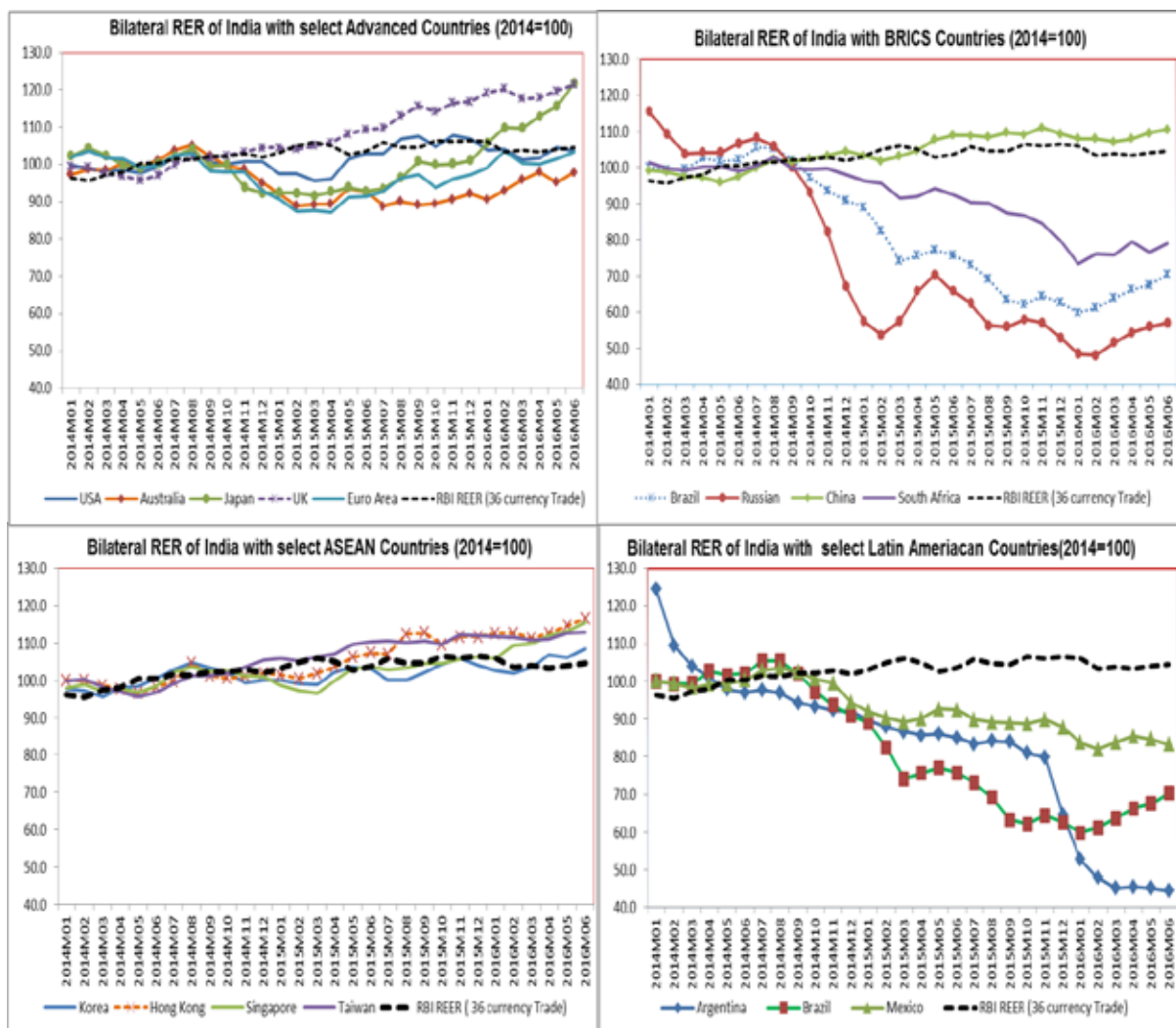
### **C. 3 Export competitiveness**

Real Effective Exchange Rate (REER) defined as the weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differentials helps in evaluating the competitiveness of a country. India's REER 36 currency trade and export based indices show appreciation since Feb 2014 with intermittent volatility indicating that India's exports have

become less competitive. However REER does not capture the difference in India's competitiveness in different countries/groups of countries and also competitiveness vis a vis major competitors in major markets. For this we need to dissect the REER into bilateral real exchange rates (BRERs). Bilateral real exchange rate measures nominal exchange rate between two countries adjusted for relative price differentials of two countries.

India's BRER has depreciated sharply in recent months with Argentina, Brazil, Egypt, Iran, Kenya, Malaysia, Mexico, Nigeria, Russia, S. Africa and Turkey and depreciated marginally with Australia, Indonesia and Sweden. It appreciated with other developed and advanced countries. Thus the countries where India is competitive are the BRICS partners except China, major Latin American countries, some ASEAN and African countries. Among developed countries, the major country with which India's BRER has depreciated is Australia ( Figure 10.)

**Figure 10: India's BRER with select countries**

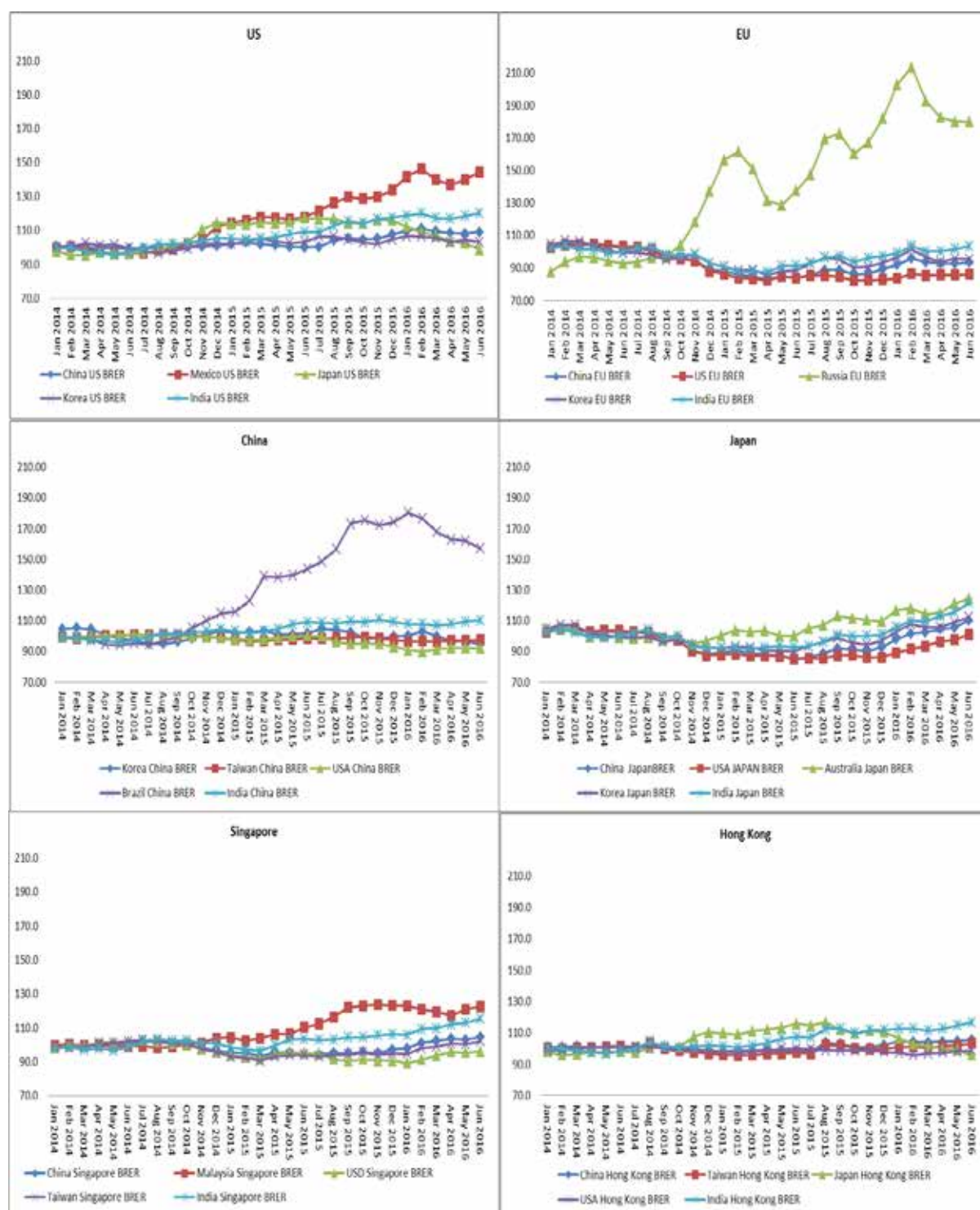


Source: compiled based on data from IMF



However to see the export competitiveness of India in a particular market, we also have to see BRERs of other competitors in that particular market. So, an exercise has been done for India's major markets, namely US, China, EU, Hong Kong, Singapore and Japan. Four important competitors in each market have been considered. (Figure 11).

**Figure 11: BRER of India and competitors in some select countries.**



Source: Compiled based on data from IMF



The inferences are as follows:

- In the case of the US market, in recent months only the BRER of Mexico with US is higher than that of India, which means that the other competitors like China, Japan, and Korea are relatively more competitive than India in the US market. In the case of Japan-US BRER, there is even a depreciation.
- In the case of Euro area, only Russia's BRER is above India's. Thus all other competitors like China, US & Korea are relatively more competitive than India in Euro area. In fact US-EU BRER shows a depreciation indicating that US is very competitive in the Euro area.
- In the case of Chinese market, only Brazil's BRER is above India's. Thus all the other three competitors, Korea, Taiwan, and the US are more competitive than India in China.
- In the case of the Japanese market, only Australia's BRER is above India's. While the BRERs of all competitors are appreciating, the other competitors like China, USA, Australia and Korea are relatively more competitive than India in the Japanese market.
- In the case of Singapore market, only Malaysia's BRER is above India's. Thus all other competitors like China, USA, and Taiwan are more competitive than India.
- In the case of Hong Kong market in recent months, all the competitors like China, Taiwan, USA and Japan are more competitive than India.

India's foreign trade policy needs to take into account the differences in India's competitiveness in different markets as revealed by the BRER.

Export competitiveness can also be seen by looking at price competitiveness. A sample exercise has been done to see India's price competitiveness in the US market. Based on the value of US imports from India and the World at two digit level, some select items were shortlisted and then all 6 digit items in these sectors were considered where comparable unit value data were available. While these indices show that US unit value imports from India have been generally lower than that of US unit value imports from the World, this could be either due to India being more price competitive or India exporting low value items to US under the six digit category. There are some exceptions in some sectors like Knit apparel, woven apparel and machinery where US import unit values from India are relatively higher than from the world. (Table 12).

However even after having price competitiveness, a country may not be able to penetrate a market for various reasons like FTAs/RTAs, besides tariff and non-tariff barriers which may affect the country's exports more than that of others. Even if we take 10 digit level data, the differences in unit values between US imports from world

and India are high and any conclusive inference on price competitiveness based on this data cannot be made. The only conclusion is that unit value realization of India's exports to US are much lower than that of the world.

**Table 12: Average Import Prices of Select Items by US from World and India**

Major Items- 2 digit	HS code 6 digit	Description of Items-6 digit	Share of US Imports from world 2015 (%)	Avg US import Price from (In US dollars)		
				World	India	Unit
				2015	2015	
03 Fish And Seafood	030617	Shrimps And Prawns, Frozen, Ne	28.3	9.18	9.33	/KG
	030614	Crabs+Shell,Frozen	5.9	11.98	14.88	/KG
29 Organic Chemicals	293499	Nucleic Acids & Salts; Other H	16.7	324.95	93.24	/KG
	293500	Sulfonamides	8.5	311.29	43.56	/KG
	293359	O W/Pyrim/Piper Rng	6.9	413.1	89.61	/KG
	293399	Heterocyclic Comp Nitrogen H	5.6	76.74	49.34	/KG
30 Pharmaceutical Products	300490	Other 3004	56.0	208.25	104.5	/KG
	300210	Ant+Bld Frac,Imm Pr	10.6	1363.51	903.8	/KG
	300220	Vaccines For Humans	6.4	3507.54	78.04	/KG
	300439	Hormone Etc,N Antib	6.3	727.65	152.1	/KG
52 Cotton+Yarn, Fabric	520852	Prn,Pln,100-200G/M2	29.0	1.63	1.59	/M2
	520942	Denim >200 G/M2	6.6	3.21	1.27	/M2
54 Manmade Filament, Fabric	540720	From The Strip	14.3	0.29	0.28	/M2
	540220	Polyester	10.5	1.97	1.66	/KG
	540219	High Tenacity Yarn Of Nylon/O	10.0	4.79	3.84	/KG
	540233	Textured Polyester	5.8	2.09	1.82	/KG
	540761	85% Or>N-Txt Poly F	5.3	0.78	1.81	/M2
55 Manmade Staple Fibers	550320	Polyester	30.7	1.21	1.36	/KG
	550410	Rayon	9.1	2.23	1.81	/KG
56 Wadding, Felt, Twine, Rope	560312	Mmf >25G/M2 <70G/M2	19.0	4.34	2.81	/KG
	560900	O Arc Y,5404/5 Tw	9.2	6.6	3.91	/KG
	560314	Mmf Weigh >150G/M2	8.5	5.21	2.13	/KG
	560392	Not Mmf>25 =<70G/M2	8.4	4.61	2.4	/KG
	560313	Mmf>70G/M2 <150G/M2	7.9	4.58	2.2	/KG
	560311	Manmde Flmnt<25G/M2	6.2	3.62	3	/KG
57 Textile Floor Coverings	570242	Mmf Pile,Made-Up	18.1	8.05	11.65	/M2
	570330	Mmf, Not Polyamid	11.8	7.67	10.79	/M2
	570110	Wool/Fine Anml Hair	11.2	65.06	50.28	/M2
	570310	Of Wool	9.4	21.7	20.22	/M2
	570320	Nylon/Othr Polyamid	8.5	10.6	7.79	/M2
	570500	O Carp+O Tfc,M-Up/N	8.3	7.43	7.89	/M2
59 Impregnatd Text Fabrics	590310	Other With Pvc	17.8	3.63	2.36	/M2
	591190	Other 5911	16.2	7.36	9.74	/KG
	590320	O With Polyurethane	11.8	4.2	1.37	/M2
	590390	O Wth Plastic,Nesoi	9.5	0.82	0.36	/M2
	590220	Polyesters	8.3	3.38	3.9	/KG
60 Knit,Crocheted Fabrics	600410	Knit/Croc Fab,Wd>30 Cm, Cont 5	17.3	7.63	2.98	/KG
	600632	Knitted Or Corcheted Fabrics,S	12.6	3.22	3.78	/KG
61 Knit Apparel	611020	Cotton	16.8	44.8	48.38	/DOZ
	611030	Mmf	12.5	56.84	67.31	/DOZ
	610910	Cotton	8.7	20.81	25.24	/DOZ
62 Woven Apparel	620342	Trousers, etc, Cotton	14.3	81.49	87.39	/DOZ
	620462	Trousers, etc, Cotton	12.0	72	80.47	/DOZ
	620520	Cotton	7.8	85.77	86.43	/DOZ
	621210	Bra,Knt/Crochet	6.3	44.93	70.46	/DOZ
73 Iron/Steel Products	731815	Ot Scrw+Bolt,Thread	6.1	2.82	1.9	/KG
	730890	Other 7308	7.1	2.61	1.9	/KG
84 Machinery	847130	Port Digitl =<10 Kg	12.2	362.16	656.8	/NO
	847150	Ot Dig Process Unit	5.5	1053.4	745.4	/NO
85 Electrical Machinery	851712	Telephones For Cellular Networ	16.1	211.95	112.5	/NO
	854231	Eic Procsr & Cntrl,W/N Combi W	5.5	5.63	0.46	/NO
87 Vehicles, Not Railways	870323	Sprk-Ign>1500=<3000	34.8	19685.1	19154	/NO
88 Aircraft, Spacecraft	880330	Airplane, Helicopter	41.2	355.88	367.3	/KG

Source: Based on WTA database

Note : In this exercise important items at 2 digit level were first shortlisted and for these items, 6 digit level items with 5 percent share and above were taken. For these items average prices of US imports both from World and India wherever available were taken.

