Chapter 6: India's Foreign Exchange Reserves

Foreign Exchange in India is kept in the custody of Reserve Bank of India. The following Table reproduced from the latest RBI press release of March 16, 2012 shows the various components of India's Foreign Exchange Reserves kitty.

2. Foreign Exchange Reserves

Item	As on March 9, 2012		Variation over							
			Week		End-March 2011		End-December 2011		Year	
	₹ Bn.	US$ Mn.	₹ Bn.	US$ Mn.	₹ Bn.	US$ Mn.	₹ Bn.	US$ Mn.	₹ Bn.	US$ Mn.
	1	2	3	4	5	6	7	8	9	10
Total Reserves	**14,673.5**	**293,959.0**	**127.2**	**–1,029.8**	**1,063.4**	**–10,859.1**	**–1,131.2**	**–2,729.7**	**1,028.0**	**–7,878.5**
(a) Foreign Currency Assets +	12,934.1	258,578.7	123.0	–1,017.6 *	685.3	–15,751.1	–1,072.4	–4,354.6	625.2	–13,680.8
(b) Gold $	1,376.6	28,127.7	—	—	350.9	5,155.3	–41.5	1,507.4	376.2	5,985.0
(c) SDRs @	222.6	4,449.6	2.6	–7.5	18.6	–119.4	–13.3	20.6	–11.1	–719.2
(d) Reserve Position in the IMF**	140.2	2,803.0	1.6	–4.7	8.6	–143.9	–4.0	96.9	37.7	536.5

\+ Excludes ₹ 27.5 billion/US$ 550 million invested in foreign currency denominated bonds issued by IIFC (UK).
* Foreign currency assets expressed in US dollar terms include the effect of appreciation/depreciation of non-US currencies (such as Euro, Sterling, Yen) held in reserves. For details, please refer to the Current Statistics section of the RBI Bulletin.
** Reserve Position in the International Monetary Fund (IMF), i.e., Reserve Tranche Position (RTP) which was shown as a memo item from May 23, 2003 to March 26, 2004 has been included in the reserves from the week ended April 2, 2004 in keeping with the international best practice.
@ Includes SDR 3,082.5 million (equivalent to US$ 4,883 million) allocated under general allocation and SDR 214.6 million (equivalent to US$ 340 million) allocated under special allocation by IMF done on August 28, 2009 and September 9, 2009, respectively.
$ Includes ₹314.6 billion (US$ 6,699 million) reflecting the purchase of 200 metric tonnes of gold from IMF on November 3, 2009.

The foreign exchange reserves of India are made up of the following components:

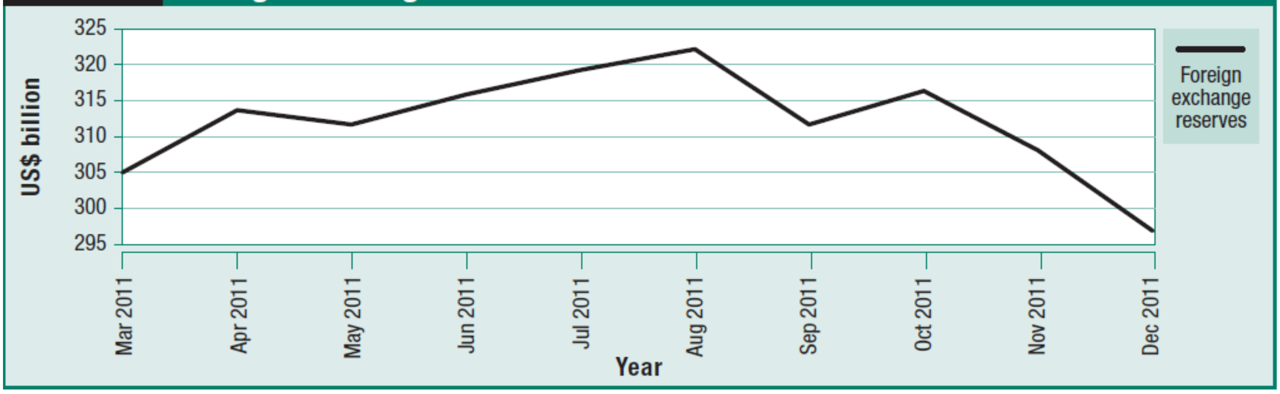
- **Foreign Currency Assets:** It is largest part, more than 88%. Foreign currency assets expressed in US dollar terms include the effect of appreciation/depreciation of non-US currencies (such as Euro, Sterling, Yen) held in reserves.
- **Gold:** Gold is second largest part of India's Foreign Exchange Reserves.
- **SDR or Special Drawing Rights:** Special drawing rights (SDRs) are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund (IMF). Please note that SDR itself is not a currency. Instead, SDR represents a claim to currency held by IMF member countries for which they may be exchanged. As they can only be exchanged for euros, Japanese yen, pounds sterling, or US dollars, SDRs may actually represent a potential claim on IMF member countries' nongold foreign exchange reserve assets, which are usually held in those currencies. SDR was created in 1969 as a supplement a shortfall of preferred foreign exchange reserve assets, namely gold and the US dollar. The value of SDR's is defined by a weighted currency basket of four major currencies: the Euro, the US dollar, the British pound, and the Japanese yen. SDRs are denoted with the ISO 4217 currency code XDR. SDRs are allocated to countries by the IMF. Private parties do not hold or use them.
- **Reserve Trench Position in the International Monetary Fund:** Each member of the IMF is assigned a quota, part of which is payable in SDRs or specified usable currencies ("reserve assets"), and part in the member's own currency. The difference between a member's quota and the IMF's holdings of its currency is a country's Reserve Tranche Position (RTP). Reserve Tranche Position is accounted among a country's foreign-exchange reserves.

