The Role of Indian Foreign Trade Policy (2009-14) on Export in Textile Industry

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Abstract

The Indian Foreign Trade Policy (2009-14) envisaged an annual export growth of 15 per cent with an annual export target of US USD 200 billion by March 2011 and to come back on the high export growth path of around 25 per cent per annum in the remaining three years of this Foreign Trade Policy i.e. up to 2014. The long term policy objective for the Government is to double India's share in global trade by 2020. Textile Industry is one of the largest and oldest industries in India. Textile Industry in India is a self-reliant and independent industry and has great diversification and versatility. It accounts for 14% of the total Industrial production, contributes to nearly 11% of the total export and is the second largest employment generator. This manuscript deals with export in Textile Industry. Objectives of this paper are to study the Indian Foreign Trade Policy (2009-14) with respect to Textile Export and to identify benefits of Indian Foreign Trade Policy (2009-14) for promoting Textile Export. Research is done mainly by collecting and analyzing secondary data. The major sources of these data are websites of Ministry of Textile, WTO, and DGFT etc. A fair amount of information is collected from magazines and other academic publications to obtain Knowledge working procedure regarding in this field.

Keywords: Export, EPGC, Foreign trade policy, Incentives, Textile Industry.

Introduction

Foreign Trade Policy (2009-14), Export-Import (Indian Foreign Trade) Policy alternatively known as Trade Policy refers to Policies adopted by a country with reference to export and imports. Trade Policy can be **free trade policy** or **protective trade policy**. A free trade is one which does not impose any restriction on the exchange of goods and services between different countries. A **free trade policy** involves complete absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption. The Foreign Trade Policy (FTP), 2009-14 was announced on 27th August, 2009 in the backdrop of a fall in India's exports due to global slowdown. The immediate and the short term objective of the policy was to arrest and reverse the declining trend of exports as well as to provide additional support especially to those sectors which were hit badly by recession in the developed world. The Policy envisaged an annual export growth of 15 per cent with an annual export target of US USD 200 billion by March 2011 and to come back on the high export growth path of around 25 per cent per annum in the remaining three years of this Foreign Trade Policy i.e. up to 2014. The long term policy objective for the Government is to double India's share in global trade by 2020.

Textile Industry

The Indian Textiles Industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textiles industry also plays a pivotal role through its contribution to industrial output, employment generation, and the export earnings of the country. Currently, it contributes about 14% to industrial production, 4% to the GDP, and 11% to the country's export earnings. It provides direct employment to over 45 million people The Textiles sector is the second largest provider of employment after agriculture. Thus, the growth and all round development of this industry has a direct bearing on the improvement of the economy of the nation. Textile and clothing exports account for one-third of the total value of exports from the country. There are 1,227 textile mills with a spinning capacity of about 29 million spindles. While yarn is mostly produced in the mills, fabrics are produced in the powerloom and handloom sectors as well. Textile is one of India's oldest industries and has a formidable presence in the national economy.

Scope of the Study

For the paper, scope is Foreign Trade Policy (2009-14) and Textile Industry. Textile Industry is selected on the basis of its major contribution towards export and its scope for growth. This manuscript confines the aspects of Indian Foreign Trade Policy (2009-2014) and its benefits, towards the Textile Industry in general. Researcher has taken this study to know the role of Foreign Trade Policy (2009-14) on Textile Export.

Objectives of the Study

1. To study the Indian Foreign Trade Policy (2009-14) with respect to Textile Export

2. To identify benefits of Indian Foreign Trade Policy (2009-14) for promoting Textile Export.

3. To understand the trends of Textiles Export from the year 2008.

4. To examine the share of Indian Export with respect to the world level export in Textile Industry.

Methodology

It is a Descriptive type of research hence the study is done mainly by retrieving and analyzing secondary data. The major sources of these data are websites of Ministry of Commerce & Industry, Ministry of Textile, Directorate of General of Foreign Trade, International Trade Center, World Trade Organization etc. A fair amount of information is collected from magazines & other academic publications to obtain Knowledge working procedure regarding in this field.

Limitations

Though every care has been taken to ensure accuracy in the presentation of the facts followed by analysis, this paper may tentatively suffer from a few shortcomings, which are listed briefly below:

1. Since the study is based on available secondary data, hence the accuracy of findings is depending on the secondary sources of data as mentioned in the above research paper design.

2. The detailed analysis of study is limited to The Role of Indian Foreign Trade Policy (2009-14) on Export in Textile Industry.