#### **C.4 Export Infrastructure and Logistics**

India has made great progress in building airport related infrastructure. However, it is lagging behind particularly in sea-port related infrastructure. Therefore, export infrastructure, particularly ports-related infrastructure, which affects trade, needs immediate attention. These include areas like deepening of drafts of berths; deployment of shore mobile cranes; upgradation and greater use of minor ports, better connectivity from ports to ICDs; reduction in inefficiency at Indian ports; reduction of tariffs for anchorage loading, etc; and better and cheaper port services. Reforms in the transport sectors, particularly railways, ports and maritime transport could significantly reduce the cost of sourcing inputs and reaching customers both inside India and beyond. Infrastructure particularly near ports have to be improved and last mile connectivity provided by improving road connectivity. Much has been written on the importance of physical infrastructure and the government is also taking steps, though a lot more needs to be done particularly in having the most modern ports.

The World Bank in its recent Logistics Performance Index (LPI) for 2016 has ranked India at 35 amongst 160 countries compared to the rank of 54 in 2014, a jump of 19 places. In terms of the six-components of the LPI i.e. customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timelines, India's ranking is 38, 36, 39, 32, 33, and 42 respectively. One more initiative that can be taken in this regard is the GPS tracking of export/import goods transported to ensure smooth and speedy movement of export goods from place of production to the sea ports / airports. The time taken for transportation of goods to the customs is high in India. There is a need to really monitor the movement of trucks to ascertain the actual time taken to transport goods so that corrective steps can be taken to reduce the logistics costs. Recently for the first time, a Bangladesh truck, loaded with its export consignment, reached designated customs clearance station at Patparganj, Delhi, via the border-crossing customs check-post at Petrapole on the Indian side. On receipt of relevant information and documents from the transport operator, an on-line permit was issued for the vehicle, electronically vetted by both India and Bangladesh. On-line GPS tracking system enabled the vehicle to be tracked 24X7, origin to destination, by the designated agency. This type of system needs to be implemented for all export/import cargoes and even in internal trade of India.

#### **C.5 Reforms related to Digital Infrastructure**

Digital Infrastructure is as important as physical infrastructure for growth of industrial and trade sectors. To scale up the linkages, besides physical connectivity, virtual connectivity inside India's vast market as well as to external markets, needs to be improved. Most business operations and functions have become digitized. Along with IT services, in which India has made considerable progress, Telecommunications constitute the backbone of the digital economy. The Telecommunication sector has been subject to substantive liberalisation over the past years, which is reinforced in

the latest Consolidated FDI Policy. While the mobile sector is highly competitive in India and mobile prices are among the lowest in the world, the fixed line segment is lagging behind. Better access to broadband services can help improve quality through better access to information and information intensive business services such as engineering, design, R& D and market intelligence. Access to broadband internet services and secure servers facilitates computer assisted design and manufacturing (CAD/CAM) which are standard in many industries, and 3-D printing which is also gaining a foothold in manufacturing and exports. Reliable and cost effective broadband could greatly facilitate exports and a host of business services offered by specialized service providers including international service providers which help run integrated and effective operations like cloud computing, customer services, supply chain management etc.

However landlines and fixed broadband are lagging behind in India with a low density and low average speed of data flows. In the indicators like fixed broadband subscribers per 100 inhabitants and secure services per 1 million people, India lags far behind the average of almost 240 countries though it has improved marginally from the previous year. India is way behind many developed countries like USA and Euro Area. The Fixed broadband density in India is 1.34 in 2015 compared to 1.24 in 2014. Secure internet servers per 1 million people is 6.8 in 2015 compared to 5.5 in 2014. But, this is much lower than many other comparable countries including China where it is 18.6 for fixed broadband density and 10.1 for secure internet servers and even in Vietnam where it is 8.1 and 14.8, Brazil where it is 12.2 and 77.1, Argentina where it is 16.1 and 63.3, and South Africa where it is 5.3 and 130 respectively. (Table 13).

**Table 13: Density of Fixed Broadband and Secure Servers-International comparison**

	Country	2007	2010	2013	2014	2015
Secure Internet servers (per 1 million people)	USA	1061.8	1444.9	1304.7	1547.9	1649.9
	Brazil	20	40	56.3	68.6	77.1
	Argentina	15.4	25.6	41.8	52.7	63.3
	South Africa	30.4	61.6	86	115.4	130
	Russia	4.4	20.2	51.1	84.4	126.4
	China	0.7	1.9	3.9	7.0	10.1
	Euro area	253.2	537.0	659.6	830.3	981.1
	France	135.5	296.4	486.5	680.5	809.3
	Thailand	7.1	13.7	18.0	23.3	30.4
	India	1.0	2.1	3.8	5.5	6.8
	Vietnam	0.6	3.1	8.2	11.9	14.8
	World	95.1	154.4	159.4	188.9	208.7
	Philippines	3.9	6.7	8.1	10.9	13.7
	Poland	55.2	211.6	313.0	429.5	547.1

	Country	2007	2010	2013	2014	2015
Fixed broadband subscriptions (per 100 people)	USA	23.6	27.1	30.0	30.3	31.5
	Brazil	4	7.2	10.7	11.7	12.2
	Argentina	6.6	10	15.1	15.6	16.1
	South Africa	0.8	1.4	3.1	3.2	5.3
	Russia	3.4	10.9	16.6	17.5	18.8
	China	5.0	9.3	13.6	14.4	18.6
	Euro area	21.3	27.7	31.0	32.1	33.2
	France	25.3	33.7	38.8	40.2	41.3
	Thailand	2.0	4.9	7.7	8.1	9.2
	India	0.3	0.9	1.2	1.2	1.3
	Vietnam	1.5	4.1	5.6	6.5	8.1
	World	5.4	7.9	9.8	10.2	11.3
	Philippines	0.6	..	2.6	2.9	3.4
	Poland	10.9	15.3	18.4	18.9	19.5

Source: Data from World Bank database: World Development Indicators

A OECD paper (2016) has indicated that India is less developed in the area of broadband due to barriers to competition and the general regulatory framework facing foreign investors. Removing the restrictions on foreign entry and better pro-competitive regulation in fixed line broadband telecommunications would enable manufacturers and exporters to better integrate in global value chains and to expand exports in higher-end market segments. While these are important, the fundamental issues is facilitating broadband infrastructure in a country where multiple regulations and permissions have to be obtained at different layers of government. Some of the specific issues are the following:

- **Issues related to broadband:**

- (i) Right of Way (RoW): As stated in a TRAI paper (2015) single-window clearance is an imperative for all RoW proposals at the level of the states and in the central government. All such clearances have to be time-bound so that telecom service providers (TSPs) and infrastructure providers can move rapidly to project execution. Ideally, single-window clearance should be administered online with a defined turnaround time. The reasons for denial of RoW permission should be recorded in writing. DOT has come up with one set of new, comprehensive, clear, uniform and transparent Indian Telegraph Right of Way Rules , 2016 across the entire country to help simplify and streamline the entire process of ROW approvals. This needs to be implemented quickly and Charges for RoW should also be kept at a minimal level.
- (ii) While Optical Fibre may be the best way to take broadband everywhere, it is true that it cannot reach everywhere especially in the last mile. High capacity Wireless technologies in the E & V band act as a tool to provide fiber extension

in the last mile with fiber like capacity and customer experience. There is a need to consider including opening up unrestricted, delicensed access to the 60 GHz band (also called the V-Band) in India's digital strategy.

- (iii) Another alternate technology which can enable speedy rollout of broadband especially in far flung rural and remote areas is through satellite communications. As recommended by TRAI, 'Open Sky' policy needs to be implemented. This will allow TSP/DTH/VSAT operators access to International Satellite Operators.
- GST related Issue: GST exemption/ lowest slab of GST could be considered for broadband to encourage investment and growth of broadband infrastructure.

Addressing the above mentioned issues can help in making India's manufacturing and exports of even traditional sector like textiles, and leather more competitive and qualitative. E-commerce and E-payments will be greatly facilitated by a well-developed broadband infrastructure. If this is spread all over the country including villages it can lead to a virtual revolution.

## C.6 Trade Facilitation

Greater trade facilitation by removing the delays and high costs due to procedural and documentation factors, besides infrastructure bottlenecks is another major challenge. Despite greater trade facilitation measures in recent years, the time to export and cost of exports are higher in India than China (Table 14).

**Table 14: Trading Across Borders: A Comparison**

Economy	Ease of Doing Business Rank	Trading Across Borders								
		Rank	Border compliance		Documentary compliance		Border compliance		Documentary compliance	
			Time to export: (hours)	Cost to export: (USD)	Time to export: (hours)	Cost to export: (USD)	Time to import: (hours)	Cost to import: (USD)	Time to import: (hours)	Cost to import: (USD)
Bangladesh	174	172	100	408	147	225	183	1,294	144	370
China	84	96	26	522	21	85	92	777	66	171
Denmark	3	1	0	0	1	0	0	0	1	0
India	130	133	109	413	41	102	287	574	63	145
Malaysia	18	49	20	321	10	45	24	321	10	60
Singapore	1	41	12	335	4	37	35	220	1	37
Sri Lanka	107	90	43	366	76	58	72	300	58	283
Vietnam	90	99	57	309	83	139	64	268	106	183

Source: Based on "Doing Business 2016" of World Bank and International Finance Corporation (IFC)

India's rank in 'Trading Across Borders' is much higher due to its high compliance

costs and time. China's compliance costs are higher than India particularly in imports. Sri Lanka & Vietnam have better rankings than India. Trade facilitation also implies reducing the number of documents needed for trade. A comparative list of documents needed for exports & imports for India and some other countries shows that the number of documents needed for Exports/Imports in India are higher than other countries. (Table 15).

**Table No. 15: Number of Export/Import documents: India and some select Countries**

France	China	India	Malaysia	Singapore	Thailand	South Korea
<b>A) Export Documents</b>						
1.CMR waybill 2.CI 3.Declaration through Intrastat (DEB) 4.PL	1.BL 2.CoO 3.CI 4.CDL 5.CED 6.CPoA 7.PL	1.BL (3 copies) 2.CoO 3.CI 4.CED 5.IC 6.PL 7.TSC 8.THR	1.BL 2.CoO 3.CI 4.CED 5.PL	1.CI 2.CED 3.EP 4.PL	1.BL 2.CoO 3.CI 4.CD 5.PL 6.TSC 7.THR	1.BL 2.CED 3.PL
<b>B) Import Documents</b>						
1.CMR waybill 2.CI 3.Declaration through Intrastat (DEB) 4.PL	1.BL 2.CoO 3.CI 4.Contract 5.CID 6.IL 7.Inspection Declaration 8.PL 9.Telex release Guarantee letter	1.BE 2.BL 3.Cargo release order 4.Catalogs 5.CoO 6.CI 7.Imprt General Manifest 8. Inspection Report 9.IC 10.PL	1.BL 2.CoO 3.CI 4.CID 5.PL	1.CI 2.CID 3.Import Permit 4.PL	1.BL 2.CI 3.CID 4.Delivery Order 5.Import License 6.PL. 7.TSC	1.BL 2.CID 3.Delivery order

**Source:** Compiled from Report "Ease of Doing Business 2016"

**Note:** BL- Bill of lading; CoO-Certificate of origin; CI-Commercial invoice; CDL- Custom declaration letter of trust; CED- Custom Export declaration; CID-Custom Import Declaration; CPoA-Customs power of attorney; PL-Packing list, IC- Insurance certificate; TSC- Technical standards certificate; THR-Terminal handling receipt; EP- Export Permit; CD- Customs declaration; IL- Import Licence approved by the Ministry of Commerce for Mechanical and Electrical Products; BE-Bill of Entry

Many more documents are needed other than the basic documents listed in Table 15. Some of them are sector-specific. To see the number of documents needed for exports, an exercise was done by us with the help of FIEO, both in 2012 and now in 2016. This exercise shows that there is a reduction in the number of documents and procedures related to exports to around 100-108 pages in 2016 from around 129 pages in 2012. (Box 1).