In the previous modules we have discussed about the Foreign Reserves Crises of different times. Beginning from a low level of US$ 5.8 billion at end March 1991, India's foreign exchange reserves gradually increased to US$ 25.2 billion by end March 1995, US$ 38.0 billion by end March 2000, US$ 113.0 billion by end March 2004, and US$ 199.2 billion by end March 2007. The reserves stood at US$ 314.6 billion at end May 2008, before declining to US$ 252.0 billion at the end of March 2009. The decline in reserves in 2008-09 was a fallout of the global crisis and strengthening of the US dollar vis à vis other international currencies. During 2009-10, the level of foreign exchange reserves increased to US$

279.1 billion at end March 2010, mainly on account of valuation gain as the US dollar depreciated against most of the major international currencies.

In fiscal 2010-11, foreign exchange reserves have shown an increasing trend and reached US$ 304.8 billion at end March 2011, up by US$ 25.7 billion from the US$ 279.1 billion level at end March 2010. Of the total increase in reserves, US$ 12.6 billion was on account of valuation gains arising out of depreciation of the US dollar against major currencies and the balance US$ 13.1 billion were on BoP basis. In 2011-12, the reserves increased by US$ 6.7 billion from US$ 304.8 billion at end March 2011 to US$ 311.5 billion at end September 2011. Out of this total increase, US$ 5.7 billion was on BoP basis and the balance US$ 1.0 billion was on account of valuation effect. In the current fiscal, on month-on-month basis, the foreign exchange reserves have shown twin trends. The reserves reached an all time high level of US$ 322.0 billion at end August 2011. However, they declined to US$ 311.5 billion at end September 2011 before increasing to US$ 316.2 billion at end October 2011. In the months of November and December 2011, reserves again showed a declining trend. At end December 2011, they stood at US$ 296.7 billion, indicating a decline of US$ 8.1 billion from US$ 304.8 billion at end March 2011. The decline in reserves is partly due to intervention by the RBI to stem the slide of the rupee against the US dollar. This level of reserves provides about eight months of import cover.

Figure 6.3 Foreign exchange reserves



Chapter 7: India's Foreign Trade

Prior to 1947, India's trade was a typical colonial trade, in which she used to supply raw materials to the colonial master and imported the manufactured goods. So, naturally the industrialization at home was not permitted. The indigenous handicrafts suffered because of the competition from the British manufactured products as well as British traders located in India as well as abroad.

- The colonial pattern of trade was to be changed after independence. The first major challenge was the increase in the production capacity of the country. So, this led to import of the heavy plants and machinery which was called the "**developmental Imports**".
- To maintain the productive capacity of the country, the objects such as machines were imported and this was called **"maintenance imports".** The above two similar kinds of imports were vital for a developing country like ours which just embarked on the path of the economic development.
- Apart from that, India needed to import lots of Food grains in the beginning of the independent era. Since, the food grain production in the country was so less to fulfil needs. The import of food grains was also necessary to contain the inflation in these consumer goods.

We can understand that India, when became independent was heavily dependent upon the imports. The higher imports and negligible exports means a pressure on the balance of trade. The result is pressure on the economy.

So, there was need to encourage the exports. The imports were inelastic, and to fight with the pressure of the foreign debt, the country needed to boost its exports.

In 1949, Government of India had established a **Gorwala Enquiry Committee** to study the problems of Balance of payments and suggest measures to promote exports. This was one of the first committees by the Independent India towards this direction. On the basis of recommendation of the Gorwala Committee, The government of India established the Directorate of Export Promotion in 1957, to provide necessary information and assistance to exporters.

- In 1957, the **De-Sooza committee** recommended concessions in the custom duties and Railway Freights. On the basis of recommendation of this committee, the **Export Risk Insurance Corporation** was established.
- The Mudalier Committee recommended in 1961 for more concession in export duties and make more availability of the raw materials.
- It was **Alexander panel in 1977,** which recommended restrictions on certain imports to protect the small scale industries (During the Janta Regime)
- The Tandon Committee in 1981, advocated **for establishment of Export Processing Zones and Free trade Zones.**

The Indian Standards Institution (ISI) was set up in 1947 as a registered society, under a Government of India resolution to fix the international standards to Indian Goods. In 1986 it **was accorded a statutory status**. The act was the Bureau of Indian Standards Act 1986 and on 1 April 1987, newly formed BIS took over staff assets, liabilities and functions of erstwhile ISI.

- In 1956, Indian Council for arbitration was set up as apex institution to monitor foreign trade arbitration in India. The idea was to aware people about arbitration and cordially settles the disputes.
- In 1964, the **Export Inspection Council** was set up to provide advice to the government regarding the quality control and inspection of the exportable items.
- In 1964, **Indian Institute of Foreign Trade** was established for training and research activity in the field of foreign trade.
- In 1966, the **Indian Institute of Packing** was established for studding and disseminating information about the new packing measures.
- In 1971, **Trade Development Authority** was established under the Ministry of Trade. It was later merged with the Indian Trade Fair Authority and thus ITPO (Indian trade promotion Organization) got birth.
- In 1972, the Marine products and Export Development Organization (MPEDA) was establish to promote export of marine products.
- The **Agricultural and Processed Food Products Export Development Authority** (APEDA) was established by the Government of India under the Agricultural and Processed Food Products Export Development Authority Act passed by the Parliament in December, 1985.
- To increase the efficiency of the exporters, the Government had introduced the concept of the Export Houses, trading Houses and Star Trading Houses. Those registered exporters who had shown the good export performances were given these status. In 1994, The Government also included a new category **Golden Super Star Trading House**.

The issue of Balance of Payments was given prominence in the beginning of this century. After the 2006 SS Tarapore Committee on Fuller Convertibility on Capital Account, two important task force were created. One of them was the **Mistry Panel.** Mistry Panel was a 15 member committee under Percy S Mistry. This committee was constituted by the

Ministry of Finance. The committee recommended fuller convertibility on capital account by 2008. Some other important recommendations were as follows:

- Abolition of the Securities transaction tax, stamp duties, cutting down public debts and no restriction on foreign investment in sovereign bands for making Mumbai an international finance center.
- Imposition on Goods and services tax on financial services.
- Creation of currency spot market and rupee settled exchange traded currency derivatives market.