Review of Related Literature

1. From Mr. Deepak Nayyar's (1973) manuscript titled as "Analysis of the Stagnation in India's Cotton Textile Exports during the Sixties[1]", we can come to know about export trends during sixties. He concludes that "The main conclusions emerging from the above analysis can be summed up as follows. The extremely slow growth in world demand for cotton textiles does not explain the stagnation in India's textile exports during the sixties, because over the same period, other competing countries like Pakistan, Hong Kong, UAR and Taiwan increased their exports rapidly. The restrictions on international trade in cotton textiles did have some adverse effects, but the main reasons for the relatively poor export performance of the Indian cotton textile industry are to be found in domestic factors and policies."
2. T. A. Bhavani† and Suresh D. Tendulkar Concluded that in one of their paper titled as "Determinants of firm-level export Performance[2]" it should be apparent that the determinants of the export decision and export performance functions that we have identified on the basis of international trade and industrial organization theories, and found to be empirically relevant to the Garment and Apparel industry, would also apply to other labour intensive exportable industries.
3. Dr Meenu Tewari (2008) has discussed about impact of Multi Fibre Agreement (MFA) in the manuscript titled as "Varieties of Global Integration: Navigating Institutional Legacies and Global Networks in India's Garment Industry[3]" as follows: The elimination of global textile quotas under the Multi-Fibre Arrangement on 1 January 2005 has triggered a restructuring of existing patterns of sourcing and supply in the global textile and apparel industry.

Foreign Trade Policy 2009-14: Foreward[4]

In the era of global market, there is a need for Indian exporters to upgrade their technology and reduce their costs. Technological upgradation of exports is sought to be achieved by promoting imports of capital goods for certain sectors under Export Promotion Capital Goods

Recognizes exporters based on their export performance and they are called 'status holders'.

1. Oxford Bulletin of Economics and Statistics (1973)-Volume 35

2. Journal of International Trade & Economic Development 10:1 65-92

3. Competition & Change, Vol. 12, No. 1, March 2008 49–67

4. Foreword Note by Anand Sharma, Minister of Commerce & Industry, Government of India

For technological upgradation of the export sector, these status holders will be permitted to import capital goods duty free (through Duty Credit Scrips equivalent to 1% of their FOB value of exports in the previous year), of specified product groups. This will help them to upgrade their technology and reduce cost of production.

FTP (2009-14) initiatives & benefits

a) Electronic Data Interchange Initiatives

E-BRC (Bank Realisation Certificates) system of EDI allows Transmission of realization of export proceeds details from banks to DGFT in electronically secured format. This system has been made mandatory with effect from 17th August, 2012. Up to 16th April, 2013, 31.2 lakh e-BRC have been uploaded on the website of DGFT by 81 banks.

b) Focus Market Scheme (FMS)

The objective of FMS is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries.

c) Focus Product Scheme (FPS)

The objective of FPS is to incentivize export of such products, which have high employment intensity in rural and semi urban areas, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products.

d) Widening of Interest Subvention Scheme

At present, 3% interest subvention scheme is available to certain specific sectors like Handicrafts, Handlooms, Carpets, Readymade Garments, Processed Agricultural Products, Sports Goods and Toys. The scheme had been further widened to include 134 sub-sectors of engineering sector. Government had also announced that the benefit of this scheme of 3% interest subvention could be available upto 31.03.2014. Government has decided to further widen the scheme to include items covered under Chapter 63 of ITC (HS) (other made 5 up textile articles, sets, rags) and additional specified tariff lines of engineering sector items under the scheme. These sectors would be able to avail benefit under this scheme during the period from 01.05.2013 to 31.03.2014.

e) Simplification of Procedures

1. To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50.

2. Greater flexibility has been permitted to allow conversion of Shipping Bills from one Export Promotion scheme to other scheme. Customs shall now permit the conversion within three months, instead of the present limited period of only one month.

3. To reduce transaction costs, dispatch of imported goods directly from the Port to the site has been allowed under Advance Authorisation scheme for deemed supplies.

At present, the duty free imported goods could be taken only to the manufacturing unit of the authorisation holder or its supporting manufacturer.

4. Disposal of manufacturing wastes / scrap will now be allowed after payment of applicable excise duty, even before fulfillment of export obligation under Advance Authorisation and EPCG Scheme.

5. Acceding to the demand of trade & industry, the application and redemption forms under EPCG scheme have been simplified.

f) EPCG Scheme Relaxations

1. To increase the life of existing plant and machinery, export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced to 50% of the normal specific export obligation.

2. Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular FY in which year there is decline in export from the country, has been extended for the 5 year policy period 2009-14.

g) Handloom Sector

1. To simplify claims under FPS, requirement of 'Handloom Mark' for availing benefits under FPS has been removed.

h) Reduction of Transaction Costs

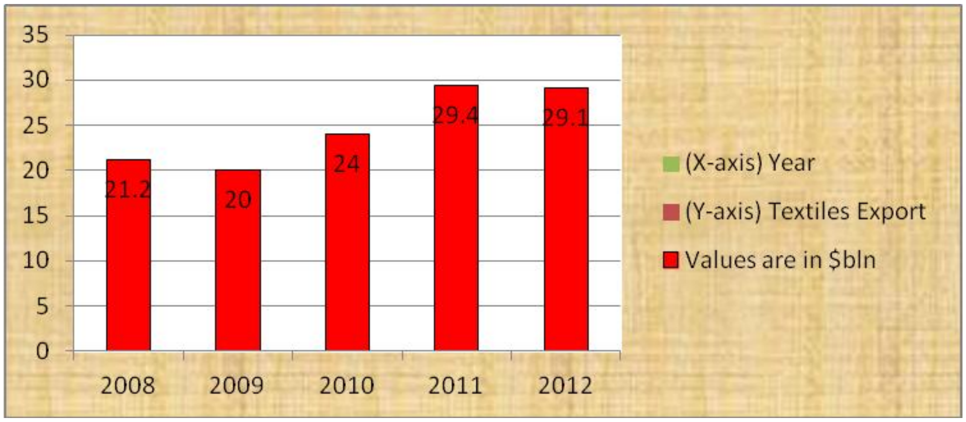
1. No fee shall now be charged for grant of incentives under the Schemes in Chapter 3 of FTP. Further, for all other Authorisations/ licence applications, maximum applicable fee is being reduced to Rs. 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs. 50,000 from the existing Rs.75,000 (for EDI applications).

Analysis & Interpretations

Table 1: Indian Textiles* Export Since 2008 (In USD Bln)

Year	**2008**	**2009**	**2010**	**2011**	**2012**
Textiles Export (USD bln)	**21.2**	**20**	**24**	**29.4**	**29.1**

Figure 1: Indian Textiles* Export since 2008 (in USDbln)



Source: WTO-International Trade Statistic 2009-2013 (www.wto.org/statistics)

***Textiles export includes both Textile & Clothing export in Indian Textile Industry**

1. During the year 2008 Indian Textiles Export was amounted as USD21.2billion, but due to global recession it has come down to USD20billion during the year 2009.

2. Ministry of Commerce & Industry, GOI framed & implemented a new 5 year Foreign Trade Policy (2009-14) by considering recession impact on Indian trade.

3. Policy was framed in such a way that our export should regain & reconcile in the global market. Hence we can see there is an improved growth in Textiles Export which was accounted about USD24billion during the year 2010.

4. During the year 2011 Indian Textiles Export was increased about 22.5% from the previous year, i.e. USD24billion to USD29.4billion.

5. For the year 2012 Indian Textiles Export value was around USD29.1billion from the previous year USD29.4billion.

Table 2: Leading Textiles exporters share in Global Export since 2004: (Values in %)

Country	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
China	17.2	20.2	22.3	23.5	26.1	28.3	30.7	32.2	33.4
EU	36.6	33.5	32.6	33.9	32.1	29.5	26.8	26.1	24.3
India	**4.0**	**3.9**	**4.3**	**4.0**	**4.1**	**4.3**	**5.1**	**5.1**	**5.3**
US	6.2	6.1	5.8	5.2	5.0	4.7	4.9	4.7	4.7
Korea Republic of	5.6	5.1	4.6	4.4	4.1	4.3	4.4	4.2	4.2
Turkey	3.3	3.5	3.5	3.7	3.8	3.7	3.6	3.8	3.9

Taipei, Chinese	5.2	4.8	4.5	4.1	3.7	3.7	3.9	3.7	3.6
Pakistan	3.1	3.5	3.4	3.1	2.9	3.1	3.1	3.1	3.0
Japan	3.7	3.4	3.2	3.0	2.9	2.9	2.8	2.7	2.7
Indonesia	1.6	1.7	1.6	1.6	1.5	1.5	1.7	1.6	1.6

Source: WTO-International Trade Statistic 2009-2013 (www.wto.org/statistics)

Table 3: Leading Clothing exporters share in Global Export since 2004: (Values in %)