<b>Box 1: Documents and Procedures related to Exports</b>		
	<b>Earlier (in 2012)</b>	<b>Latest Status (2016)</b>
i. EPCG Application : To be filed on EDI Mode with digital signature but required to submit one hard copy of EDI application and two copies of manual application with requisite enclosures. Every page of the application and enclosures are to be sealed and signed by the Applicant.		EDI mode continues, details of changes are given below.
Hard copy of EDI Application	5 pages	5 pages
Two hard copy of manual (one copy only)	10 pages	(5-6 pages)
Enclosure		
IEC	1 page	1 page
RCCM	2 pages	2 pages
EM/IL/IEM	5 pages	(2-3 pages) Depends on filing
Proforma Invoice'	2 pages	2 pages
Catalogue	4 pages	Depends on products
Justification	1 page	1 pages
Declaration	2 pages	2 pages
<b>Total</b>	<b>32 pages</b>	<b>Around 25-29 pages</b>
<b>ii. Advance Authorisation:</b>		
By and large, same as EPCG requirements	32 pages	Around 25-29 pages
<b>iii. Central Excise:</b>		
ARE documents, Bond/LUT etc.	8 pages	8 pages
<b>iv. Application for benefits on Promotional Schemes:</b>		
Application copy	5 pages	Now online only
Enclosure	7 pages	Now online only
<b>Total</b>	<b>12 pages</b>	<b>Online</b>
<b>v. Duty Drawback Brand Rate:</b>		
Application with DBK I, II, III statements with other enclosures	20 pages	20 pages
<b>vi. Import Clearance:</b>		
Bill of Entry & Declaration	1 pages	Now online
<b>vii. Exporter Clearance:</b>		
Shipping Bill	1 pages	1 page
Invoice, Packing List and other enclosure	6 pages	6 pages
<b>Total</b>	<b>10 pages</b>	<b>7 pages</b>
<b>viii. Sales Tax Purpose:</b>		
Declaration, true copies etc.	6 pages	6 pages
<b>ix. CFS to ICTT and vice versa:</b>		
Request letter and other enclosure	7 pages	7 pages
<b>Grand Total</b>	<b>129 pages</b>	<b>100-108 pages</b>

Source: Based on FIEO Inputs



There is a need to further streamline the documentation process and reduce the number to the barest minimum. To further improve India's ease of doing business, multiple compliance requirements both statutory and administrative, need to be reduced and judicial reforms with time limits for disposal of litigations need to be introduced.

### C.7 FDI linked and Value Added Exports

A major part of Exports of China are FDI linked. Inbound FDI has played an important role in China's economic development and export success. According to the Ministry of Commerce (MOFCOM) of China, foreign invested enterprises account for over half of China's exports and imports; provide for 30 per cent of Chinese industrial output, generate 22 per cent of industrial profits and employ 10 per cent of labor. India also has to pursue this vehicle for export enhancement as it can help in better market access, sometimes secure markets and also help in technology and skill upgradation.

A related issue is exports of value added items. Higher foreign value added in exports is considered to be a sign of greater integration with global value chains. Though for India it has increased from 9.36 per cent in 2005 to 24.10 per cent in 2011, this is much lower than many other export oriented countries like China, Cambodia, Turkey, South Korea, etc. (Table 16.)

**Table 16: Foreign value added share of gross exports**

Country	1995	2000	2005	2008	2009	2010	2011
Belgium	31.11	34.44	31.26	36.64	30.57	30.87	34.54
Hungary	30.13	51.57	48.09	46.40	44.95	48.85	48.68
Iceland	18.84	24.24	28.97	29.62	30.37	31.17	33.19
Ireland	38.47	42.97	41.89	43.64	42.03	43.69	43.62
Japan	5.63	7.40	11.12	15.77	11.20	12.73	14.68
Korea	22.33	29.77	33.02	41.76	37.53	39.24	41.70
Turkey	8.94	13.06	20.96	24.99	21.58	22.64	25.73
United Kingdom	18.25	18.05	17.08	19.54	18.89	21.14	23.05
United States	11.46	12.58	13.05	15.62	11.60	13.44	15.03
Brazil	7.83	11.46	11.71	12.54	9.99	10.34	10.77
Cambodia	12.73	36.99	42.21	42.02	35.03	37.38	36.82
China	33.38	37.28	37.43	31.77	30.82	32.00	32.16
Costa Rica	22.07	26.49	28.55	31.22	28.09	27.38	27.82
Hong Kong	21.69	15.66	17.58	21.98	19.20	20.14	20.41
India	9.36	11.28	17.47	22.66	20.97	22.31	24.10

Source: OECD

However the term value added given above is a misnomer as it implies only foreign import content and not value added exports in real sense. Technology intensive and skill intensive exports can be used as a proxy for value added exports. At present the

share of high-technology exports in India's manufactured exports is only 7.5 per cent (in 2015) whereas in 2014 it was 25.4 per cent in China, 47.2 per cent in Singapore, and 26.9 per cent in South Korea. FDI is also considered as a vehicle for acquiring technology and skill and can thus help in technology and skill intensive exports.

Another way of looking at value added exports is by seeing the exports of products, by stages of processing. India's exports by stage of processing in 2015, show a greater share of consumer goods and intermediate goods. In countries like Hong kong, and Singapore, the share of capital goods is very high. In the case of Japan, USA and even China, this sector's share is high. So there is a need for India to move up the value chain. (Table 17)

**Table 17: Exports by Stage of Processing in 2015: Comparison of India with select countries**

Product Categories	China		India		Hong Kong		Japan		USA		UK		Singapore	
	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)	Exports (US\$ Bn)	Share(%)
Raw materials	37.9	1.7	21.8	8.3	9.1	1.8	8.2	1.3	136.4	9.1	30.3	6.5	3.0	0.9
Intermediate goods	365.6	16.0	86.0	32.5	97.3	19.5	129.8	20.8	296.3	19.7	122.0	26.2	58.4	16.9
Consumer goods	830.8	36.4	117.3	44.4	80.3	16.1	155.8	24.9	384.6	25.6	168.9	36.3	85.1	24.5
Capital goods	1008.3	44.2	36.4	13.8	309.5	62.1	290.2	46.4	514.4	34.2	128.1	27.5	178.9	51.6

Source: Based on World Bank WITS database

### C.8 Approach towards WTO and Mega FTAs

The Mega Free Trade Agreements (FTAs) like the Trans-Pacific Partnership (TPP), ASEAN Economic Community (AEC), the proposed Trans-Atlantic Trade and Investment Partnership (TTIP) between US and EU are considered as new challenges for India, both in merchandise trade and services trade. These mega FTAs, erode existing preferences for Indian products in established traditional markets benefiting the partners to these agreements and also lead to the development of a rules architecture which will place greater burden of compliance on India's manufacturing and services standards for access to these markets. All these have happened when India's own FTAs/RTAs with different countries benefit its partners more affecting India's domestic sector, particularly, the agricultural sector and livelihood of the people. Some FTAs/RTAs/CECAs of India have led to an inverted duty structure-like situation with import duty for FTA partners on some finished goods being nil or lower than the import duty on raw materials for non-FTA countries. While these issues with different countries need to be taken up with them at bilateral and multilateral forums and specific examples are given in the next section, here we need to see the broad perspective.

Brexit, slowdown in global growth and trade, rising protectionist measures in many countries, rising anti globalization sentiments even in developed countries, and now US withdrawal from the TPP, have all contributed in breaking up or slowing down the formation of Mega FTAs. In many countries opinion has slowly started to veer back towards WTO negotiations. In the Indian case, this could be a blessing in disguise as we are not part of any major FTA/Mega FTA and their growth could have harmed our interest; our FTAs have benefitted our trading partners more than us, though some FTAs are just for strategic reasons; and the GSP benefits have been withdrawn for India but not for some of its competitors in important sectors. In this situation, successful WTO negotiations seems to be the first best option for India. The tariff reforms suggested earlier could help India in taking a more pro-active role in the WTO.

The second best option could possibly be to have useful FTAs with some major countries while actively expanding India's engagements with BRICS and ASEAN as India enjoys competitive advantage with many of these countries (as also revealed by the BRERs) with a part of its exports directed towards these markets ( BRICS 6.4 per cent and ASEAN 9.6 per cent in 2015-16). With the US withdrawal from TPP, China could expand its interests via the RECP route and India could benefit from RECP only, if it is carefully negotiated. Anyway the threat of Mega FTAs seem to have diminished for the time being, though the final word cannot be said yet.

### **C.9 National Priority Sector Status for Exports and greater States' participation in Exports**

Export sector needs to be accorded national priority sector status and there should be greater involvement by the local and state governments while framing and implementing trade policy. Based on available though imperfect data, the top states at present are Maharashtra, Gujarat, Tamil Nadu, and Karnataka with a share of 61 per cent in total exports. (Table 18) States need to play an active role in the export effort as they are also the beneficiaries of the resultant development. Devolution of funds to states could also include the criterion of export performance of states.

**Table 18: State-wise performance of India's Exports**

State	Share to Total Exports (%)	
	(April-March) 2015-16	(April-May) 2016-17
Maharashtra	25.5	28.1
Gujarat	19.0	19.8
Tamil Nadu	9.7	9.4
Karnataka	7.4	6.2
Uttar Pradesh	4.7	4.8
Andhra Pradesh	4.6	3.7
Haryana	3.9	4.0
Delhi	3.5	3.5
West Bengal	2.8	2.6
Punjab	2.1	2.2
Telangana	2.1	2.4
Rajasthan	2.0	2.1
Kerala	1.7	2.1

Source: Based on data from Department of Commerce

The state-wise exports given in this table are only indicative as there are some weaknesses in the data. The figures are compiled as per the reporting from customs with no validation done at the DGCI&S end. Only one state of origin code can be given by the exporter in a single shipping bill. In the case of shipping bills with multiple invoices containing items originating from more than one state, there is no provision for making different entries. In the customs daily trade returns (DTRs) the non-reporting of state of origin (STON) is considerable and exporters have a tendency to report the state to which they belong/ the state to which the port (through which the export has taken place) belongs/ the state from where they 'procured' the goods as the state of origin for those particular goods instead of the actual state of origin. The problem is acute in the case of non-manufacturing exporters, who only know the place of procurement and not the place of production of the goods. So state wise exports data needs to be compiled more systematically based on place of production rather than place of exports or place of receiving payments.

### **C.10 A Global Market Intelligence Cell (GMIC)**

There is a need for a GMIC which could be set up in the Department of Economic Affairs. This cell in DEA should compile global information on domestic regulations and barriers in goods and services which come in the way of greater trade between India and the partner countries and greater inflow of investment to India. This effort needs to be supplemented by also posting officers well versed in these subjects in some embassies of major trading partners of India. This cell along with the officers posted in different embassies should also be proactive in helping Indian exporters by providing information on products/services in high demand; finding out why some products/services are not moving in these markets; and also actively facilitating exports when needed. The reports should be completed within a specified time frame and queries should be answered almost on a real time basis. The USA for example, is very proactive and comes with regular reports on other markets. The USDA Foreign Agricultural Service, for example, comes up with a report called GAIN Report (Global Agricultural Information Network Report) at regular intervals which analyses comprehensively the markets of different countries for different products. It not only gives details of government policies, market entry opportunities and market barriers, but gives the details of the companies or major players in the market of a product with all details of products, brands, location of production, end-use channels, etc. This is like a updated ready reckoner for policy makers and negotiators. The USTR in USA also comes out with regular reports on trade and investment barriers in different countries. Similar institutions are also there in EU, Japan, etc. India therefore, needs to have such an institution of its own where the market entry barriers, domestic regulations and related issues can be compiled and viewed from India's own perspective. Since private institutions lack the authority needed for such work, as an alternative, a semi-government institution could also be thought of to do this work.

### **C.11 Active involvement of Indian Missions abroad, EPCs and FIEO in export promotion**

Marketing India should go hand in hand with Make in India. Indian missions have to be proactive in promoting India's exports. FIEO and other chambers should also be given some tasks & handholding with targets. The promotional activities and Make in India shows should also be linked with EPCs/FIEO and other chambers who should be assigned specific tasks and targets.

### **C.12 Creation of an Ombudsman for Resolving Export Related Problems and Disputes**

A number of export cases remain pending for a long time in the DGFT/DoC/CBEC and other related departments. The cases relate to fixation/ratification of input output norms, issue of export obligation discharge certificate (EODC), release of bank guarantees/bond, refund/settlement of dues like service tax etc. Such delays increase the transaction cost/time burden affecting exports. While CBEC/DoC are taking measures towards ease of doing business, the approach of field formations also has to change. At times, provisions of FTP, Customs/Central Excise/Service Tax Acts, etc. are interpreted differently at different locations. Hence, there is a need for a one stop mechanism or ombudsman to resolve export related problems and disputes within a time frame.

### **C.13 A clear-cut Agri Trade Policy**

Agriculture sector is usually at the receiving end of any deficiencies in policy making, starting with the GATT negotiations when India and other developing countries were at the receiving end in negotiations in Agriculture, though India was able to assert itself in the case of food security negotiations at WTO. Even in FTAs/RTAs, agriculture is at the receiving end. While a focused agri-export policy is needed, even a stable agri-export policy has not been formulated, with any domestic shortage or excess affecting agri-exports and any external shortages/ excesses affect the domestic sector and thus the agri-export policy. So a smooth intertwining of domestic and external-sector policies particularly for agriculture related items is needed. Advanced economic and market intelligence to avoid major mismatches is also necessary. While some specific issues are given in next section, steps need to be taken in areas like affordable credit, compliance to sanitary and phyto-sanitary conditions of export markets, good infrastructure and marketing for agri-products and moving from subsistence and domestic oriented farming to export oriented farming.



**CHAPTER 3**  
**INDIA'S MERCHANDISE**  
**EXPORTS: SPECIFIC**  
**ISSUES AND SUGGESTIONS**





### India's Merchandise Exports: Specific Issues and Suggestions

#### **A) Specific Issues: Cross-cutting**

##### **A.1 Issues related to Export Promotion Schemes**

While phasing out the different export promotion schemes and simultaneously lowering tariffs as suggested in the earlier section is the first best option, in the event of continuation of the export promotion schemes, for some more time, some changes which could be considered are the following.

- **EPCG Scheme**

- **Counting exports of alternate products for EO Fulfillment under EPCG Scheme:** At present, the FTP does not specify counting of exports of other products/goods manufactured or services provided by the same Firm/ Company, etc. which has the EPCG Authorization for fulfillment of export obligation. At times, the overseas buyers require alternate products also which the same machinery can produce. This also helps the exporters to utilize the machinery and fulfill export obligations. Clear provisions could be incorporated in the FTP in this regard.