India's Trade Balance

As mentioned above, India's Trade Balance was negative when we got Independence. In 1949-50, India's exports were worth Rs. 485 Crore and the imports were worth Rs. 617 Crore. So, we started with a negative trade balance of Rs. 132 Crore. During the first plan period, the imports and exports were as follows:

7.1 (A) : EXPORTS, IMPORTS AND TRADE BALANCE

(₹ crore)

Year	Exports (including re-exports)	Imports	Trade Balance	Rate of Change (per cent) Export	Import
1	2	3	4	5	6
1949-50	485	617	-132	na	na
1950-51	606	608	-2	24.9	-1.5
1951-52	716	890	-174	18.2	46.4
1952-53	578	702	-124	-19.3	-21.1
1953-54	531	610	-79	-8.1	-13.1
1954-55	593	700	-107	11.7	14.8
1955-56	609	774	-165	2.7	10.6
1956-57	605	841	-236	-0.7	8.7
1957-58	561	1035	-474	-7.3	23.1
1958-59	581	906	-325	3.6	-12.5
1959-60	640	961	-321	10.2	6.1
1960-61	642	1122	-480	0.3	16.8
1961-62	660	1090	-430	2.8	-2.9
1962-63	685	1131	-446	3.8	3.8
1963-64	793	1223	-430	15.8	8.1
1964-65	816	1349	-533	2.9	10.3
1965-66	810	1409	-599	-0.7	4.4
1966-67	1157	2078	-921	42.8	47.5
1967-68	1199	2008	-809	3.6	-3.4
1968-69	1358	1909	-551	13.3	-4.9
1969-70	1413	1582	-169	4.1	-17.1
1970-71	1535	1634	-99	8.6	3.3
1971-72	1608	1825	-217	4.8	11.7

The above table shows that there is a continuous negative balance of Trade from India's independence till the first years of 1970s. However, in 1970's India saw two years viz. 1972-73 & 1976-77, in which she had a favorable trade Balance.

1972-73	1971	1867	104	22.6	2.3
1973-74	2523	2955	-432	28.0	58.3
1974-75	3329	4519	-1190	31.9	52.9
1975-76	4036	5265	-1229	21.2	16.5
1976-77	5142	5074	68	27.4	-3.6
1977-78	5408	6020	-612	5.2	18.6
1978-79	5726	6811	-1085	5.9	13.1
1979-80	6418	9143	-2725	12.1	34.2
1980-81	6711	12549	-5838	4.6	37.3
1981-82	7806	13608	-5802	16.3	8.4
1982-83	8803	14293	-5490	12.8	5.0
1983-84	9771	15831	-6060	11.0	10.8
1984-85	11744	17134	-5390	20.2	8.2
1985-86	10895	19658	-8763	-7.2	14.7
1986-87	12452	20096	-7644	14.3	2.2
1987-88	15674	22244	-6570	25.9	10.7
1988-89	20232	28235	-8003	29.1	26.9
1989-90	27658	35328	-7670	36.7	25.1
1990-91	32553	43198	-10645	17.7	22.3
1991-92	44041	47851	-3810	35.3	10.8
1992-93	53688	63375	-9687	21.9	32.4
1993-94	69751	73101	-3350	29.9	15.3
1994-95	82674	89971	-7297	18.5	23.1
1995-96	106353	122678	-16325	28.6	36.4
1996-97	118817	138920	-20103	11.7	13.2
1997-98	130100	154176	-24076	9.5	11.0
1998-99	139752	178332	-38580	7.4	15.7
1999-2000	159561	215236	-55675	14.2	20.7
2000-01	203571	230873	-27302	27.6	7.3
2001-02	209018	245200	-36182	2.7	6.2
2002-03	255137	297206	-42069	22.1	21.2
2003-04	293367	359108	-65741	15.0	20.8
2004-05	375340	501065	-125725	27.9	39.5
2005-06	456418	660409	-203991	21.6	31.8
2006-07	571779	840506	-268727	25.3	27.3
2007-08	655864	1012312	-356448	14.7	20.4
2008-09	840755	1374436	-533681	28.2	35.8
2009-10	845534	1363736	-518202	0.6	-0.8
2010-11	1142649	1683467	-540818	35.1	23.4
2011-12 (P)* (April-Dec.)	**1024707**	**1651240**	**-626533**	**29.9**	**34.5**

These two financial years are **the only two financial years in the history of Post independence India, in which we had a favorable trade balance.** After that, the Trade as well as **negative Trade Balance** increased, post liberalization Era.

Post liberalization, the devaluation of Rupee and convertibility of Indian Rupee in current account tried to create a favourable environment, this was evident in the year 1993-94 and 1995-96, but in the subsequent years, the trade deficit increased.

However, in recent years, India's merchandise export has shown a remarkable growth, except for the period of financial slowdown.

India's exports and imports registered a five to seven fold increase in the last decade from US$ 44.6 billion and US$ 50.5 billion respectively in 2000-01 to US$251.1 billion and US$369.8 billion in 2010-11 respectively. While the compound annual growth rates (CAGR) of India's exports and imports (in US dollar terms) were 8.2 per cent and 8.4 per cent respectively in the 1990s, they increased to 19.5 per cent and 25.1 per cent during 2000-01 to 2008- 09. The resilience of India's trade can be seen from the fact that its export and import growth, which fell to -3.5 per cent and -5 per cent in 2009-10 as a result of the shock from the 2008 global economic crisis, rebounded to 40.5 per cent and 28.2 per cent in 2010-11. India not only reached precrisis levels in exports, but surpassed pre-crisis trends in export growth rate unlike many other developing and even developed countries. India's share in global exports and imports also increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.5 per cent and 2.2 per cent in 2010 (1.4 and 2.1 per cent as per WTO). Its ranking in the leading exporters and importers improved from 31 and 26 in 2000, to 20 and 13 in 2010 respectively.

During the first half of 2011-12, India's exports witnessed a high growth of 40.6 per cent. However, since October 2011 there has been a deceleration in export growth as a result of the crisis originating in the periphery of the euro zone area and spreading to the core economies resulting in a now evident mild recession in the euro area.

