

## **Speech of Minister of Commerce & Industry** **on Foreign Trade Policy, 27<sup>th</sup> August 2009**

Ladies and gentlemen, it is a matter of great privilege for me to present the new Foreign Trade Policy of the Government of India. This comes at a challenging time as the entire world is facing an unprecedented economic slow-down. This year we are witnessing one of the most severe global recessions in the post-war period and countries across the world have been affected in varying degrees. Major economic indicators of industrial production, trade capital flows, unemployment, per capita investment and consumption have taken a hit.

2. The WTO estimates project a grim forecast that the global trade this year is likely to decline by 9% in volume terms while the IMF has projected a decline of over 11%. This recessionary trend has huge social implications. World Bank estimate suggests that 53 million more people would fall into the poverty net this year and over a billion people would go chronically hungry. Fortunately India has not been affected to the same extent as other economies of the world, but our exports have suffered a decline in the last 10 months due to contraction in demand in the traditional export markets. In this economic climate, some countries have resorted to protectionist measures posing barrier to free trade, which has aggravated the problem. Even though economists are talking of emergence of 'green shoots', I remain hesitant to hazard

a guess on the nature and extent of this recovery and whether it is a V shape recovery or a U shape recovery.

3. Announcing a Foreign Trade Policy for the country at this juncture is indeed a daunting task and we need to take cognizance of the declining demand in the developed world.

4. The Finance Minister has announced a series of measures which aim at stimulating economic growth through stimulus packages of 3.5% of GDP. The Cash Reserve Ratio was reduced to 5% and the Statutory Liquidity Ratio to 24% and the Reverse Repo Rates and the Repo Rate were also slashed. Liquidity has also been infused in the market through SIDBI, NHB and EXIM Bank, and State Governments have been permitted to borrow an additional 0.5% of their gross domestic product. These measures have had a salutary effect on our economy and we have seen some signs of recovery. The index of industrial production for the month of July has shown a growth of 7% and the core sectors have also demonstrated a positive upward trend.

5. While defining the objectives of the new Foreign Trade Policy, I would like to recall the target which we had set for ourselves in 2004. We had set two objectives namely, (i) to double our percentage share of global merchandize trade within 5 years and (ii) use trade expansion as an effective instrument of economic growth and employment generation.

6. I must say that our market has shown remarkable resilience and dynamism, which contributed to a healthy trend of export growth. In the last five years, our exports witnessed

robust growth to reach a level of US\$ 168 billion in 2008-09 from US\$ 63 billion in 2003-04. Our share of global merchandise trade was 0.83% in the year 2003 which rose to 1.45% in the year 2008 as per WTO estimates. Our share of global commercial services export was 1.4% in 2003 which rose to 2.8% in 2008. India's total share in goods and services was 0.92% in 2003; it increased to 1.64% in 2008. On the employment front, studies have suggested that nearly 14 million jobs were created directly or indirectly as a result of augmented exports in the last five years.

7. Our policy of Special Economic Zones which was launched in the year 2005 by way of the SEZ Act has given encouraging results. We have granted approval for setting up 577 Special Economic Zones, of which 325 have been notified. After the enactment of the SEZ Act, nearly 3 lakh people have gained employment in the Special Economic Zones. Of the 98 Special Economic Zones which have started operations, physical exports have increased from a level of nearly Rs. 66,000 crores in 2007-08 to Rs. 99,689 crores in 2008-09, registering a growth of 50% in a year, which is a remarkable achievement in the current context. In the last 5 years, exports from SEZ have grown by 620%, and have attracted foreign direct investment of US\$ 2.43 billion.

8. I would now like to outline the contours of the new Foreign Trade Policy. Given the current economic climate, policy measures being outlined by me are for a two-year period, and thereafter we shall take stock for making mid course corrections. The immediate objective of this policy

is to arrest and reverse the declining trend of exports and to provide additional support, especially to those sectors which have been hit badly by recession in the developed world. We would like to achieve an annual export growth of 15% over 2010-11 with an annual export target of US\$ 200 billion by March 2011. In the remaining three years of this Foreign Trade Policy, the country should be able to come back on the high export growth path of around 25% per annum. **By 2014, we expect to double India's exports of goods and services.** The long term policy objective for the Government is to double India's share in global trade by 2020.

9. In order to meet these objectives, the Government would provide a policy environment through a mix of measures including fiscal incentives, institutional changes, procedural rationalization, and efforts for enhanced market access across the world and diversification of export markets. The three pillars which would support us to achieve the targets are improvement in export related infrastructure, lowering of transaction costs and providing full refund of all indirect taxes and levies.