- **Extending the Average EO period under EPCG Scheme:** In the present global scenario, the condition of meeting the average export obligation of last three years is deterring the exporters from making investments in export manufacturing sector using the EPCG Scheme. Exporters, who have taken the benefit, are now faced with a situation where they are not able to meet the Average Export Obligation as exports have declined for the last 18 months in a row. Export obligation period could be increased to say 8 years instead of the present 6 times the duty saved on capital goods to be fulfilled in 6 years.

- **Extending 3% Interest Equalization Scheme to the merchant exporters:** The 3% Interest Equalization scheme is not available to the merchant exporters. Since the financial requirement of both manufacturer exporters and merchant exporters at the pre-shipment and post-shipment stages are the same, the benefit could be extended to the merchant exporters. For example as per the Standard Operation Procedure & Practice, the merchant exporters procure goods such as yarn, fabrics, made ups for exports from the spinners , weavers etc and make payments to them. As such, any financial support to the merchant exporters will lead to increase in exports which in turn could benefit the weavers, spinners etc. Further, the main beneficiary will be manufacturers from the SME

sector whose production and employment generation goes up on account of export orders placed with them by the merchant exporters. Merchant exporters in specified sectors were eligible for interest subvention scheme, but they have been excluded under the current interest equalization scheme. In sectors such as handicrafts, carpets, agro sectors etc., exports are largely done by merchant exporters.

- **Advance License Issues:**

- Last 3 years production and consumption data need not be insisted upon while application is filed for issuance of advance license for annual requirement as the turnover data could be used.
- Redemption application filed after fulfilling the obligation specifies that no Export Promotion ( E.P) copy of the shipping bill is to be attached, but the office of DGFT insists on attaching a copy of the same. Since all EP copy details are on EDI system, there is no need to insist on this. This can decrease paperwork.
- Procedures can be further simplified. For example, the Advance Licence is issued by the office of DGFT. But, the bond for the duty saved is given to customs. Exporters after completion of export obligation have to collect EODC (Export obligation discharge certificate) from DGFT and submit the same to customs for release of the bond. Multiple points of interface could be avoided.

- **Duty Drawback Issues:**

- **Prompt disbursement of Duty Drawback amounts by the Customs:** There are delays in the release of duty drawback at major ports. This leads to blocking of funds for the exporters. Necessary steps need to be taken for speedy release of duty drawback amounts at major ports.
- **Duty Drawback for Auto Components made out of Aluminium:** In Auto Industry, several components traditionally manufactured in steel have been replaced with aluminium mainly to make the vehicle lighter to get maximum fuel efficiency. Hence, there exists a potential demand for the components (motor vehicle parts) manufactures of aluminium in the global market, especially, USA & Europe. These products have become a thrust area for exports. Some examples are brake parts, engine parts, propeller shaft yokes, wheels, made out of aluminium for exports, etc. Hence, auto components made of aluminium could be considered separately with better rates of duty drawback.

- **Trading permission to EOUs:** EOUs are not permitted now to do trading activity. In the present world, customers require a range of products to be supplied from a single source. Since EOUs can source some items not produced by them

from other parties and meet the customer requirements, some relaxation can be considered and some condition similar to the permission for DTA sales (50% of export value) etc. could be introduced. This can help the EOUs which have lost their charm of late due to the withdrawal of Income Tax benefits and the also the entry of SEZs.

- **Merchandise Exports From India Scheme (MEIS) Issues:**

- **Discrepancies in MEIS:** There are some discrepancies in the MEIS scheme which need to be addressed. For example in Chapter 3, under Motor Vehicle Parts (HS Code No.8708), several parts are exported out of India and is a potential area of exports. While most of the parts are listed under this category for benefit under MEIS, for brakes and servo brakes; parts thereof falling under H.S. Code No. 8708.30.00, the HS Code is correctly mentioned in MEIS list, but in the items description column, it is wrongly mentioned as 'mounted brake linings' and therefore denied MEIS benefit. This possibly inadvertent anomaly could be rectified.
- **Charges for Reward:** Exporters have to bear many costs like the high terminal handling charges & shipment cost. But there are some charges like charges for claiming rewards/incentives under the MEIS, (e.g. Rs. 1000/- towards application fees) could be cancelled .

## **A.2 Trade Procedures and Facilitation**

- Implementation of 24 x 7 clearance of imports and exports in the real sense. At present 24X 7 clearance is extended to 19 seaports and 17 air cargo complexes. However at the ground level it is reported that this is not working properly. Earlier there was shortage of staff particularly Appraising Officers at customs. Now even though the situation has improved, other supporting agencies like banks, clearing house agents (CHAs) are not available 24X7. This needs to be addressed and all important players need to be on board for this to work.
- **Customs Single Window:** While the CBEC has implemented Single Window System in importation, at the ground level, trade is still facing difficulties in clearance of export/import consignments. For example, while logging into the system, the Bill of Entry is being routed through a minimum of 7 layers, like Directorate of Plant Protection, Quarantine & Storage (DPPQ&S), Food Safety and Standards Authority of India (FSSAI), Animal Quarantine and Certification Services (AQCS), Wildlife Crime Control Bureau (WCCB), Central Revenues Control Laboratory (CRCL), etc. This multiple layer is creating abnormal delays in customs clearance to the extent of about 10-15 days on an average, resulting in importers having to pay demurrage and bear losses. Further there is a shortage of manpower and laboratories which delay the whole clearance process. A single window in the true sense will help the exim trade if all the approvals and clearances

are given online by the regulatory agencies without any manual intervention. Related agencies like for example Drug Controllers office for chemicals, FSSAI for all food items, etc. also need to develop a system similar to Customs Risk Management System to expedite clearances.

- **EDI Issues:** Recurring problems with respect to DGFT EDI and ICEGATE needs to be addressed. Indian Customs EDI System (ICES) is an e-clearance platform which is an effort already initiated by the government. Relevant stakeholders like banks also need to be given access to the same and the process needs to be expedited across stakeholders.
- **Exports through e-Commerce need Facilitation:** E-commerce has emerged as an important marketing tool for micro and small exporters. Marketplace e-bay alone has more than 25000 registered exporters. The opportunity for E-commerce in the next 2-3 years is estimated to be around US\$ 5 billion. So the procedure for E-commerce transactions needs to be streamlined. At present some export benefits like MEIS is being given for E-commerce in some selected sectors, but not others like duty drawback. There is a need to consider whether all export benefits can be extended to e-commerce shipments.
- **Mismatch of Remitters name with Buyer's name given in the Shipping Bill:** As per the current norms buyer's names has to be declared on the shipping bill. At times, this causes delays in obtaining the E-BRC due to mismatch in names of the remitters, at the time of paying their advance & balance payment. In the case of countries like Nigeria where there is a crunch in foreign exchange, exporters get advance payment from their buyer, but do not know who will be remitting the balance in their invoice dues. This needs to be addressed.
- **Customs procedures issues in some ports:** Some procedures differ in different ports. For example, in the case of imports of chemicals from Sri Lanka, only Chennai customs office insists on authentication from Sri-Lankan embassy. This has led to increase in transaction cost. (Rs 1300/- per transaction as processing fee for authentication from Embassy). This needs to be addressed and procedures should be the same in all ports. If necessary Govt to Govt (G2G) system can be implemented to verify signatures.

### **A.3 Issues related to RTAs/FTAs/CECAs**

There are many types of issues here, which are given under the following heads.

- 1) **Effects of FTAs/RTAs of competing countries:** The world is a spaghetti bowl of FTAs/PTAs with one affecting the other. India is also not immune from such effects. Some examples are given below.
- Indian exports of LABSA (Linear Alkyl Benzene Sulphonic Acid) HS Code

3402.11.40 to Vietnam faces 5% import duty under ASEAN-India FTA whereas under ASEAN-Korea FTA, 0% import duty is levied giving Korea an advantage. This needs to be negotiated.

- The main market for Cotton Grey fabrics is European Union and the main competitors for India are Pakistan and China. The FTA between Pakistan and EU resulted in the import duty in EU for Pakistan's Cotton Fabrics being 0% since January 2013, while 8% duty was levied on Indian cotton fabrics, making India uncompetitive. This needs to be addressed in our negotiations with EU and also with the UK which has a share of around 7 % of the imports from Pakistan of cotton grey fabrics to EU.
- China is the biggest consumer of Polyolefin in the world with an estimated consumption of around 44mMT. Apart from a capacity boom in China, its FTA with ASEAN countries also plays a major role in the trade of polymers between China and ASEAN. China's import tariffs on polyethylene and polypropylene from ASEAN nations is 0% under the China-ASEAN FTA. Thus countries like Singapore and Thailand producing substantial volume of polyolefin, have an advantage over India while exporting to China. Vietnam also has an FTA with ASEAN under which 0% import duty is levied on polyolefin imports from other ASEAN member countries, while for imports from India 2% duty is levied. The current capacity of polyolefin in India is around 7.2 million MT including high-density polyethylene (HDPE), linear low density polyethylene (LLDPE) and polypropylene (PP). By 2017, it is estimated that the total capacity would increase to around 10 million MT as against an estimated demand of around 7.6 million MT. Such a huge capacity addition in volume is expected to create excess supply in the domestic market which can put pressure on the operating rates of the domestic producers. This is apart from the threat of imports which is likely to remain for reasons like product/grade mismatch, other financial reasons, etc. So, increasing exports of polyolefin is important for India. In the RCEP for China and in bilateral trade agreements, these issues need to be negotiated.
- ASEAN –China FTA also gives an unfair advantage to exports of many chemical items from ASEAN to China, which are at zero duty, as compared to exports from India to China which are at 7% duty making Indian products uncompetitive. In addition, there is a VAT of 13 % to 17 % imposed by China on Indian exports. These issues need to be negotiated in the RCEP
- Exports of Apparel from India attracts an average duty of 9.2% in EU and 10.2% in USA whereas nil rate is applied for imports from Bangladesh and Ethiopia in EU and nil rate is applied for imports from Ethiopia in USA. This affects India's exports to EU & US.

Thus India's trade strategy needs to take into account these nuances created by FTAs/ RTAs of other countries and devise suitable strategies while negotiating new FTAs/ RTAs and reviewing existing FTAs/RTAs to keep the tariffs in potential and existing markets for Indian goods atleast on par with our competitors.

## 2) India's Major FTAs/RTAs/CECAs: General Issues

- **Duty Inversion on DTA sales of EOUs due to FTAs/RTAs:** India's Foreign Trade Policy allows EOUs to sell 50% of their FOB export value in domestic tariff Area (DTA) subject to paying duties, as if goods are imported into India. However, when such goods are imported under FTAs/RTAs, they are entitled for the reduced basic customs duty (BCD), including zero duty. This makes the DTA sale of products of EOUs uncompetitive. This also leads to an inverted duty type of situation with some finished products imports under FTAs having low or zero duties, while raw materials/semi-finished goods imported under non-FTA route having high duties. This issue needs to be resolved.
- **Need for additional Institutions for certifying Preferential Certificate of Origin for exports to FTAs:** Export Inspection Council (EIC) is the authority for issuing of Preferential Certificate of Origin (PCoO). But EIC officers are not present in all important clusters of manufacturing /exports. Therefore to obtain such certificates, the exporter has to spend time and money which increases his transaction costs. To reduce these costs, more institutions could be given the authority to issue PCoO, which can enhance our penetration into those markets where we have concluded FTAs.
- **Need to limit access to Electronics sector in FTAs:** ITA-1 paved the way for cheap imports of electronics and IT hardware from China and other countries. With new initiatives by the government, domestic manufacturing of electronics items is on the revival. While, caution is needed in signing the ITA – II agreement to safeguard the interest of domestic manufacturers at this critical juncture, India should also negotiate for market access to its domestically manufactured IT goods in partner countries while signing the FTAs/ RTAs. There is also a need to review our FTA's to limit access to electronics items in which we are competitive and enhance our capacity under the Make in India Initiative.
- **Classification issues in FTAs/CEPAs/CECAs:** There are some classification issues like India's HS Classification not matching with those of importing countries after the sixth digit under Comprehensive Agreements like India ASEAN FTA, India Japan CEPA, and India S.Korea CECA. Not only the classification but also the description varies from country to country. Since tariff preferences are given for national tariff lines, these issues need to be sorted out quickly. For example, the HS Code for medicaments containing chlorpeniramine maleate is covered

by HS Code 30049093, under Indian Classification System, whereas the same is covered by HS Code 3004905200 in Indonesian Classification. Hence the classification differs after six digits substantially. There is need to see whether some matching could be done for tariff lines after the sixth digit.

### **3) Specific Issues in some major FTA's/RTAs/CECAs of India**

#### **India - ASEAN FTA issues**

- ASEAN members on an average have put 5% of the total apparel lines under negative list of imports. Therefore, there is a need for early harvest of at least 95% of the remaining apparel lines for duty free access to Indian apparel exporters.

#### **India – Malaysia CECA issues**

- Malaysia continues to be a gainer vis-à-vis India under India-Malaysia CECA as far as RMG export sector is concerned, as Malaysia will have duty free access to India on 258 RMG products by 2019 while India will have duty free access only on 47 RMG products in Malaysian market by 2019. So, India needs to initiate review process for the 171 RMG products falling under ST (Sensitive Track) category of Malaysian schedule and urge Malaysia to bring as many items as possible under the 0% duty regime in the terminal year of India-Malaysia CECA integration as these products falling under Sensitive Track (ST) categories will be under 5% duty regime by the terminal year i.e. 2019.

#### **India Sri-Lanka FTA**

India-Sri Lanka FTA is one of the most controversial of all FTAs as most of the complaints particularly related to agricultural sector and livelihood concerns being affected are related to this FTA. Meanwhile negotiations are underway under the Proposed Economic and Technology Cooperation (ETCA) with Sri Lanka. So, an exercise has been undertaken by us using DGCI&S data and taking India's exports to Sri Lanka as a proxy to imports of Sri Lanka from India, to see the imports by India from Sri Lanka and Sri Lanka's from India of the items which are not in the respective negative lists of the two countries in the Indo-Sri Lanka FTA since the FTA was implemented in 2001. This reveals the following:

- India's imports from Sri Lanka excluding the items in India's negative list (310 items out of 431 items for which matching codes were available at 6 digit level) grew by 16.8 times in 2015-16 over 2000-01. Value wise these items form around 92% of total imports of India from Sri Lanka. India's total imports from world of these items for this period increased by only 7.5 times.
- On the other hand, Sri Lanka's imports from India excluding the items in Sri Lanka's negative list (1059 items out of 1220 items for which matching codes

were available at 6 digit level) grew by only 8.4 times during the same period. (Value-wise these items form around 70% of total imports of Sri Lanka from India). Sri Lanka's total imports of these items from world increased by 5.9 times.