Volume of World Trade

- In 2008, the volume of Global Trade was US$ 16 Trillion. In 2009, there was a sudden and sharp decline in world trade, and the figure for this year was US$ 12.4 Trillion. However, there was an impressive recovery in 2010. In the first 6 months, the world trade reached US$ 7.03 trillion, showing a value growth of 24 per cent. But this recovery is partially attributed to the Base Effect. Partially, it was due to the fiscal stimulus of different countries.
- World trade moderated to 6.9 per cent in 2011. In the first half of 2011, world trade had reached US$ 8.7 trillion with a value growth of 23.1 per cent. But with the escalating euro area crisis entering a perilous new phase in the fourth quarter of 2011 **world trade volume growth is expected to decelerate to 3.8 per cent in 2012** as per the International Monetary Fund's (IMF), World Economic Outlook (WEO), January 2012.

India's Share in the World Exports

India's share in world merchandise exports has started rising since 2007 albeit by a very slow 0.1 percentage point so as to reach 1.3 per cent in 2009 and **1.4 per cent in 2010** (January-June). India's share in global exports and imports also increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.5 per cent and 2.2 per cent in 2010 (1.4 and 2.1 per cent as per WTO). Its ranking in the leading exporters and importers improved from 31 and 26 in 2000, to 20 and 13 in 2010 respectively.

India's Top Trade Partners

India's top trade partner is United Arab Emirates. **UAE accounts for roughly 10.33 % of India's Total Trade.**

Volume of India's Merchandise Foreign Trade

India's merchandise export has been showing remarkable resilience in the last few years. The following table presents volume of India's Foreign Trade in last few years:

Year	Exports	Imports	Total Trade
1997-98	35006	41484	76490
1998-99	33218	42389	75607
1999-00	36822	49671	86493
2000-01	44560	50536	95096
2001-02	43827	51413	95240
2002-03	52719	61412	114131
2003-04	63843	78150	141993
2004-05	83536	111518	195054
2005-06	100607	140237	240844
2006-07	126413	185735	312148
2007-09	163132	251654	414786
2008-09	185295	303696	488991
2009-10	178751	288372	467123
2010-11 (APR-JUNE)	52709	81454	134163
All values Million Dollars, Source : Ministry of Commerce			

Composition of India's exports

The merchandise exports of India are broadly classified into the following 4 categories:

1. **Agriculture and allied products** (such as Coffee, Tea, Oil cakes, Tobacco, Cashew, Kernels, Spices, sugar, Raw Cotton, Rice, Fish & other seafood items, Meat & meat products, Oils such as vegetable oils, Pulses, fruits, vegetables.
2. **Ores and Minerals** which mainly include manganese, mica, iron ore.
3. **Manufactured Goods** such as textiles, readymade garments, jute, leather, footwear, handicrafts & handlooms, jewelry, pearls and precious stones, chemicals, engineering goods, iron steel etc.
4. **Mineral Fuels and Lubricants**

The following table shows the composition of India's Exports till 2009-10 (April-September):

Commodity Group	2007-08	2008-09	2009-10 (Apr-Sep)
Agriculture and allied products	**9.9**	**9.1**	**9.0**
Ores and Minerals	**5.5**	**4.2**	**3.7**
Manufactured Goods **Of which**	**64.1**	**66.7**	**69.2**
Gems and Jewellery	12.1	15.3	17.8
Drugs and Pharmaceuticals	4.7	4.7	5.2
Metal products	4.1	4.3	3.5
Transport Equipments	4.3	6.0	6.4
Machinery and Instruments	5.6	5.9	6.1
Electronic goods	2.1	3.9	4.0
Readymade garments	5.9	5.9	6.3
Handicrafts	0.3	0.2	0.1
Crude and Petroleum (Including Coal)	**17.8**	**14.9**	**14.2**
Others	**2.7**	**5.1**	**3.9**
	100.0	100.0	100.0

Source: Ministry of Commerce

In the above table we see that the **manufactured goods are backbone of India's Merchandise exports**. In Merchandise exports too, the share of Gems and Jewellery is maximum.

Composition of India's Imports

Around one third of India's imports are POL (Petrol, Oil and Lubricants) products. The following table shows the share of various commodity groups in India's total imports till April September 2009-10.

Commodity Group	2007-08	2008-09	2009-10 (Apr-Sep)
Food and allied products **Of which**	**2.3**	**2.1**	**3.5**
Cereals	**0.3**	**0.0**	**0.0**
Pulses	**0.5**	**0.4**	**0.6**
Edible Oils	**1.0**	**1.1**	**2.0**
Fuel **Of which**	**34.2**	**33.4**	**33.2**
POL	31.7	30.1	30.1
Fertilizers	**2.0**	**4.3**	**2.5**
Capital Goods Of which	18.7	15.5	14.3
Machinery except electrical and machinery tools	7.9	7.8	8.2
Electrical and machinery tools	1.2	1.2	1.2
Transport Equipment	8.0	4.4	2.3
Others **Of which**	38.9	40.0	43.4
Chemicals	4.9	5.0	5.8
Pearls, Precious stones and Semiprecious stones	3.2	5.5	4.4
Gold and Silver	7.1	7.2	9.3
Electronic Goods	8.2	7.7	8.6
Total	100.0	100.0	100.0

Schemes of Export Promotion

ASIDE Scheme

- **Full form:** Assistance to States for Development of Export Infrastructure and Allied Activities (ASIDE) Scheme
- **Launched:** March 2002
- **Objective:** To involve the States in the growth of export by providing incentive-linked assistance to the State Governments and to create appropriate infrastructure for the development and growth of exports.

The ASIDE scheme was launched after subsuming the following 4 erstwhile schemes:

1. Export Promotion Industrial Park Scheme (EPIP),
2. Export Promotion Zones Scheme (EPZ),
3. Critical Infrastructure Balancing Scheme (CIB)
4. Export Development Fund (EDF) for the North-East and Sikkim

The scheme is a Centrally Sponsored Plan scheme, in which outlay is provided for development of export infrastructure, which is distributed among the States on the basis of the States' export performance in the previous year.

