DEPTT. OF COMMERCE

SEMESTER- IV

SUBJECT- FOREIGN TRADE OF INDIA

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EXPORT PROMOTION

Export promotion means total activities of the government and state institutions, which have a positive impact on the export performance of the economy. Pro-export policy of the state supports enterprises in penetrating foreign markets and increases their competitiveness. Export promotion is part of an overall economic policy of the state. Through the system of pro-export policy the state helps to accelerate the positive effects that companies reach in foreign markets.

Export promotion has been defined as "**those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level".** Although many forces determine the international flow of goods and services, export promotion is one of the principal opportunities that governments have to influence the volume and types of goods and services exported from their areas of jurisdiction.

NEED OF EXPORT PROMOTION:

1) To Earn Foreign Exchange:

Every country in the world is trying to earn a share in the global trade. This is due to the lowering of trade barriers since the inception of the World Trade Organisation (WTO), increased import bills, and increased global competition in the domestic market. Also, most developing countries row heavily from financial institutions like the World Bank and the International Monetary Fund (IMF) and other sources to finance their developmental activities and reduce the balance of payment deficits. It is therefore imperative that the import bills as well as foreign loans be paid back in foreign exchange. In order to achieve this, earning foreign exchange through various export activities is the need of the hour.

2) To Motivate Organisations to Export:

In order to motivate organisations to export and earn precious foreign exchange, governments offer certain incentives. These incentives help reduce the tax burden of the exporters and also achieve a competitive price- edge for their products in foreign markets. However, being a member of WTO, each country has to ensure that the incentives offered by its government do not give an unfair advantage to the exporters. Thus, no country is to give special trading advantages to another or to discriminate against its all nations stand on an equal basis and share the benefits of any move towards lower trade barriers (branch). Also, all export incentives have to comply with WTO norms and should be in line with its various principles.

3) To Promote Interests of Indian Exporters and Keeping Commitment of WTO:

In India, the framework of export incentives in the form of duty exemption and remission schemes has been devised keeping in mind the interests of exporters as well as the commitments India has made to WTO.

The Duty Exemption Scheme helps exporters import duty-free inputs required for manufacturing export products. The Duty Remission Schemes enable post-exports replenishment/remission of duty on inputs.

4) To Import Capital Goods:

In addition to this, the Export Promotion Capital Goods (EPCG) scheme enables exporters to import capital goods at concessional rate of duty and suitable export obligation.

5) To Reduce Bureaucratic Hurdles:

The incentives detailed above are available to all eligible exporters in India. In addition, the government has launched the very ambitious scheme of Special Economic Zones (SEZs) in order to reduce bureaucratic hurdles in importing inputs for exports and exporting finished products from India. These SEZs are modelled on the highly successful Chinese Economic Zones. It is expected that the SEZs will be the engines of growth in international trade for India.

6) To Correct Unfavourable Balance of Trade:

During the period of planning, except two years, all other years have witnessed unfavourable balance of trade. It not only reduced the foreign exchange reserves of India but also made it difficult to achieve plan targets. Successful completion of plans, therefore, calls for turning of unfavourable balance of trade into favourable one which requires increase in exports.

7) To Achieve the Objective of Self-Reliance:

One of the main objectives of Indian Plans is to make the country independent of foreign assistance. To achieve this objective, it is necessary to promote exports. By accelerating exports, large amount of foreign currency can be earned.

8) To Sell Surplus Production:

During the period of planning, new industries have been set-up in India. In order to increase the sale of the products of these industries, their export is to be promoted. It becomes easy to increase exports under export promotion program.

9) To Finance Imports:

Successful execution of the plans necessitates import of machines and other capital goods from abroad. To earn necessary foreign exchange to meet their import bills, it becomes necessary to increase exports.

10) For the Defence:

Essential war equipments, weapons, aeroplanes, etc., are imported from advanced countries for our defence. To meet their cost, it is necessary to increase exports.

SIGNIFICANCE OF EXPORT PROMOTION:

1.Earning of foreign exchange

Export promotion leads to expansion of goods for the foreign market. These goods earn foreign exchange that can be used to facilitate development.

2.Greater utilization of resources

Export promotion industries have a wide market for their produce for both domestic and foreign markets. They are therefore able to produce for a greater capacity. Production for export enables them to increase utilization of locally available resources that would otherwise be idle.

3.Full utilization of plant capacity

Due to the fact that export promotion industries have a wide market, they are able to fully utilize the existing plant capacity. In this way, they can take advantage of large scale production. This will lead to lower production costs.

4.Addition of value to primary exports

By establishing export oriented industries, a country is able to process its primary products instead of exporting them in their raw form. This adds value to primary exports, hence increasing foreign exchange earnings.

5.Creation of employment

Generation of employment opportunities is a major consideration in any industrialization strategy. In this regard, export oriented industries absorb labour, thereby helping to reduce the problem of unemployment in a country. For example, people will be employed directly in a particular export promotion industry, as well as indirectly in allied industries such as transport and insurance.

6.Encouragement of efficiency in production

Since export promotion industries are exposed to competition from foreign producers, they are likely to strive for greater efficiency in production and higher quality of goods. This will ensure their competitiveness both in the domestic and foreign markets.