- There are some sensitive items affecting livelihood concerns and where domestic prices have fallen drastically like rubber related articles (codes 401211, 401212, 401219, 401610, 401700 etc.). Some other such sensitive items are coir related items (530519, 530810, 560790), and carpets, (570190, 570220). There is a need for caution and it is not advisable to remove them from negative list as livelihood concerns of a large number of people are involved.
- Some new items also need to be included in the negative list which were not included earlier. One example is arecanut / betelnut. (Codes 080280, 080290, etc.), imports of which have increased 258.4 times during 2015-16 over 2000-01 and in the last two years there was a big jump in imports of these items. India grows around 7 lakh tons of Arecanut which is enough to meet domestic requirement. The Government has also put this item in the 'narcotics' list. So there is justification in limiting imports of these items by including them in the negative list. Some other items which need to be considered for inclusion in the negative list while renegotiating the treaty are coconut/coconut oil, and some textiles & leather items where livelihood concerns are involved.
- There are also some additional irritants in implementation of the agreement, For example, to avail duty concessions as per free trade agreement, Chennai customs is insisting for an endorsement from Sri Lankan consulate on the original FTA certificate for every transaction. This adds to unnecessary procedural delays and needs to be addressed.

#### **New FTAs:**

- New useful FTAs need to be concluded by India. While the FTA with EU is getting delayed, there are reasons to believe that FTA with UK, could be beneficial for both countries. After Brexit referendum, while UK is keen to further its ties with India, many stringent conditions of EU like Directive on Data Flows and regulations like General Data Protection Regulation (GDPR) may not be applicable now or with same force in the context of UK. So Indo-UK FTA needs to be initiated and implemented quickly while Indo-EU FTA should also be pursued further. This could help India which has been affected by withdrawal of GSP benefits by EU. For example, many items in the chemicals sector have become uncompetitive as Indian exports face the incidence of full duty (customs duty of around 3.8%). Further, antidumping duty of euro 87/MT (around 8-9%) is imposed by EU on imports of fatty alcohols from India into Europe. The total impact is around 12.8%. These issues also need to be taken into account while finalising FTAs



with EU or UK and in the bilateral meetings. Some other new FTAs which could be beneficial for India are with Latin American and African countries; Australia and New Zealand which can help engineering exports and Automobiles exports in particular.

#### **A.4 Transport and Export Infrastructure**

While Transport and Infrastructure particularly near ports have to be improved and last mile connectivity provided by improving roads, some specific issues are the following:

- **Port strikes and congestion in Nhava Sheva Port:** Exporters face difficulties at Nhava Sheva due to recurring strikes/ congestion. These strikes invariably result in severe congestion at the port. Containers are stranded outside the port since vessels do not get their slots in time. Scheduled closures of gates for accepting containers are abruptly changed, leading to missing schedules. This adds to the already high transaction costs. These issues need to be addressed.
- **Infrastructure bottlenecks & procedural issues faced by automobile exporters:**
  - **Mumbai Port:** The road between the storage/parking area and loading area is of poor quality and also is a public road thereby causing loss/damage to the new vehicles being exported.
  - **Chennai Port:** Movement of trailers through the city is possible only during night time. There are only two entry gates limiting number of trailers on a single day. This is despite sufficient storage space being available inside the port
  - **Ennore Port:** Movement of trailers through the city is possible only during night time.
  - **ICDs:** Availability of containers is inadequate for automobile exporters routing their exports through ICDs across northern/ NCR, western and southern clusters.
  - **Insufficient rakes that connect ICDs:** This forces manufacturers to use road transport thereby increasing cost of logistics. Railways need to increase availability of rakes for passenger cars and two-wheeler movement.
  - Lack of dedicated storage space for automobiles across ports
- **Port Charges:** In India, ports charges are very high even though the port infrastructure and services are qualitatively inferior compared to many developed and developing countries. For example, the terminal handling charges at Cochin Port are high compared to other ports. These costs are further compounded in some cases, for example, the terminal handling charges by DP World in Cochin

is being raised not on the port users directly, but on the shipping lines who pay service tax and in turn make invoices in favour of exporters who again charge service tax on exporters as they are usually foreign lines which cannot claim refund of service tax. Due to this, exporters are forced to pay service tax twice. Such anomalies need to be rectified. GST could possibly help in solving the problem.

- **Exorbitant charges by shipping companies / container freight stations:** There is no standard procedure to the charges of shipping companies & CFS's. The charges are decided arbitrarily and there has been frequent upward revisions under several headings. For example the delivery charge of around Rs 5000/- is above the c.i.f. rate fixed. Therefore there is a need to ensure that the rates are not changed irrationally and such rates are brought under regulation.

#### **A.5 Market Access Issues and Non-Tariff Barriers**

India faces many market access barriers. Some examples are the following.

- Export tax imposed by Indonesia and Malaysia on the raw materials like palm oil making Indian oleochemicals non-competitive due to increased input costs.
- There are also many non-tariff barriers faced by India. The following are some examples of NTBs faced by India.
  - Sharp increase in anti-dumping (AD) investigation on Indian exports, particularly, steel and related products by EU and USA.
  - New certification norms by EU for supply of steel to the construction industry in EU.
  - **Increasing NTBs by different countries on India's pharmaceutical exports:** Several countries like Russia, Vietnam, Iraq, Zimbabwe, Pakistan, Nepal and Nigeria are notifying negative lists for pharmaceutical imports in the name of protecting domestic industry. Some countries have come out with domestic policies compelling local manufacture. Insistence on site inspections inspite of holding WHO Good Manufacturing Practice (GMP) / Pharmaceuticals Inspection Co-operation Scheme (PICs) approvals is increasing. EU has started a system of written confirmations to be issued by Central Drugs Standard Control Organisation (CDSCO) for every exported active pharmaceutical ingredient (API) even after the product has an active Drug Master File (DMF) from reputed regulators like US's Food and Drug Administration (USFDA).

The above are just examples and there is a need to make a list of NTBs/NTMs faced by India in different countries as indicated in the earlier section.

## **B) Some Sector-Specific Issues**

In this section many sector-specific issues have been dealt with. The policies suggested here also need to be seen along with the major strategies and cross cutting issues. Any changes there like say rationalizing export schemes or tariff policy could lead to changes even in the sector-specific policies.

### **B.1 Engineering Sector**

Fall in global demand and prices due to overcapacity in China in recent years has affected India's exports of engineering goods. Added to this is the increase in countervailing duties by EU and US on Iron and Steel imports. In the current situation, some issues related to Engineering Exports are the following:

- **Lack of trade agreements or non-effective PTAs/FTAs with African and Latin American countries affecting exports:** Latin America and Africa presents a vast market for Indian companies that has remained largely untapped. There is a fall in India's Exports to Africa by 23.8 per cent and Latin America by 34.7 per cent in 2015-16 over the previous year. FTAs with these two regions is needed as our major competitor countries like China, Japan and Korea have already started the process of FTA engagement and are enjoying preferential access in these markets. In the case of Latin America, India has signed a Preferential Trade Agreement (PTA) with Chile in 2006 and another PTA with Mercosur in 2009. Negotiations are progressing with both Chile and Mercosur to broaden and deepen these PTAs. In terms of engineering trade, other major trade partners in LAC are Brazil, Argentina, Colombia and Peru. Indian engineering exporters will be benefitted, if India signs FTAs with these countries. In Africa, at present South Africa is a major trade partner for India. Deepening of existing India-SACU PTA could also help India.
- **Delay in release of shipbuilding subsidy affecting Working Capital:** In the ship building industry, as a result of global slowdown, there were reduced orders resulting in the industry being unable to pay back the working capital loans, and the bank guarantees were invoked. This created severe liquidity problems for the ship building industry. Earlier, there was a shipbuilding subsidy scheme which offered 30 % subsidies for shipbuilders, both state-owned and private, on building ocean-going merchant vessels that are more than 80m in length, if they are manufactured for the domestic market. For export orders, however, ships of all types and capacities were eligible for the subsidy. This scheme expired in August 2007. However, subsequently, in September 2015, the government announced that it will re-introduce the scheme w.e.f. 1st April 2016. No further action has been taken. There is a need to give a big push to India's ship building industry as this is one sector where there is domestic demand both for the ships and shipping services. This can lead to a lot of foreign exchange savings and even earnings.

- Issues of Minimum Import Price (MIP):** MIP was introduced in February 2016 on 173 items to prevent dumping of steel. Now, MIP has been reduced to 66 tariff lines, while anti-dumping duty has been imposed on 106 tariff lines. The MIP regime was supposed to come to an end on October 4, 2016. However the government has extended the MIP regime on 66 steel items for the second time for a further period of two months till December 4, 2016 and further upto February 4, 2017. The MIP has led to inversion of duty as raw material prices are being raised artificially through MIP and anti-dumping duties thus making steel and steel products less competitive. This has also resulted in the iron and steel exports registering positive growth of 22.9 per cent in April-December 2016, and exports of iron and steel products falling by 7.5 percent in April-December 2016 over corresponding previous period. The share of the items in total exports of India has tilted in favour of iron & steel now with the share of iron & steel exports increasing from 2.1 per cent in 2015-16 to 2.7 per cent in 2016-17 (April-December), while share of iron & steel products exports fell from 2.3 per cent to 2.1 per cent in the above period. Thus the impact of MIP on the steel sector is clearly visible with primary exports increasing while the exports of value added items i.e. products of iron and steel declining. There is a need to remove any WTO incompatible measures and wherever necessary only anti-dumping measures should be resorted to.
- Inclusion of Aluminium under Core Industry Classification:** There is a need to consider including certain non-ferrous items like Aluminium in the Core Industry classification to enable long term funding under the RBI's 5/25 scheme for infrastructure projects. This could give a boost to domestic industry and help exports.

## **B.2 Automobile Sector**

Automobile sector is a major part of engineering sector. As per the draft Automotive Mission Plan 2016-26, vehicle exports can increase to US\$ 33.3 billion on the conservative side, and US\$ 44 billion on the optimistic side by 2026. Unlike other industries, where exports have suffered during recessionary years, automobile industry has always seen year-on-year growth in exports. However, some concerns related to the industry which need to be addressed to achieve the potential are the following.

- Duty Drawback Issue:** The All Industry duty drawback rate for different automobiles is in the range of 2 - 4.7 per cent while the brand rate is higher than this. In the absence of adequate all industry rate (AIR) duty drawback, some companies wanted to opt for brand rate, however the documentation process for brand rate makes it very cumbersome for companies to avail brand rate with a large number of clarifications asked. This needs to be addressed.
- Rupee trading with LAC and African countries:** Recent slowdown in the commodities and oil prices have led to dollar unavailability in key African and Latin American markets hampering exports from India. To counter this challenge,

China has entered into RMB agreement with Nigeria, and is planning more such agreements with 30 other African countries. India also has an agreement for exports in rupees with Iran. Similar arrangements could be thought of with countries like Nigeria, Angola, Egypt, and Ethiopia in Africa; and with Columbia, Peru and Chile in Latin America etc. with whom India has trade deficit.

- **FTA/RTA issues:**

- All vehicle manufacturing countries have found their biggest market in their neighboring countries. In India, we have lost market in our neighboring countries in the recent past even though the political ties have improved. None of the neighbouring markets have a vehicle manufacturing base, apart from Pakistan. Despite this, in the Indo-Sri Lanka and Indo Bangladesh FTAs, these countries have not given India preferential treatment in vehicle trade. This needs to be negotiated.

- FTAs/PTAs across the globe have changed the dynamics of trade. The countries which get preferential treatment have been able to take advantage and take away the market from those which are not given preferential treatment. Indonesia has given some concessions for automobiles under PTA. Industry studies have identified markets like Algeria, Egypt, Nigeria, South Africa, Chile, Peru, Colombia, Philippines, Myanmar, Vietnam, Australia and New Zealand where trade agreements could help India's automobile sector if negotiated. At present negotiations are going on with Australia & New Zealand. There is a need to examine the feasibility of FTAs with these countries.

- **Issues related to Line of Credit:** Exim Bank of India has offices in 3 places in Africa but none in LAC. The Washington office is managing the activities in LAC. With growing trade of India with LAC, India is extending Lines of Credits to LAC. In view of the above, setting up an office of EXIM Bank of India in Latin America could be considered.

- **Port infrastructure:** This has to be improved not only to handle current automobile exports but also considering future demand particularly in southern and western parts of the country. There is also a need for dedicated auto desks and storage facilities at existing automobile exporting ports viz. Mumbai, JNPT, Chennai & Ennore.

### **B.3 Gems and Jewellery Sector**

The Gems and Jewellery sector with a combination of low costs and high skilled labour plays an important role in the Indian economy, contributing around 6-7 per cent of the country's GDP. India is the world's largest cutting and polishing centre for diamonds.

The industry has generated US\$ 38.6 billion of revenue from exports in 2015-16, making it the second largest exporter after petrochemicals. Some issues in this sector are the following.

- **Introduction of Turnover linked Presumptive tax on sale of rough diamonds at Special Notified Zone (SNZ):** To help promotion of viewing, display and trading of rough diamonds in India, Special Notified Zone has been established in India by India Diamond Trading Centre (IDTC) and Bharat Diamond Bourse (BDB) in Mumbai. SNZ facilities are successfully utilized for viewing and display of rough diamonds in India. However, rough diamonds imported for viewing are re-exported back in its entirety and all auctions and sales take place in the home country of the miner. The reason for this is that under the indirect tax regime, any income arising from sale of any asset/property or source of income situated in India is deemed to accrue or arise in India. Given this, sale of rough diamonds from SNZ triggers a tax rate of 40% (plus surcharge and cess as applicable) vis-à-vis carat tax/presumptive rate ranging between 0.125 %-0.16 % applicable to sale of rough diamonds at Antwerp. India has specifically provided exemption for viewing of rough diamonds in SNZ, though, no such exemption has been given for auction or sale of the said diamonds. Prominent mining companies such as De Beers, Al Rosa, Rio Tinto and Dominion have already conducted viewing and display sessions for rough diamonds. No sale is concluded in India and after viewing / display sessions, the rough diamonds are re-exported to other jurisdictions for similar viewing. Indian SMEs are willing to quote a higher auction price for the parcels viewed at IDTC-SNZ sessions (approx. 10% higher than the Antwerp quoted price). This indirectly suggests that the Indian SMEs may stand a greater probability to win the e-auction or have an increased allotment of the rough diamonds. However, trading continues to be concluded outside India due to the tax system and the Indian government loses tax revenues with respect to rough diamonds sold to the Indian SMEs on e-auction platforms outside India. If such sales are permitted in India at least 20% of the rough diamond trading could shift to SNZ. Introducing turnover linked presumptive tax at a rate near to the Antwerp rate for sale of rough diamonds in IDTC-SNZ could help diamond trading in India.
- **Reduction of duties on polished diamonds imported by Russia:** This could also help and needs to be negotiated in bilateral meetings.
- **Introduction of a Job Work Policy for Indian Gems and Jewellery Sector:** Industry players in the competing countries are able to operate under a model wherein diamonds, precious and semi-precious stones can be sent to the job worker free of cost by the 'foreign principal' for the sole purpose of processing activities and re-exported thereafter. There is no such enabling policy in India for

such a job work model for diamonds which needs to be introduced.