✍ The 80% of the outlay is the State Component, which is used to allocate the states on the basis of approved criteria. Remaining 20% is the Central Component, which is used retained by the Central Government for meeting the requirements of inter-state projects, capital outlays of SEZs, activities relating to promotion of exports from the North

Eastern Region as per the existing guidelines of the Export Development Fund and any other activity considered important by the Central Government.

The Nodal agencies in state provide the funds for the following:

1. Creation of new Export Promotion Industrial Parks/Zones (including Special Economic Zones (SEZs)/Agri-Business Zones) and augmenting facilities in the existing Zones.
2. Setting up of electronic and other related infrastructure in export conclaves.
3. Equity participation in infrastructure projects, including the setting up of SEZs.
4. Meeting the requirements of capital outlay of EPIPs/SEZs.
5. Development of complementary infrastructure such as roads connecting the production centres with ports, setting up of Inland Container Depots and Container Freight Stations.
6. Stabilizing power supply through additional transformers and islanding of export production centres, etc.
7. Development of minor ports and jetties of a particular specification to serve exports.
8. Assistance for setting up Common Effluent Treatment Plants.
9. Other projects of national and regional importance.

Market Access Initiative (MAI)

Market Access Initiative (MAI) is a Plan scheme launched with an objective to work as a catalyst to promote India's exports on a sustained basis, based upon 'Focus Product' and 'Focus Market' concept. Under the Scheme, assistance is extended to the Departments of Central Government and organizations of Central/State Governments, Export Promotion Councils, Registered Trade Promotion organizations, Commodity Boards, recognized Apex Trade Bodies and Recognized Industrial Clusters and individual Exporters (only for product registration and testing charges for engineering products abroad).

Challenge Fund

Challenge Fund was set up under the MAI scheme with an objective to enable the Indian Missions abroad to better coordinate, synergize and facilitate India's export promotion activities. Under this scheme, the Indian Missions would 'bid' for support from the Fund by submitting innovative export promotion project proposals, with priority for focused, specific projects with quantifiable/tangible results.

Market Development Assistance (MDA) Scheme

This scheme is being implemented to assist exporters for their participation in approved EPC/Trade Promotion Organizations led export promotion events abroad. In this scheme the Export Promotion Council (EPCs) are also assisted to undertake export promotion activities for their product(s) and commodities. Besides, the approved organizations/ trade bodies in undertaking exclusive nonrecurring innovative activities connected with export promotion efforts for their members are also supported. The scheme also assists in the export promotion programmes such as FOCUS (LAC) (Latin American Countries), Focus (Africa), Focus (CIS) (Commonwealth of Independent States) and Focus (ASEAN + 2).

Export Credit Guarantee Corporation Of India Limited (ECGC)

Export Credit Guarantee Corporation of India Ltd. (ECGC) Mumbai is a company set up in 1957 under the Companies Act, 1956. The corporation supports India's exports by extending Insurance and Guarantee facilities to the Indian exporters and the commercial banks. The Corporation provides:

- ✓ Range of insurance covers to Indian exporters against commercial risks of nonpayment by the overseas importers.
- ✓ Country risks caused due to political developments.

✓ Credit insurance covers to banks against the nonpayment risks of exporters availing pre-shipment, post-shipment

✓ Other non funded export credit facilities.

The paid up capital of ECGC at the end of 2008-09 was Rs. 900.00 crores. ECGC has registered itself with the Insurance Regulatory and Development Authority (IRDA) w.e.f 27th September, 2002.

National Export Insurance Account (NEIA)

National Export Insurance Account (NEIA) is a fund set up in 2006 with an approved corpus of Rs. 2000 Crore. Out of which Rs. 546 Crore were funded by the Government of India.

✍ NEIA promotes **project export** from India, which are not covered by the ECGC because of its own underwriting capacity.

NEIA is maintained and operated by a Public Trust set up jointly by the Department of Commerce and ECGC.

The objectives of NEIA were expanded by the Government in December, 2008, in view of the Global Financial Crisis, to also provide for short term cover. The Government also allowed use of NEIA funds upto Rs.350 crore for the financial years 2008-09 and 2009-10, allowing the following benefits to the exporters to mitigate the effects of global financial crisis.

Export Promotion Councils

There are 14 Export Promotion Councils under Department of Commerce working as autonomous bodies. They are as follows:

1. EEPC India, Kolkata
2. Project Exports Promotion Council of India (PEPC), New Delhi
3. Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council (Chemexcil), Mumbai
4. Chemicals and Allied Products Export Promotion Council (CAPEXIL), Kolkata
5. Council for Leather Exports, Chennai
6. Sports Goods Export Promotion Council, New Delhi
7. Gem and Jewellery Export Promotion Council, Mumbai
8. Shellac Export Promotion Council, Kolkata
9. Cashew Export Promotion Council, Cochin
10. The Plastics Export Promotion Council, Mumbai
11. Export Promotion Council for EOUs & SEZ Units, New Delhi
12. Pharmaceutical Export Promotion Council, Hyderabad
13. Indian Oil Seeds & Produce Exporters Association, Mumbai
14. Services Export Promotion Council, New Delhi

Chapter 8: Special Economic Zones & NIMZ

EPZ

Prior to getting into the SEZ, the government of India had forayed into the Export Processing Zones (EPZs). Asia's first EPZ was set up in Kandla in 1965. Seven more zones were set up thereafter. The 8 EPZ were located at the following places:

1. Kandla
2. Surat
3. Santa Cruz
4. Cochin
5. Chennai

6. Vishakhapatnam
7. Faeta (West Bengal)
8. Noida (UP)

However, the zones were not able to emerge as effective instruments for export promotion, the reasons were as follows:

- ✓ Multiplicity of controls and clearances
- ✓ Absence of world-class infrastructure
- ✓ Unstable fiscal regime.

So, while correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000.All the above EPZs were converted into SEZs by the Government later.

Export Oriented Units

In 1981, the Government introduced a complementary plan of the EPZ for making 100% EOU (Export Oriented Units).