Country	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
China	24.0	26.9	30.6	33.4	33.2	34.0	36.7	37.3	37.8
EU	29.0	29.2	26.8	29.4	31.1	30.7	28.1	28.2	25.8
Bangladesh	1.7	2.3	2.8	2.9	3.0	3.4	4.5	4.8	4.7
Turkey	4.3	4.3	3.8	4.1	3.8	3.7	3.6	3.4	3.4
Vietnam	1.5	1.7	1.7	2.1	2.5	2.7	3.1	3.2	3.3
India	**2.8**	**3.0**	**3.3**	**2.8**	**3.0**	**3.6**	**3.2**	**3.5**	**3.3**
Indonesia	1.7	1.9	1.8	1.7	1.7	1.9	1.9	2.0	1.8
US	2.0	1.8	1.6	1.2	1.2	1.3	1.3	1.3	1.3
Malaysia	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.1
Mexico	2.8	2.6	2.0	1.5	1.4	1.3	1.2	1.1	1.1

Source: WTO-International Trade Statistic 2009-2013 (www.wto.org/statistics)

Figure 2: Leading Textile Exporters share during 2012

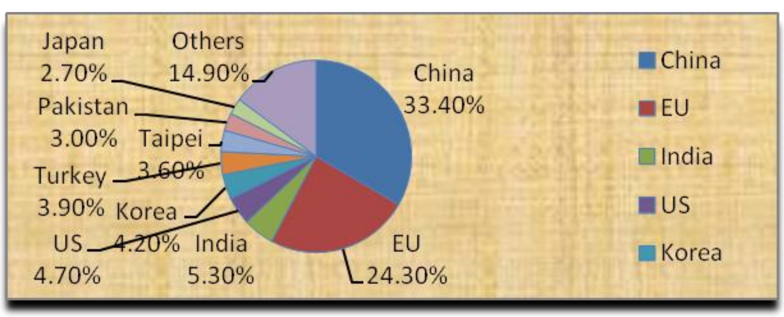
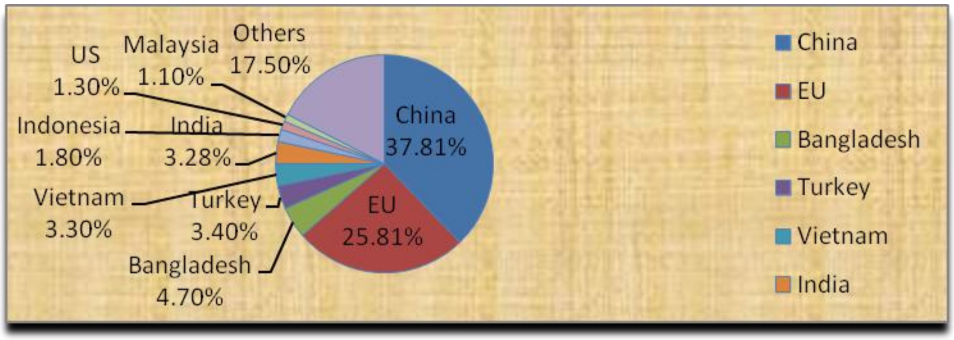


Figure 3: Leading Clothing Exporters share during 2012



Source: WTO-International Trade Statistic 2013 (www.wto.org/statistics)

Findings & Conclusions

1. India ranks sixth position in leading clothing exporters share in the world during 2012.

2. India ranks third position in leading textile exporters share in the world during 2012.

3. The Minister has announced extension of zero duty Export Promotion Capital Goods (EPCG) scheme beyond March 31, 2013. Further, the exporters who have availed benefits under Technology Upgradation Fund Scheme (TUFS) administered by Ministry of Textiles can also avail the benefit of Zero duty EPCG Scheme.

4. The Government has announced that the benefit of 2 percent interest subvention scheme could be available up to March 31, 2014 for certain specific sectors like Handicrafts, Handlooms, Carpets and Readymade Garments.

5. For the Authorisations/Licence applications, maximum applicable fee is being reduced by around 33% for both manual applications and EDI applications.

6. The **short term objective** of FTP policy is to arrest and reverse the declining trend of exports and to provide additional support to those sectors which have been hit badly by recession in the developed world and it is found that we have achieved it.

7. The **long term policy** objective for the Government is to double India's share in global trade by 2020.

8. Government has taken initiatives to promote the export in general by providing various benefits to the exporters like Tax exemptions, Technological up gradation facility, product promotion in abroad to bring the brand of Made in India etc.

9. Infrastructure related to exports, transaction costs, & refund of all indirect taxes and levies would be the three pillars, which will support us to achieve the target. A Special care has been taken to employment intensive sectors which have witnessed job losses due to recession, such as textile, leather, handicrafts, etc.

10. Technological upgradation of exports is being achieved by promoting imports of capital goods for certain sectors under Export Promotion Capital Goods (EPCG) at zero percent duty. Finally we can conclude that Foreign Trade Policy (2009-14) is helping to

promote Textiles Export consistently and we may reach our targets as per the projections.

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