- **Differential duty for lab grown diamonds:** A differential rate of import duty to create differentiation at import level is needed between natural diamonds and manmade(lab grown) diamonds instead of levying zero duties for both as at present. This will stop undisclosed mixing. Higher duties can also be levied on polished lab grown diamonds compared to rough lab grown diamonds. For this separate ITCHS codes are necessary.
- **Abolition of import duty on machinery used for detecting synthetic diamonds:** India being the largest cutting & polishing centre has the highest number of detection machines to protect its leadership status and image in the world diamond industry & exports. To differentiate between natural diamond and manmade diamond GJEPC has set up Diamond Detection and Resource Centres in Surat and Mumbai with latest detection machines. The basic customs duty of 7.5 % on important synthetic diamond detecting machines could be reduced or made zero.
- **Abolition of 2.5% import duty on Cut and Polished Coloured Gemstones:** Trade data shows that generally when imports of cut & polished coloured gems and gold increased, exports of Gems & Jewellery sector also increased and vice versa. But there is a growing competition from China and Thailand. Even African countries are coming up with their own cutting & polishing centres. Import duty exemption on cut and polished coloured gemstone could help in further growth & diversification of studded jewellery exports and thus transforming India into a global jewellery trading hub.

#### **B.4 Basic Chemicals, Pharmaceuticals & related Products**

India's chemicals sector including Pharmaceuticals is one of the major export sectors, exports of which grew by 9.1 per cent CAGR during 2010-11 to 2015-16. The export growth of chemicals sector was 7.9 per cent while that of pharmaceuticals was 10.3 per cent during 2010-11 to 2015-16. Some issues in this sector are the following:

- **Environmental Issues faced by the Indian Chemical Industry:** The major industrial estates in Gujarat have been declared critically polluted and are facing issues on account of stringent pollution controls imposed by Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB)'s such as COD (Chemical Oxygen Demand), etc. Due to environmental moratorium, units in these industrial estates are not even allowed to change product mix within the stipulated environmental emission norms or undertake capacity expansion. For example, even the colour of dyes cannot be changed. Export growth of chemicals is affected as exporters are unable to take advantage of cyclic market

demands of specific products due to lack of flexibility of production of different product mix due to tough stand by CPCB/SPCB. In fact there is a virtual ban on new active pharmaceutical ingredients (APIs) in Gujarat due to non-clearance of pollution control authorities in Gujarat for permission to allow manufacture of old / new APIs even within the permitted limits of treated effluent discharge, resulting in lack of growth in manufacture of APIs for exports. As a temporary remedial measure, units could be allowed flexibility to change product mix and undertake capacity expansion within their approved/sanctioned consent of operation by the respective SPCB/CPCB for a short period of, say, not more than two years. In the long-term, realistic COD norms needs to be fixed for inland and coastal discharge, along with upgradation of Common Effluent Treatment Plants (CETPs) and technical support for the MSME units by CPCB/SPCB to achieve the stipulated environmental emission norms.

- **Substantial increase in product registration costs:** Several countries like USA, Russia, China and Brazil have increased registration fees and have prolonged time lines ( 3-5 years) for registration making it prohibitive for mid-size pharmaceutical companies to start exports. These need to be negotiated at WTO and bilateral meetings.
- **Establishing skill development / quality testing Institutes:** Several countries are pointing out to deficiencies in data creation / maintenance (data integrity) and quality of pharma products exported. While additional testing labs could be set up to test and issue quality certificates, regional skill development and quality testing / certifying institutes could be established where regular training can be imparted. This could also be addressed under the skill development programme.
- **Issue of Importing Vegetable oil with 20 per cent FFA(Free Fatty Acids) content:**
  - Toilet soaps, soap noodles and most of the oleochemicals are manufactured from crude palm kernel oil, palm oil, palm fatty acid distillate, etc. India has large installed capacity to manufacture toilet soaps, soap noodles, oleochemicals and other personal care products to meet growing domestic demand. As India is a net importer of these vegetable oils, mainly for use as food, policies are taken with focus on the use rather than manufacturing and some barriers have been imposed by India like import of blended oil with 20% FFA for its use in the manufacturing industry. Customs duties on the natural oils, used by ASEAN manufacturers, is 100% while customs duty for same blended /admixed oils with 20% FFA for this specific end application is currently 'nil'. Despite this concessional duty, not much of blended oils are imported as use of admixed oils not only increases the processing cost, but also impacts quality of the finished products compared



to the ASEAN exporters. Considering the sensitivity and fear of diversion of crude palm oil for edible purpose and also taking into account the interest of domestic producers of natural oils like coconut oils, selectively exempting only crude palm kernel oil, which is a unique and critical raw material used by the soap and oleochemical industry, from the requirement of minimum 20% FFA condition could be considered with actual user condition. Imports of this oil for industrial use is also less than 1% of the total imports of such oil by this industry.

- **Increasing the Customs Duty differential between Crude Oils and Refined Oils:** India is importing over 15 MMT of vegetable oils which is mainly for edible purposes. Amongst these imports, large part constitutes import of refined oils due to the economic advantage and lower export duties in Indonesia/Malaysia on export of refined oils. Currently customs duty differential between crude oils and refined oils imported for edible purpose is only 5% .This duty differential is not sufficient to convert imported crude oils into refined oils in India as its refining cost is more than the duty saved on its imports. India has a very large installed capacity of vegetable oil refining and the low duty differential has resulted in very low capacity utilization of the Indian vegetable oil refining plants. Taking note of the export duty differentials between crude oils and refined oils in Indonesia and Malaysia and the import duty differential between them in India at present, India could consider increasing the customs duty differential by atleast, say, 15% which can help in increased refining of vegetable oils domestically and reducing imports of refined oils. Increased vegetable oil refining in domestic market could also result in increased production of refining by-products like Fatty Acids Distillate (viz. PFDAD from palm oil) which are used for the production of oleochemicals and toilet soaps. This could also help the local industry to source these raw materials at competitive prices, promoting the "Make in India" initiative.

## **B.5 Textiles and Clothing (T & C) Sector**

India has the second largest textiles manufacturing capacity globally with the textiles and apparel sector contributing 13.7 per cent of the country's export earnings in 2015-16. Textiles trade has been showing a declining trend in recent years. While there is recovery in the US, the major problem for India is from Europe which is a major market, where conditions continue to be subdued. Some Issues specific to this sector are the following:

- **Power:** This is one of the major cost factors affecting competitiveness of this sector. Some states like Haryana, West Bengal, and Telengana, have power tariff subsidy/ part waiver policy to enhance competitiveness. Making power available at competitive rates can be a game changer for textiles exports. Lower rates for non-peak hours could be thought of.

- **Market Access Issues:**

→ India is facing duty disadvantage compared to competing countries like Bangladesh and Pakistan which have zero duty access under LDC/GSP+ status under EU GSP Scheme. Turkey which has a well-developed textiles and apparel industry has inherent advantages of zero duty access to EU, and logistic advantages due to proximity to the EU market. The differential duties in different countries are given in Table 19.

**Table 19 : Differential duties in different countries.**

(percentage)

	EU			China			Canada		
	Yarn	Fabrics	Madeups /Garment	Yarn	Fabrics	Madeups /Garment	Yarn	Fabrics	Madeups /Garment
India	4	8	12	3.5	8.5	14	2	2	17.5
Pakistan	0	0	0	3.5	0	0	2	2	17.5
Bangladesh	0	0	0	3.5	8.5	14	0	0	0
Cambodia	0	0	0	0	0	0	0	0	0
Vietnam	4*	8*	12*	0	0	0	2	2	17.5

Source: Based on inputs received from TEXPROCIL, Note: \* '0' from 2018 due to EU-Vietnam FTA.

Thus the selective preferential access given to fabric producing countries like Pakistan, Turkey and Egypt with zero duty access by EU is affecting India. India has already lost market share in 37 cotton fabric items to Pakistan on account of zero duty benefits extended by EU to Pakistan. India can gain by negotiations for tariff concessions with China for fabric (grey) under the Regional Comprehensive Economic Partnership (RCEP) Agreement as Pakistan has 80% of the market share in these products & India has only 2%. However this could be a long drawn process as India will also have to give concessions to China in other areas. In the fourth India-China strategic economic dialogue (SED) held recently, textiles exports to China did not figure at all in the dialogue. Since exports of textiles to China can be increased multi-fold if market access issues are resolved, textiles could be a part of all future India-China Strategic Economic Dialogue (SED) till the import duties are reduced.

→ There is a need for level playing field with competitors through better market access in markets like EU, Canada and Australia. Useful FTAs should be negotiated for this purpose. Some prospective countries for FTAs for India are EU & UK as we have lost GSP benefits while other competitors get some benefit or the other; and Canada and Australia as the tariff for garments / made ups in these countries are 17.5% and in the case of the latter, China has concluded an FTA . There are Opportunities to export cotton textiles to UK after BREXIT as UK is an important market for cotton textiles. Out of the

total cotton textiles imported into the EU, 61% are imported by UK alone. Further , about 55% of India's total exports of cotton textiles to the EU goes to the UK. Also , 25% of India's exports of T & C to the EU are sent to the UK. Therefore, after Brexit , UK offers a huge opportunity to export cotton textiles from India and any preferential arrangement with UK could help India.

- The case of Turkey is interesting. As a protectionist measure, Turkey has imposed additional duties on 24 March 2011 on fabrics which varied depending upon the country of origin. For imports from Less developed countries, the additional tax ratio of 11% will be added to existing 0% tax resulting in tariffs of minimum US\$ 0.75/kg and maximum US\$3.75 /kg; for imports from developing countries, the additional tax ratio of 18% will be added to existing tax of 6.4% resulting in a minimum US\$ 1.00/kg and maximum of US\$ 4.00/kg tariffs; and for imports from "other countries", the additional tax ratio of 20% will be added to existing tax of 8.0% resulting in a minimum US\$ 1.25/kg and maximum of US\$ 4.25/kg tariffs. As per Turkey's country classification, India falls under the "other countries" category. As a result, any textile fabrics from India currently attracts the highest slab of 8% + 20% tax resulting in a minimum of US \$ 1.25/Kg or maximum US \$ 4.25/Kg tariffs. Turkey is an important market for fabrics especially fine count & denim fabrics from India and since the imposition of the above duties, exports of fabrics ( covered under HS Codes 5208 to 5212 ) from India to Turkey have declined from US\$ 43.02 million in 2011 to US\$ 19.38 million in 2016. If the duties are abolished/reduced, exports of cotton fabrics from India can go up. The additional duties imposed by Turkey are also in contravention of GATT Article II: 1(b) which states that non-ordinary customs duties cannot normally be imposed except when they are imposed as per the WTO safeguards procedure. Further, Turkey has not notified the imposition of the additional duties as required by WTO and has also not followed the procedures under the WTO Safeguards Agreement. In view of the above this matter needs to be taken up with the Turkish Government or at WTO.
- Including Cotton Yarn under the 3% Interest Equalization Scheme and MEIS. Presently, exports of cotton yarn are not covered under the 3% Interest Equalization Scheme and the MEIS. These benefits could be extended to cotton yarn also as there is excess production capacity in the spinning sector which needs to export its surplus cotton yarn to survive and sustain its activities.
  - Night Shifts for females: Female workers could be allowed to work in night shifts in line with the regulations provided by some states like Tamil Nadu. This can make exports of textiles more competitive.

## B.6 Information Technology Products

Electronics industry is one of the largest and fastest growing manufacturing sector in the world. The total Electronics Equipment Production of the world during the year 2014 was estimated to be around US\$ 2.0 trillion. Over the years, production bases have shifted from USA and EU to Asia and the latter's share in global production has increased to over 60%. But India's share in world production and exports is very small. India's total electronics hardware production in 2014-15 at US\$ 32.46 billion formed around 1.5 percent of world electronic hardware production. Domestic consumption of electronic hardware in 2014-15 was \$63.6 billion and imports accounted for 58% of this consumption. India is particularly a large importer of telecom instruments. India has not had much success in penetrating the export markets so far. At \$6 billion, India has less than 1 percent share in the world market. Electronics manufacturing industry has received only \$1.7 billion or 0.5% of the total FDI inflows during April, 2000 to Sept, 2016. In flow terms, the total FDI in electronics in 2015-16 was \$206.3 million and amounted to just 0.5 % of the total FDI inflows. Although telecommunications received 3.3% of the total FDI inflows during 2015-16 on its own, this was almost entirely for the provision of telecommunications services. In several countries, the contribution of electronic industry to GDP is significant. For example, it contributes 15.5% to GDP in Taiwan, 15.1% in South Korea and 12.7% in China. But in India, this proportion is only 1.7%. India has made considerable progress in the IT sector. But most of this is on the software side. There is a need to use our expertise in IT & services to make new inroads in the merchandise sector. Some Issues related to this sector are the following:

- **Two-pronged Strategy:**

In order to make exports from India feasible, domestic manufacturing also has to be cost effective. Countries like China have built their value chain over a long period of time and now enjoy a robust and effective value chain, which is a challenge for India. A two pronged strategy is needed. Firstly the past mistakes like helping imports of electronic goods rather than exports have to be rectified. Then a big push to electronics hardware exports should be given with a Hardware-Software combination which can even help our software sector which is facing a slight lull at present.