- ✓ The scheme still continues and Export Oriented Units (EOUs) scheme adopts the same production regime as of SEZ but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.
- ✓ As on 31st December, 2009, 2561 units are in operation under the EOU scheme.

Maximum EOU's are located on Karnataka. The EOUs number state-wise is listed as follows;

Karanataka	**464**	Kerala	72	Jharkhand	5
Tamil Nadu	462	West Bengal	71	A & N Island	4
Maharashtra	406	Goa,Daman & Diu	56	Himachal Pradesh	4
Gujarat	292	Delhi	44	Jammu & Kashmir	3
Andhra Pradesh	242	Dadra&Nagar Haveli	24	Chandigarh	3
Haryana	108	Punjab	24	Uttrakhand	3
Uttar Pradesh	107	Pondichery	21	Chhatisgarh	1
Rajasthan	105	Orissa	20	Bihar	1
		Madhya Pradesh	18	Meghalaya	1

- ✓ EOUs are mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ores

EPIP

EPIP is another pre-SEZ concept. EPIP (Export Promotion Industrial Park) was a centrally sponsored scheme launched since August 1994, with a view to involving the State Governments in the creation of infrastructural facilities. This scheme provided the 75% (limited to Rs. 10 Crore) grant to the state Governments towards creating such facilities. So, many state Governments came up with the proposals and established the EPIPs. There are approximately 25 EPIP in India at present.

SEZ Policy

The Special Economic Zones Policy was announced in April 2000 with the objective of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance.

Why SEZ?

✓ **The idea was to create hassle free environment for boosting exports. However, there was another objective related to the population pressure.**

Industrial areas and Industrial clusters, wherever developed following by coming up of large slums in the neighbourhood of these areas. The additional population creates pressure on the Municipal System. The SEZ concept recognizes the issues related to economic development and provides for developing self-sustaining Industrial Townships so that the increased economic activity does not create pressure on the existing infrastructure.

SEZ Act 2005

The comprehensive Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 and received Presidential assent on the 23rd of June, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as State governments. As a result of this Act and Rules coming into force, it was envisaged that the SEZs would attract a large flow of foreign and domestic investment in infrastructure and productive capacity leading to generation of additional economic activity and creation of employment opportunities.

Salient features

- A designated duty free enclave to be treated as foreign territory for the purpose of trade operations and duties and tariffs.
- No license required for imports.
- The units must become net foreign exchange earners within 3 years
- SEZ are allowed manufacturing, trading and service activities.
- Full freedom for subcontracting.
- The domestic sales from the SEZ are subject to full custom duties and import policy is in force, when they sell their produce to domestic markets.
- There was no routine examination by the custom authorities.
- The corporation in SEZs will not have to pay any income tax on their profits for the first five years and only 50% of the tax for 2 more years thereafter.
- If half of the profit is reinvested in the corporation, the concession of 50% tax is extendable for next 3 years.
- For SEZ developers , the raw material from cement to steel to electrical parts are subject to zero tax and duty.
- For the SEZ, the Government acquires vast land tracts and gives to the developers. The basic condition involves that 25% of the area of the SEZ must be used only for export related activities. Rest 75% area can be used for economical and social infrastructure. However, all SEZ benefits are applicable over the entire SEZ area.
- There were provisions for sector specific SEZs and Multiproduct SEZs.
- The Sector specific SEZ may have 7500 houses, hotels with 100 rooms, 25 bed hospital , schools and other institutions, a multiplex in 50000 sq. meters.
- Multiproduct SEZ are allowed to build 25000 houses. 250 room hotel and 100 bed hospital along with a multiplex with 2 lakh sq. meters.

- The net worth of the applicant is to be Rs. 50 crore minimum and investment criterion of Rs. 250 Crore for sector specific SEZ. Net worth for Multiproduct SEZ was fixed Rs. 250 Crore and investment of ₹ 1000 Crore.
- The SEZ were to be exempted from the Labour Laws, so that they could attract entrepreneurs to set up industrial units. The Labour Commissioners have not jurisdictions on these units.
- All industrial units and other establishments in SEZ are considered to be "Public Utility Service" where a strike is illegal.
- The SEZ don't comply with the Industrial Disputes Act 1947.

Number of SEZ in India

In addition to 7 Central Government SEZs and 12 State/private-sector SEZs set up prior to the enactment of the SEZ Act 2005, formal approval has been accorded to 587 proposals out of **which 380 SEZs have been notified.**

As per a March 2012 statement of Commerce and Industry Minister Anand Sharma only one-fourth of 587 Special Economic Zones (SEZs) approved by the government to boost exports have become operational. The number of operational SEZs is 154 or 25.43% of the approved special zones. As on December 31, 2011, an investment of Rs 249,631 crore has been made in SEZs, generating direct employment for over 8 lakh persons. Exports from SEZ increased 43.11% to Rs 315,868 crore in FY11. SEZs account for 25% of India's export earnings. India's exports are likely to touch $300 billion this year as against $252 billion last year.

Largest number of notified SEZ is in Andhra Pradesh. The following table shows the distribution of SEZ in India in descending order of notified SEZ. The list has been taken from the annual report of 2009-10 of Ministry of commerce and lists 343 SEZ notified till last year.

State	Formal approvals	In-principle approvals	Notified SEZ	Operational SEZ
Andhra Pradesh	103	4	**73**	19
Maharastra	110	36	58	15
Tamil Nadu	68	19	53	19
Gujarat	48	11	30	8
Haryana	45	11	30	8
Karnataka	52	9	29	16
Uttar Pradesh	34	5	16	6
Kerala	25	0	15	5
West Bengal	24	13	11	4
Rajasthan	8	11	7	3
Madhya Pradesh	14	6	6	1
Orissa	10	3	5	1
Goa	7	0	3	0
Chandigarh	2	0	2	1
Dadra & Nagar Haveli	4	0	2	0
Punjab	8	7	2	0
Uttarankhand	3	0	2	0
Jharkhand	1	0	1	0
Nagaland	2	0	1	0
Chattisgarh	1	2	0	0
Delhi	3	0	0	0
Himachal Pradesh	0	3	0	0
Pondicherry	1	1	0	0

Export performance of SEZ (this info is from last survey, as this year survey does not shed light on this relevant part)

The SEZ are becoming increasingly important in India's exports. The performance of SEZs is mainly examined in three areas, exports, employment, and investment.