10. We would reassure our exporters and provide them adequate confidence to maintain their market presence even in a period of stress. In this policy we have given a special thrust to the employment oriented sectors which have witnessed job losses in the wake of recession especially in the field of textiles, leather, handicrafts, etc.

11. We shall ensure that Dollar credit needs of exporters are met in a timely manner, and a committee has been constituted with Finance Secretary, Commerce Secretary and Chairman IBA, which would meet periodically for this purpose.

12. We have taken a conscious decision to continue with the DEPB scheme upto December 2010, and also income tax benefits under Section 10(A) for IT industry and under Section 10(B) for 100% export oriented units would continue for one additional year till 31<sup>st</sup> March 2011. Enhanced insurance coverage and exposure for exports through ECGC Schemes has been ensured till 31<sup>st</sup> March 2010. We have also taken a view to continue with the interest subvention scheme for this purpose.

13. Through this policy, we will encourage value addition in our manufactured exports and towards this end, we have stipulated a minimum 15% value addition norm on imported inputs for advance authorization scheme.

14. In this economic climate, the developed countries have shown a negative growth trend and therefore we have taken a conscious view to expand and diversify our export markets especially in the emerging markets of Africa, Latin America, Oceania and CIS countries. Therefore, we would like to offset the inherent disadvantages which our exporters face in these markets, such as credit risks and higher trade costs, through appropriate policy instruments. We have rationalized our incentive schemes, including the enhancement of incentive rates, which are based on perceived long term competitive

advantage of specified Indian products and markets. New emerging markets have been given a special thrust to allow competitive exports. We would like to encourage production and export of 'green products' through measures such as phased manufacturing programme for green vehicles, zero duty EPCG Scheme and incentives for exports. Similarly, exports from North-East region will also be promoted. We have earmarked additional resources under the Market Development Assistance Scheme and Market Access Initiative Schemes, and leading products have been identified which would catalyze the next phase of export growth.

15. Comprehensive Economic Partnership Agreement with South Korea signed earlier this month will enable our products to secure enhanced market access to the growing Korean market. The Trade in Goods Agreement with ASEAN, which will come into force from January 1, 2010, will give enhanced market access to several items of Indian exports in this vibrant economic grouping. These agreements are also in line with India's look East policy. The Mercosur Preferential Trade Agreement has been concluded and it shall be our endeavour to deepen our trade engagement with other major economic groupings in the world.

16. India remains committed to the successful conclusion of the Doha Development Round. We are in favour of establishing a rule based, fair and equitable global multi-lateral trading regime which has development as its core objective. However, it must respond to the aspirations of millions of people of the developing world.

17. The Government seeks to promote Brand India through at least six 'Made in India' shows to be organized across the world every year.

18. In the era of global competitiveness, there is an imperative need for Indian exporters to upgrade their technology and reduce their costs. Accordingly, an important element of the Foreign Trade Policy is to help exporters for technological upgradation. Technological upgradation of exports is sought to be achieved by promoting imports of capital goods for certain sectors under EPCG at zero percent duty.

19. Under the present Foreign Trade Policy, Government recognizes exporters based on their export performance and they are called 'status holders'. For technological upgradation of the export sector, these status holders will be permitted to import capital goods duty free (through additional Duty Credit Scrips equivalent to 1% of their FOB value of export in the previous year, of specified product groups). This will help them to upgrade their technology and reduce cost of production. These two schemes would be valid upto 31<sup>st</sup> March 2011.

20. For upgradation of export sector infrastructure, 'Towns of Export Excellence' & units located therein would be granted additional focused support and incentives.

21. To enable support to Indian industry and exporters, especially the MSMEs, in availing their rights through trade

remedy instruments under the WTO framework, we propose to set up a Directorate of Trade Remedy Measures.

22. It shall be our endeavour to make India an international diamond trading hub, and we plan to establish more diamond bourses in the coming years.

23. In order to reduce the transaction cost and institutional bottlenecks, the e-trade project would be implemented in a time bound manner to bring all stake holders on a common platform. Additional ports/locations would be enabled on the Electronic Data Interchange over the next few years. An Inter-Ministerial Committee has been established to serve as a single window mechanism for resolution of trade related grievances. An updated compilation of standard input and output norms and ITC (HS) classification of export and import is being published after five years, which will bring greater transparency and facilitate easy transactions by exporters and importers.

24. These are difficult times and we have set an ambitious goal for ourselves. I am sure that the industry and Government, working in tandem will be able to ensure that the Indian exports become globally competitive and that we are able to achieve a target which we have set for ourselves.

Thank you.