- **Moving away from Past Strategy:** Initially India needs to participate in global value chains rather than attempting to build the same immediately as this sector suffered from inverted duty structure helping imports rather than manufacturing. Recently to promote indigenous manufacturing of electronic goods, many steps have been taken in the Union Budget 2016-17 which include rationalization of the tariff structure with extension of differential excise duty dispensation to mobile handsets/ tablet computers and to specified electronic equipment; withdrawal of duty exemption on charger or adapter, battery, wired headsets and for manufacture of mobile handsets and changing the excise duty structure on these items for supply to mobile

handset manufactures, etc. However these are measures required in the initial phase of electronics manufacturing. These measures could be further supplemented by measures like extending the duty differential scheme to products across the IT hardware sector. Currently only mobile phones and a few select CPE products are under this scheme. The full volume of IT hardware products could be brought under duty incentive plan which can prompt component vendors also to bring full or part of the value chain to India. This can help in not only triggering manufacturing of these products, but also help in developing the component industry. Another step in this direction could be to review all our FTA's to limit extensive access given to India's electronics sectors.

- **Move toward export-oriented Strategy:** For rapid expansion and transformation, however we need to move towards an export-oriented strategy by removing the barriers that currently discourage exports so that the industry can be globally competitive. Currently the electronics and IT hardware goods are imported and the so called manufacturers are nothing but mere assemblers who make no substantial value addition. These manufacturers just import CKD/ SKD and assemble the same. Neither the value chain nor the eco system for domestic manufacturing and substantial employment is created. Many ASEAN countries have already built a robust manufacturing base and have a well settled value chain in the electronics sector which India needs to compete with. India needs to be a manufacturing hub for electronics and IT hardware and be a part of the global value chain. This will be possible only when there is large scale domestic production with the huge volumes making the domestically manufactured goods competitive in the global market as they can also benefit from economies of scale. This will automatically open the gates for exports.
- **Clarity related to Make in India and other Programmes:** Phased manufacturing programme has to be linked with exports for Make in India to truly make a dent. In line with the Make in India, many policies have been announced like the National Electronics Policy, ESDM Policy, MSIPS, Digital India, Smart cities etc. However, these policies need more clarity and road map on implementation. There is a need for co-ordination between the states and Centre for implementation of these policies. While infrastructure like land, power, water etc is provided by the states, the role of state governments need to be elaborated in these policies to avoid confusion among the investors. Integration of roles of the central and state agencies for implementation of these policies should be well defined.
  - **Encouraging domestic manufacture and procurement:** The policy for electronics sector could be made more domestic manufacture friendly as the electronics manufacturing sector is such that the value addition in the initial stage or couple of years may not be possible. While the present structure of

requirement of 25% value addition could be brought down to, say, 15% and increased subsequently, all state and central government departments and autonomous bodies could be persuaded to make a substantial volume of their purchases /procurement of domestically manufactured goods.

- **Classification issues of IT products:** Numerous IT products get introduced into the market which are imported into India, sometimes with slight modifications like, for example, mobiles with camera. However, there being no specific classification available in the customs tariff, different importers adopt different classifications for same products. The field officers of the customs in different ports on the other hand adopt their own discretion to classify these goods leading to delay in clearance of goods & also lead to litigations. Information technology products are such that the time span for obsolescence is very short and rapid decision is required. A mechanism needs to be devised by the Ministry of Electronics and Information Technology wherein classification of new IT products are decided within 30 days of representation. A separate cell could be created for this purpose to decide cases within a month. This will reduce the confusion as well as litigations arising out of classification issues.

## **B.7 Agricultural Exports**

Agri-exports is a potential export area which has received less importance so far. The exports of Agricultural and Allied products declined by 18.7 per cent in 2015-16 to US\$ 24.5 million from US\$ 30.1 billion in 2014-15. Recently it has been decided to permit 100% FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India. While FDI reforms can help this sector, a stable Agri-trade policy is needed to step up Agri-exports. Many of the agricultural items like coconuts and rubber were in distress though they are showing some improvements recently. The major agricultural exports are rice and spices. Some issues related to exports of different Agricultural items are the following:

### **Basmati Rice**

- **Market access issues with China:** There is potential to export basmati rice to China. AQSIQ, Beijing, China and MOA, Govt. of India have agreed & signed an MOU and developed Standard Operating Procedures (SOP) for registration of rice mills/processing units by Directorate of Plant Protection Quarantine & Standards, Faridabad. A team of AQSIQ, China visited India from September 18-28, 2016 for field verification of rice production enterprises registered with NPPO India for export of rice to China. A total of 19 units were visited by the Chinese team. As per AQSIQ, 14 units have been found to have good facilities and conform to Chinese SPS agreement for import of rice from India. Chinese side has decided to implement registration for these 14 enterprises. Necessary steps should be taken to tap the potential Chinese market for Basmati rice exports.

- **Market access issues with USA:** The US has been insisting on greater import tolerance of Buprofezin in rice grain. This chemical is registered in India but supplied by Nichino America Inc, a subsidiary of Nihkon Nohiyaka Co. Ltd (NNC), Japan to control fungal diseases in rice. Nichino America, Inc. has submitted a petition to Environment Protection Agency (EPA) on July 15, 2016 seeking import tolerance for buprofezin in rice grain at 3 mg/kg (0.3ppm). This needs to be pursued.
- **Market access issues with EU:** EU insists that the maximum residual level (MRL) of Tricyclazole in rice exported to EU should be 0.01 % while India says that this should be 0.1 %. While EU relaxed the conditions, now they are considering withdrawing the relaxation. This needs to be taken up in the bilateral meetings. Meanwhile negotiating a FTA with UK could help export of rice from India as UK accounts for around 48.4 per cent in value terms and 49.3 per cent in quantity terms of India's basmati rice exports to EU in 2015-16.
- **Implementation of Geographical Indication (G.I.) registration:** This will further strengthen Indian rice in the export markets.
- **Brand Promotion & publicity:** This can help exports of basmati rice in markets like Iran and Saudi Arabia.

#### **Processed Food products:**

- **Promotion of value added items:** In high income countries demand for value added products is increasing through processed ready-to-eat products. India exports some value added products like pulverized guar gum, wheat flour, groundnut kernels, mango pulp etc. Top products with substantial value addition are biscuits & confectionery, Indian ethnic foods etc. value added products like meat and meat preparations; dairy products, eggs, honey, and animal products; cereal flours, starch, milk preparations and products; food preparations of vegetable, fruit, nut, etc. and miscellaneous edible preparations. These have good export potential and should be promoted. Brand promotion in items specific to India could also help exports:
- **Quick FSSAI product approvals for import of ingredients:** Various ingredients in small quantity are used in confectionery preparation. Quick FSSAI approval is needed for their imports.
- **Negotiations for import duty reductions in our markets:** We need to negotiate with USA, EU, China and neighboring countries like Sri Lanka and Nepal for reduction of import duty for the value added products like cucumber and gherkins, non-alcoholic beverages, dehydrated onions, banana puree, pineapple juice concentrate, mango concentrate, and guar gum.

## Tea:

- **Import of huge quantities of cheaper Tea from Tunisia:** Cheaper tea from Tunisia is blended with Indian tea and exported as Indian tea. This affects the reputation of Indian brands and needs to be looked into.

## Spices

India is the largest producer, consumer and exporter of spices in the world. On an average India produces around 6 million tons of spices, and exports an average of 0.73 million tons (12-13%) of spices and spice products to more than 145 countries in the world and the rest (87%) is consumed domestically. During 2015-16, a total of 8,43,255 tons of spices and spice products valued at around US\$2.5 billion have been exported from the country registering a growth in value terms of 2%, but decline in volume terms. This is mainly due to the decline in export of cumin, as there was a drastic fall in exportable surplus of cumin seed. The vision of the Indian spices industry is to become an international processing hub and premier supplier of clean and value added spices and herbs to the industrial, retail and food service segments of the global spices market by 2020. Some issues related to spices exports are the following:

- **Pests and Pesticide residues in spices:** Incidence of Salmonella in spices, is a major impediment for exports. The unscientific recommendations of pesticides used by pesticide dealers in cardamom and cumin growing areas have also resulted in high incidence of pesticide residues in these spices.
- **Organic Farming Issues:** Lack of quality bio agents is one of the main hindrances in promoting organic farming in spices. Restrictions or export ceilings also deter cultivation of organic spices as additional costs have to be incurred which may not be worth the effort if there are export restrictions and lack of stable agri-export policy. This is apart from the barriers faced in the export markets.
- **Need for accreditation of private labs:** Considering the rapid growth of spices exports from India and also the strict regulatory requirements of importing countries, there is a need to consider extending accreditation of private laboratory facilities for effective coverage of spices exports without compromising on the accuracy and reliability of results and with adequate safeguards. Spices Board is examining this issue.
- **Auction Centre:** There is a need to consider setting up an auction centre for large cardamom in Namsai in Arunachal Pradesh which can help in promoting spices exports from North East.
- **Pepper related issues:** At present only ungarbled pepper (unprocessed) at 3 % duty has been considered for MEIS. However, the value added



products like extraction powder, garbled pepper (processed pepper) are not eligible under MEIS. So ungarbled pepper is being sent to Vietnam in large quantity for processing and exporting to other countries. Since MEIS has resulted in processed pepper exports coming down, there is a need to consider including value added pepper in MEIS. Further this benefit is extended only for exports to Group B countries. MEIS could be extended to exports of pepper to Group-A countries also as some major markets for Indian pepper are also in this list.

### **Fresh fruits and Vegetables**

- **Pests & diseases and Pesticides Residues:** Horticulture items for exports are facing serious challenges due to imposition of stringent conditions of the importing countries. Two kinds of difficulties are being faced for export of horticulture items, one is related to pests and diseases and second with regard to higher amount of pesticide residues. Many horticulture products like mangoes and vegetables have faced bans from countries like EU, Saudi Arabia, and UAE in the last 3-4 years. These restrictions create negative publicity among all the importing countries and the image of the country is affected. Whenever a ban is imposed, it takes a lot of time to get the ban lifted as necessary corrective measures by all concerned stakeholders have to be taken and during the interregnum, the importers switch over to other competing countries. The problem related to pests and diseases and pesticide residues can be addressed if the backward linkages is strengthened by carrying out necessary extension work at the field. This task has to be carried out by the respective agencies of all the state governments who generally do not give priority to exports affecting export of fresh fruits and vegetables and floriculture. The centre has to take the lead and persuade the states to accord the highest priority to strengthen the backward linkages needed for exports of these items.
- **Green channel at Airport/Seaports:** At all the exit points, airports and seaports, difficulties are being faced by the exporters in sending their perishable cargo in the general line. Since horticulture items are perishable, there is a need for providing a dedicated channel for them. This will enable the produce to be loaded at the vessel or aircraft in the shortest possible time and save the produce from being spoilt.
- **Stationing of overseas Quarantine Inspectors:** Presence of quarantine inspectors of importing countries during pre-clearance programmes for import of fresh produce adds to the cost of exports heavily. In the case of export of mangoes to Japan and USA, it is mandatory to do the processing in the presence of quarantine inspectors and the cost of the deputation is to be borne by the government and the exporter. This adds to the cost of products and makes the products uncompetitive in the international market. Having local inspectors

appointed by the importing country or third party inspectors of nearby countries or those living in India could help in reducing costs. These need to be negotiated in bilateral meetings.

- **Development of Sea Protocol:** The volume of exports of fresh fruits and vegetables can be increased to long distance markets such as USA, EU countries, Russia, China etc., if the produce is exported by sea. A sea protocol will indicate at what maturity level harvesting can be done for transport by sea. In the absence of a sea protocol, the exporters will not be able to export the produce by sea. Phillipines and Ecuador have developed such protocols for export of banana for a voyage time of 40 and 24 days respectively. In India, National Research Centre's/ Research Institutes of respective products i.e. pomegranates, mangoes, banana, kinnow, potato, vegetables, etc. need to work for development of such protocols. Necessary directions may have to be issued to all NRCs by the government in this regard.
- **Import of planting material:** There is a need to import plant and planting material for having the new varieties for potential identified products such as grapes, oranges, bananas, etc., to enable the country to extend its seasonality window for production. These varieties also have to be resistant to identified pests and diseases prevalent in the country.
- **The requirement of import of grape plant varieties:** As per the grape exporters and farmers association, there is a need to import patented grape varieties which are in demand in international markets for table grapes and processing purpose. Some of the special attributes of such grapes are bold sized berries, loose crispy berries, self thinning type with long shelf life and colour. There are several breeders in grape producing countries, who supply the planting material for further breeding and propagation purpose. The breeder charges a lump-sum for supply of planting material, payment of royalty etc. National Research Centre for Grapes, Ministry of Agriculture along with the Growers Association have done some ground work for import of such varieties. The import of the proposed new plant varieties of grapes will also extend the duration of grape exports which at present is limited to 3-4 months. However, funding support may be required for this activity.
- **New International Flight:** Introduction of international flights to/from Amritsar and Chandigarh could help vegetable exports from horticulture production areas in Punjab to Gulf countries.

## Dairy

- **Import of Semen & other requirements of dairy industry:** Procedural hurdles are faced in obtaining licenses for importing live animals, semen (including sexed semen), embryos, vaccines, fodder, etc. specifically meant for cattle. These also include sanitary import permit for genetic material by the Department of Animal

Husbandry. Some specific policies that could be implemented in this regard are the following:

- **Import of frozen Semen/embryo:** As per the current import policy, the import of frozen semen other than of bovine animals, is restricted. The importer is required to make an application to DGFT along with the recommendations of the Department of Animal Husbandry, Dairying and Fisheries, Ministry of Agriculture. Further, the imports are allowed from the registered farms in existence for at least three years, subject to fitness certificate of animals being issued by the veterinary officer of the country of origin, etc. Further, the importers face problem in speedy clearance because of lack of coordination among various agencies such as Animal Quarantine and Certification Services, customs, port agencies etc. Facilitating imports of this item could help augmenting genetic material of cross-bred as well as indigenous breeds of cattle.
- Allocation of license to import vaccines and veterinary drugs specific to our herd needs for effective control and curing of diseases on the farm.
- Importation of dry cow therapy for cows at the drying off stage can help in reducing the incidence of new mastitis cases in the following lactation and reduce somatic cell counts.
- Free import of fodder like Alfalfa in view of acute shortage in the country and spiralling prices.
- Free import of dairy machinery and dairy ingredients for value-addition.