Exports: A total of 130 SEZs are already exporting. Out of this **75 are information technology (IT)/ IT enabled services (ITES)**, 16 multi-product and 39 other sector specific SEZs. The total **number of units in these SEZs is 3139**.

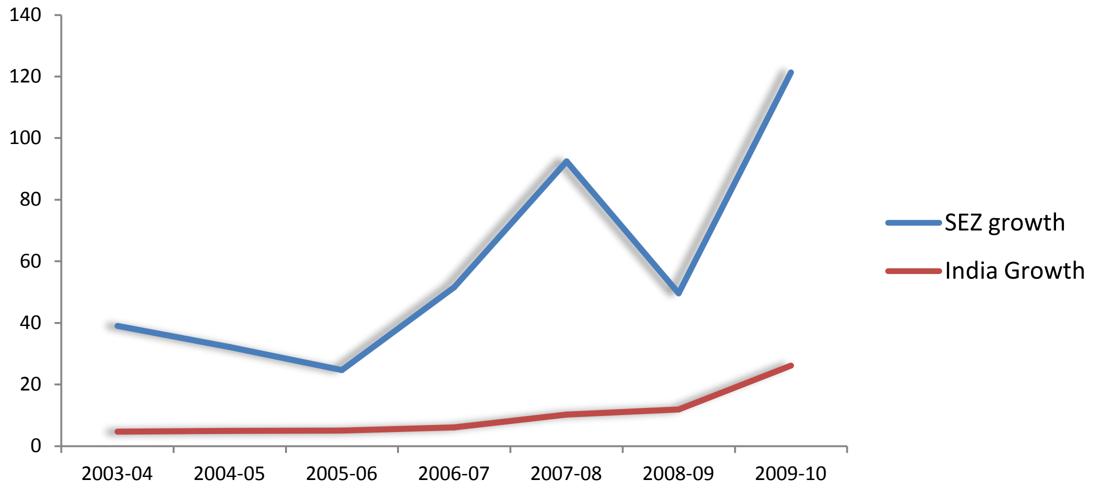
The following table compares SEZ exports with India's Exports:

Exports from SEZs

	Exports from SEZs		Exports from India		Share of SEZs Exports in Total Exports
	Value (₹ crore)	Growth (%)	Value (₹ crore)	Growth (%)	
2003-04	13,854	39.0	2,93,367		4.7
2004-05	18,314	32.2	3,75,340	27.9	4.9
2005-06	22,840	24.7	4,56,418	21.6	5.0
2006-07	34,615	51.6	5,71,779	25.3	6.1
2007-08	66,638	92.5	6,55,863	14.7	10.2
2008-09	99,689	49.6	8,40,755	28.2	11.9
2009-10	2,20,711	121.4	8,45,534	0.6	26.1
2010-11 (Apr.-Dec.)	2,23,132	-	7,51,633	23.4	29.7

Source: Economic Survey 2010-11

The following chart shows the comparison of the export growth of both SEZ and India in a better way.



✍ The above table and chart shows that the average compound annual growth rate (CAGR) for SEZ from 2003-04 to 2009-10 has been 58.7%.

✍ The physical exports from the SEZs have increased by 121 per cent to ` 2,20,711 crore in 2009- 10 with a CAGR of 58.6 per cent during 2003-04 to 2009-10 compared to the CAGR of 19.3 per cent for total merchandise exports of the country for the same period.

✍ When the whole world including India was reeling under the effects of the global recession, growth in exports from SEZs was 121 per cent in 2009-10 compared to a paltry 0.6 per cent growth in total exports from India.

Exports during the first three quarters of the current year have been to the tune of ` 2,23,132 crore.

Share of SEZ Exports in India's Exports:

The share of SEZs in India's total exports has increased consistently from 4.7 per cent in 2003-04 to 26.1 per cent in 2009-10 and 29.7 per cent in the first three quarters of 2010-11. It is shown in the above table.

Sector wise distribution of SEZ :

Maximum SEZ in India are in IT/ ITES and Electronic hardware sector. It is followed by the Pharma and chemicals , followed by Bio-tech. The following table shows the distribution of SEZ sector wise in India. The total number is 347 notified till April 2010.

Sector	Notified
IT/ITES/Electronic Hardware/	62
Pharma/chemicals	20
Bio-tech	17

Engineering	16
Multi-Product	13
Textiles/Apparel/Wool	12
Multi-Services/Services	8
Footwear/Leather	5
Gems and Jewellery	5
Metal/Stain. Steel/Alum/Foundary	5
FTWZ	4
Food Processing	4
Agro	4
Electronic prod/ind	3
Non-Conventional Energy	3
Aviation/Aerospace	2
Beach & mineral/metals	2
Power/alternate energy	2
Handicrafts	2
Port-based multi-product	2
Petrochemicals & petro.	1
Building product/material	1
Auto and related	1
Writing and printing paper mills	1

Employment:

Out of the total employment of 8, 15,308 persons in SEZs, an incremental employment of 6, 80,609 persons was generated after February 2006 when the SEZ Act came into force. This is apart from million man- days of employment created by the developer for infrastructure activities. At least double this number obtains indirect employment outside the SEZs as a result of the operations of SEZ units.

Exports from SEZs

Physical exports from the SEZs have increased from ₹ 2,20,711.39 crore in 2009-10 to ₹ 3,15,867.85 crore in 2010-11, registering a growth of 43.11 per cent in rupee terms. There has been overall growth of exports of 2180 per cent over past eight years (2003- 4 to 2010-11). The total physical exports from SEZs as on 31 December 2011, i.e. in the first three quarters of the current financial year, has been to the tune of ₹ 2,60,972.9 crore, registering a growth of 14.5 per cent over the exports of corresponding period of the previous year.