EXPORT PROMOTION MEASURES

Export promotion measures are public policy measures taken by the government of a country to potentially enhance the exporting activities and employment of that country. In India, a number of export promotion schemes have been in existence for some time which promote the industries that have a potential for developing and competing with foreign industries. A good example of export promotion in India is the development of EPZ, FTZ and SEZ.

Export Promotion measures in India :

EPZ – Export Processing Zone-

EPZ are industrial enclaves which are formed in an international custom territory of a country (usually situated near airport or sea port). The entire production of such a zone is extended for export, it has economic laws other than the economic laws of the country. Such zones are provided good infrastructure and industrial flats are available at concessional rates.

Foreign Direct Investment upto 100% is allowed.

EPZ units are allowed to import and export capital goods without payment of any duties.

Manufacturing units are given tax holiday for a limited time period.

Objectives:

1.To attract foreign investment and earn foreign exchange

2.To generate employment

3.Promote technology and create skilled man power

4.To increase the economic growth of the country

5.The 1st Export Processing Zone was at Kandla in Gujarat – 1965

S E Z – Special Economic Zones

SEZ policy was announced in April 2000 and was under foreign trade policy, now it is governed by the SEZ Act passed in late 2005.

A Special Economic Zone is an enclave of business companies which are predominantly engaged in export oriented production. It is an area of the country selected by government for its development.

Infrastructure of a Special Economic Zone consists of manufacturing units, townships, roads, schools, hospitals and other services

SEZ are open to all fields like manufacturing, trading and services

Tax benefits are much more than EPZ

Objectives:

1.Generation of employment

2.Promotion of export oriented activities

3.Generation of foreign exchange

4.Development of infrastructure

5.Increase the total economic activity

6.Providing economies of scale advantage to the industry

7.Providing Assistance to the Government

8.Providing a competitive platform to entrepreneurs

Benefits:

1.A duty free zone for import of various goods

2.100% Foreign Direct Investment is allowed

3.There is less interference by the custom department for inspection purpose

4.Sub-contracting of a part of production is allowed

5.Units are allowed to sell a part of production in domestic market

6.SEZ units are allowed to maintain their account in a simplified forum

7.Income Tax exemption upto 100% on income from export for 1st 5 years, 50% on next 5 years and 50% of retained profit for next 5 years

8.Exemption from Central Sales Tax

9.Exemption under minimum alternate tax (Sec. 115)

10.Single window system for clearance of documents at state and general level

11.Exemption from service tax

F T Z- Free Trade Zones

The World Bank defines free trade zones as "in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations." Free-trade zones can also be defined as laborintensive manufacturing centers that involve the import of raw materials or components and the export of factory products, but this is a dated definition as more and more free-trade zones focus on service industries such as software, back-office operations, research, and financial services.

A free trade zone (FTZ) or export processing zone (EPZ), also called foreign-trade zone, formerly free port is an area within a country in which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties.

Free Trade Warehousing Zone (FTWZs) are a special category of Special Economic Zone, offer services such as speedy delivery of cargo, one-stop for Customs clearance capability; integrated solutions, such as packing management, sorting, inspection, re-invoicing, strapping and kitting, assembly of complete and semi-knocked down kits, and taxation benefits. Basically the Free Trade & Warehousing Zones (FTWZ) is a special category of Special Economic Zones with a focus on trading and warehousing.

In India, Free Trade and Warehousing Zone was introduced in the Exim Policy with the objective to facilitate import and export of goods and services. Each Zone was considered to have Rs. 100 crores outlay and 5 lakh sq.mts built up area. Government of India introduced the FTWZ Policy as a part of Foreign Trade Policy (FTP) 2004-2009 governed by the SEZ ACT, 2005 and SEZ Rules, 2006 to leverage India’s strategic geographical location and cost and skill arbitrage.

For development and establishment of FTWZ the government has permitted 100% Foreign Direct Investment.

Concept:

FTWZ is a 'Sanitized Zone' designated as Foreign Territory for carrying on business. FTWZ's are envisaged to be Integrated Zones & to be used as 'International Trading Hubs'. Each Zone would provide 'World Class' Infrastructure for:

-Warehousing for various kinds of products

-Handling and Transportation Equipment

-Commercial office space

-All related utilities – telecom, power, water, etc

-One stop clearance of Import and Export of goods

-FTWZ would be a key Link in Logistic and Global Supply chains – servicing both India and the Globe.

Objective:

The objective of FTWZ is to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. The scheme envisages creation of world-class infrastructure for warehousing of various products, state-of-the-art equipment, transportation and handling facilities, commercial office-space, water, power, communications and connectivity, with one-stop clearance of import and export formality, to support the integrated Zones as 'international trading hubs'. These

Zones are planned to be established in areas proximate to seaports, airports or dry ports so as to offer easy access by rail and road.

Free Trade and Warehousing Zones (FTWZs) are envisaged to be essential logistics infrastructure to facilitate EXIM trade and to root out inefficiencies associated with movement and valued addition of EXIM cargo in India.