## **Poultry**

- **Tariff issue of Egg Powder in Japan:** India is exporting egg products to more than 35 countries including developed countries like Japan, Australia, EU, etc. The current value of exports is US\$ 47 million. Japan has imposed import duty of 8% on egg albumen powder. The import duty is 21.3% on whole egg powder and 18.8% on egg yolk powder. While the Japanese government has given preferential duty of 6.4% for import of egg albumen powder for developing countries including India, such preferential duties are not available for import of whole egg powder and egg yolk powders. This special treatment is also not helping the Indian exporters as Mexico has negotiated 'nil' duty for export of egg products to Japan under a bilateral agreement which has made Indian egg powder uncompetitive in the Japanese market.

## **Coconut**

- **Lack of Stable Export Policy for Essential Items:** Export of edible oil from India is banned. However, export of coconut oil is permitted in consumer packs through EDI ports and in bulk only through Cochin port. With the domestic price

of coconut oil ruling very low, India is competitive even in bulk exports. If export of coconut oil in bulk is allowed through other ports also, exporters from other states could also benefit. Transaction costs could also be reduced if more ports are opened for coconut oil exports in bulk. Since coconut oil is used as edible oil only in southern parts of the country and the product is currently witnessing a glut, this decision is not likely to have any adverse impact on edible oil availability in the country. There is a need for a stable agricultural export policy and even the list of essential items needs to be reviewed from time to time. For example, while edible oil is an essential item, all types of edible oils may not be essential items.

- Promotion of Virgin and Organic Virgin Coconut oils: Virgin coconut oil is comparatively superior to coconut oil and fetches more than double the price of coconut oil in international as well as domestic markets. So virgin coconut oil needs to be given a differential treatment in export promotion and also a separate ITC-HS code. At present coconut oil and virgin coconut oil are having the same ITC-HS code despite both products having different composition and different manufacturing process. Organic virgin coconut oil has got very good market in USA and Europe which is currently captured by countries like Philippines, Indonesia Sri Lanka etc. and needs to be promoted.
- Promoting export of coconut shell based activated carbon: Among all coconut products, activated carbon is the highest foreign exchange earner. During 2015-16, activated carbon of around US\$ 96.5 million was exported from India. Under the Merchandise Export from India Scheme (MEIS), Coconut shell based activated carbon (ITC (HS) Code-38021000) is given 2% incentive. India holds the first position in the world in export of coconut shell based activated carbon and exports could be doubled within 5 to 6 years if promoted. Export of activated carbon is currently at 61212.95 MT, which could be increased to 1, 00,000 MT by 2020. If activated carbon exports are promoted, greater quantity of coconut shell can be commercially used, which could enhance the income of coconut farmers and also provide employment. Currently the industrial use of coconut shell is less than 10% of its availability in the country, which could be increased to 25%. Since a lion's share of coconut shell is discarded as waste or is being used as fuel, activated carbon can be considered as wealth out of waste from agricultural products. Environmental friendly ways of converting coconut shells to activated carbon should also be found out.

## **B.8 Leather Exports**

India is one of the few global manufacturers of leather products & footwear with own raw material source with around 3 billion sq ft of leather produced annually employing around 3 million people of whom 30% are women. India produces the entire gamut of leather products like leather garments, leather accessories, gloves, saddlery & harness products and footwear. It is the world's 2nd largest producer of footwear and leather

garments & 5th largest exporter of leather goods and accessories and a source for major global brands of footwear, leather garments & leather products. There is also a huge domestic market with almost 95% of annual footwear production of 2065 million pairs consumed in the domestic market. Leather sector has been included as one of the focus sectors under the Make in India programme.

Some threats to leather sector exports include the revival of production in Italy, and Portugal; establishment of new production centers in East Europe (Romania, Albania, Slovakia etc.); African countries trying to follow Indian model and thus restricting export of leather raw material and promoting export of value added products; and threat of rise in India's footwear imports. Some issues to be considered in this sector are the following:

- **Need for market diversification:** Around 70% of India's leather sector exports are to EU and USA. Because of the slowdown in EU and India's high dependence on EU, India's overall exports of leather sector declined by 9.87% during 2015-16. Although USA is the second largest market for Indian leather sector, our share in the same is only about 1.75%. Increasing costs of labor & costs towards environment compliance in China, is compelling buyers to look at sourcing from other countries. This development presents an opportunity for India. The USA is looking to fill the gap created by China through its ASEAN partner countries and India is not a major option. So there is a need for deeper penetration to the US market. There is a need to coordinate with Associations like Footwear Distribution and Retailers of America (FDRA) which can help in our export effort. Some other potential markets are Japan, Russia, Canada, South Africa, China, Hong Kong and Vietnam.
- **Small production runs:** This is a deterrent to placement of large orders by major brands. To give boost for exports of this sector, there is a need for large scale production. Common facility centres and mega leather clusters could be set up to gain from economies of scale.
- **Lack of Indian designs/designers and brands and FDI:** Indian companies which initially were manufacturing as per designs of overseas brands have begun to set up in-house design studios. However, there are no known 'Designed in India' or Indian designers at international level for leather products/footwear. India also does not have its own International brands and only manufactures for well-known international brands which impacts unit value realization. India needs to develop its own brands. Design development can be done through engagement with designers by having Designers Fairs in India and sending Indian designers overseas to places like Italy. Greater FDI is needed in this sector which will also help design development. At present there are only 2 large FDI enterprises as compared to 77% of Vietnam's footwear exports of US\$ 14 billion contributed by FDI.

- **Environment compliance & management:** The Indian leather industry, particularly some clusters have a poor track record of compliance to environment norms which gives a poor international image of India impacting sourcing potential from India. Proper facilities and awareness is needed in this regard.
- **Lack of tariff concessions in major markets:** In major markets of USA & EU India does not enjoy tariff concessions, while countries like Vietnam & other ASEAN Countries (TPP Partner countries to USA which may change now with the formal withdrawal of USA from the TPP), Bangladesh (LDC) enjoy these concessions. Even in India's CEPA with Japan, footwear has been kept in the negative list by Japan. Pakistan enjoys more advantageous tariffs vis-à-vis EU than India. At present many FTAs /PTAs are under negotiation. Considering the labor intensive nature of the Leather & Footwear industry, we need to seek zero/minimum duties for Chapter 42 (Leather Goods & Garments) and Chapter 64 (Footwear) to increase market access. The minimum duties could also be on a reciprocal basis in some cases.
- **Raw material adequacy:** There is a need to enhance tanning capacity & raw material availability. Since Poly Urethane (PU) leather market is growing globally, duty free import of PU leather for leather garment exporters through advance licence route along with establishment of bonded warehouses for storing imported leathers could help.

## **B.9 Marine Products Exports**

During 2015-16, India has exported 0.95 million MT of seafood valued at US\$ 4.7 billion with a negative growth in value terms of (-) 13.48 per cent. USA and South East Asia continue to be the major importers of Indian seafood. Frozen shrimp continues to be the major export item (66 % in value terms) followed by frozen fish. The revival of aquaculture production (especially shrimp) in Thailand and Vietnam has resulted in better supply situation in the international market lowering the price of shrimps world over resulting in fall in our average unit value realization of frozen shrimp to US\$ 8.28 per kg. in 2015-16 from US\$ 10.38 in 2014-15. The depreciation of the euro, weaker economic conditions in China, devaluation of yen also affected exports. There was also a decline in capture fishery with wild caught shrimp landing declining by 10.5% in 2015. Some issues related to this sector are the following:

- **Job Works Issue:** Job works have lot of prospects. The procedures for import of raw materials for value addition & job works like obtaining Sanitary & Imports Permit (SIP) needs to be eased.
- **Imports of value added products:** Value added products like skin pack need high quality packing materials not available in India and have to be imported with 33% duty component. Similarly good quality knives and certain other consumables required for efficient processing are not available in India and need to be imported at 33% duty. This needs to be examined and addressed.

- **Notifying more ports for imports of marine products:** Usually, the non availability of quarantine officers leads to not notifying or de-notifying ports. For example, the Government of India, has issued a notification dated 16th August 2014, wherein the import of fish products are not allowed through New Mangalore Port due to non-availability of quarantine office at Mangalore and at New Mangalore port. New Mangalore Port is a major port and the only port of Karnataka and many importers/ exporters in and around Mangalore in the coastal Karnataka were regularly using New Mangalore port earlier for their import/export activities of fish and fish products. Because of this notification, they are facing difficulties and have to spend more for importing fish and fish products to their factories using Nhava Sheva Port, Cochin Port and Chennai Port. This could be addressed by deputing a quarantine officer and setting up an office for quarantine clearance at New Mangalore Port. This can also reduce the cost of inputs for exporters of marine products.
- **Market Access issues in some markets:**
  - **US:** The incidence of rejection of marine products by US Customs which has been inspected and certified by Export Inspection Agencies (EIA) is high. As per the procedure, all the consignments which come to U.S. will be tested by the customs and only after that permission is given for import. Exporters are not shared any information on the testing and goods are being rejected arbitrarily without giving reason and not allowing appeal or retesting. This issue needs to be discussed in bilateral meetings with U.S. authorities and if needed U.S. approved inspection agencies could be identified for pre-export inspection to facilitate acceptance by U.S. Customs.
  - **Russia:** Even though Russia is a major market for Indian marine exports, there are stringent quality standards which prohibit Indian products in this market. The issue of better access for marine products in Russian market could also be discussed in the bilateral meetings.

## **B.10 Project Exports**

Indian Project Exporters have executed a variety of projects in diverse markets overseas. Satisfactory performance, in terms of cost effectiveness, application of technical expertise and timely delivery of quality products and services have earned project exporters from India a fair degree of goodwill and standing. The nature of project exports being undertaken, in a sense, reflects the technological maturity and industrial capabilities of a country. Exports of projects and services can be broadly categorized into (i) civil construction projects, (ii) turnkey projects, (iii) consultancy services, and (iv) supplies, primarily by way of capital goods and industrial manufactures.

- **Data Issues:** The data on project exports is very sketchy. As per DGCI&S data, India's project goods exports fell by 31.3 per cent in 2015-16 to US \$ 25.13 million.

However, as per Project Export Promotion Council (PEPC), project exports fell by 8.7 % in 2015-16 to US\$ 5014.9 million. The wide variation is because the Directorate General of Commercial Intelligence and Statistics (DGCIS) compiles data on exports of only project goods and not project exports. Though PEPC compiles the data on project export orders secured during a financial year, the underlying trends concerning products and services utilized in overseas projects is not being generated since there is no head or code for project exporter to declare the same. Since a head or specific HS code is not allocated to project exports, the project exporters are not able to declare the same in the shipping bill. In case "Project Exports" are declared by the company in the shipping bill, then the bill is considered as "free shipping bill" in the absence of specific HS code and the export is not qualified for any incentives. Therefore, project exporters file exports under different heads resulting in non-availability of consolidated data for project exports. A code needs to be given for punching before filing a shipping bill which would enable the system to identify that this particular shipment is being made for project exports. Once this facility is available to project exporters, they would be encouraged to use more Indian goods in overseas projects as the incentives would be available. Moreover, recognition and collation of data pertaining to exports from a specific sector is the most basic pre-requisite for any policy initiative to enhance exports of the sector. DGFT had held a meeting in this regard in 2015. This issue needs to be resolved on a priority basis.

- **Chinese Competition:** Middle East, the primary market for Indian project exports, with a contribution of 75-85% to the total project exports basket, is struggling with falling oil prices, security issues and civil unrest. These issues are affecting award and execution of projects in the region. There is enhanced interest in the SAARC and CLMV(Cambodia, Laos PDR, Myanmar and Vietnam) regions. However, incentives for exports to SAARC under MEIS are zero. This scheme needs to be revised for project exports and co-ordinated support from different government departments could be provided to counter the Chinese competition in these markets.
- **Non-Tariff Barriers in some markets:** These include high visa fees and non-issuance of multi-entry visa of longer periods to project implementation and commissioning professionals. Unlike export of commodities, project exports have a longer execution and realization period. Therefore it is imperative to have multi-entry visa for personnel employed by Indian project exporters. For example Africa issues multi entry visas, but it is only for 3 months. We need to consider the possibility of including award of visa for workmen and officials of Indian contractor executing the projects on priority basis in the agreement for Lines of Credit signed with foreign governments. The visa fees and duration should also be as per the general rule of reciprocity in this regard.



- **Procedural & Documentation Factors:** Engineering procurement and construction (EPC) contractors undertake turnkey jobs and project exports are a combination of goods and services. Vivisecting the same in executing turnkey contracts is generally not possible since the value of the contract is on a lumpsum basis. Hence, under project exports, there is a need to consider giving incentives based on both supply of goods and services.
- **SEIS scheme and Project Exports:** Eligibility criteria of SEIS scheme as per FTP 2015-2020 has the following implications. In case a project exporter is increasingly taking more projects overseas, the net foreign exchange earnings would be negative. Since it is not always possible to segregate products and services in an EPC contract, it is very difficult for a project exporter to claim SEIS benefits and they often relinquish the incentives instead of investing time and resources in the process of claim. Project exports being a separate category by itself, separate scheme needs to be devised for it.
- **FTA's:** Prospects of project exports should also be considered while negotiating FTAs/RTAs with other countries by India and such negotiations should also help in greater ease in movement of natural persons to execute India's projects abroad.
- **Project Exports Through Rupee Trade:** There is need to consider the possibilities of stepping up "project exports" to African countries, through rupee trade. Many African countries offer abundant natural resources, viz. oil, gas, coal, minerals and agro products like pulses, greatly required by India. In turn, they have huge requirement for infrastructure projects viz. road, railways, port development, power, mass housing and hospitals. Rupee payment could be thought of in the case of resource rich African countries through designated Indian Banks. Indian companies executing project exports under this programme could also be granted export benefits. The countries that have higher trade deficit with India could be taken up in the beginning. Some countries like Zimbabwe have added Indian currency in their currency basket.
- **Project Exports to Africa:** In the case of project exports to African countries like Zimbabwe, there is a need to prioritize and finance strategic infrastructure projects that provide visibility and long-term sustainability for financing and projects that provide positive externality for Indian business in Africa and encourage African countries to set-up some multimodal projects that would integrate and develop the entire region. There is a need to leverage Indian assistance and also co-finance infrastructure projects in Africa with other international funding agencies. Under Lines of credit the requirement of Indian content could be brought down from 75% to say 50% on a case by case basis.

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