Total Investment in SEZ

The total investment in SEZs till 31 December 2011 is ₹ 2,49,630.8 crore, including ₹ 2,31,160 crore in the newly notified zones. As per the provisions of the SEZ Act 2005, 100 per cent foreign direct investment (FDI) is allowed in SEZs through the automatic route. A total of 154 SEZs are making exports, out of which 88 are IT/ ITeS, 17 multiproduct and 49 other sector-specific SEZs. The total number of units in these SEZs is 3,400.

How a SEZ is created?

There is a well defined approval mechanism for SEZ. The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. However, the applicant also has the option to submit the proposal directly to the Board of Approval. The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus. The Board of Approval has 19 Members. The Chairman of the BoA is Secretary, Department of Commerce. The Board may approve as such or modify and approve a proposal for establishment of a Special Economic Zone, in accordance with the SEZ Rules, subject to the requirements of minimum area of land and other terms and conditions indicated in the SEZ Rules. Minimum area requirements for setting up a SEZ are as follows:

Multi Sector SEZ	**:**	**1000 hectares**
Sector Specific SEZ	:	**100 hectares**
FTWZ	:	**40 hectares**
IT/ITES/handicrafts SEZ Bio-technology/ non-conventional energy/gems and jewellery Sector	:	**10 hectares**

Once the BOA gives formal approval and the concerned Development Commissioner gives an inspection report certifying the contiguity and vacancy of the area, the area is notified as SEZ.

However, there are some exceptions / other restrictions to the above requirements:

- For Multi sector SEZ, the minimum area is 1000 hectares, but it cannot be over 5000 hectares.
- If a Multi-product Special Economic Zone is proposed to be set up in **Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttaranchal, Sikkim, Jammu and Kashmir, Goa or in a Union Territory**, the area shall be **Two Hundred hectares** or more.
- At least fifty per cent of the area shall be earmarked for developing the processing area.

Fiscal benefits for a SEZ in a nutshell

- ✓ Single window clearance for Central and State level approvals.

Customs and Excise

- ✓ Duty free import (or domestic procurement), without any license or specific approval, of capital goods, raw materials, consumables, spares, packing materials, office equipment, and anything else required for implementation of their project in SEZ
- ✓ Generous 5 year period for utilization of goods imported duty-free or goods procured locally
- ✓ Exemption of domestic sales from Special Additional Duty (SAD)
- ✓ Domestic sales of finished products or by-products, on payment of the applicable Customs duty
- ✓ Domestic sales of rejects, waste and scrap, on payment of the applicable Customs duty

Income Tax

- ✓ Physical export benefit
- ✓ 100% exemption from Income Tax under Sec 10A of the Income Tax Act, ---, for the first 5 years, and 50% exemption for the next 5 years
- ✓ Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
- ✓ Reinvestment allowance of up to 50% of ploughed back profits for next 5 years
- ✓ Carry forward of losses to the next financial / accounting year

Foreign Direct Investment (FDI)

- ✓ 100% FDI under the automatic route is allowed in SEZ units in the manufacturing sector, except in the following areas: arms and ammunition, explosive, atomic substance, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes

- ✓ There is no cap on foreign investments for items reserved for small scale industries

Banking / Insurance / External Commercial Borrowings

- ✓ Setting up of Off-shore Banking Units (OBU) is permitted in SEZ
- ✓ OBUs are allowed 100% Income Tax exemption on profits for 3 years and 50% exemption for the next two years
- ✓ External commercial borrowings by SEZ units, up to $500 million a year, is allowed without any restrictions on maturity
- ✓ Entrepreneurs have freedom to bring in export proceeds without any time limit
- ✓ SEZ units can keep 100% of export proceeds in an EEFC (Exchange Earner Foreign Currency) account and make overseas investment from this account
- ✓ Commodity hedging is permitted
- ✓ SEZ units are exempt from the interest surcharge on import finance
- ✓ SEZ units are allowed to write-off unrealized export bills

Central Sales Tax Act

- ✓ SEZ units are exempt from paying Central Sales Tax on sales made from Domestic Tariff Area to other SEZ units

Service Tax

- ✓ SEZ units are exempt from Service Tax

Environment

- ✓ SEZ units are exempt from public hearing under Environment Impact Assessment Notification
- ✓ SEZ is providing a CETP for Chemical, Textile & other industries whose effluent needs to be treated
- ✓ Marine discharge facilities can be made available

Companies Act

- ✓ Directors of SEZ units do not have to fulfill the requirement of 12 months domicile in India prior to appointment as Director

Sub-Contracting/Contract Farming

- ✓ SEZ units are allowed to sub-contract part of their production to units in the Domestic Tariff Area or to other Export Oriented Units or SEZ units
- ✓ SEZ units may also sub-contract part of their production abroad
- ✓ Agro industries in SEZ are allowed to provide inputs and equipment to contract farmers in the Domestic Tariff Area for their supplies

Who monitors the functioning of units in SEZ?

A Unit Approval Committee, consisting of the **Development Commissioner**, Custom authorities and representative of the State Government, monitors SEZ units on an annual basis. There is a current issue in this context. The Directors, STPI, have been declared Development commissioners (DCs) for the IT SEZs under their respective jurisdiction. An STPI is under administrative control of the Department of Information Technology. Other multi-product and sector-specific SEZs are under the charge of DCs appointed by the Department of Commerce. However a number of issues, for example processing of notification of IT SEZs, coordination with state governments etc, relating to IT SEZs are also looked after by the DCs appointed by the Department of Commerce. This leads to a situation of dual control adversely impacting effective coordination and needs to be resolved. This has been specifically pointed out by Economic Survey 2010-11.

Are licenses required for imports into SEZ?

No. Licenses are not required for imports into SEZ. This applies to second hand machinery also.

Can SEZ units sell to other units in SEZ?

Yes. **Inter Unit Sales are permitted** according to the SEZ Policy which also stipulates that a SEZ unit procuring from another SEZ unit pays in any Foreign Convertible Currency.

Such sales will be a part of the positive foreign exchange earning of the selling unit. For multi product SEZ with cluster formation, there is a huge opportunity for SEZ units for sale within the zone.

What will be the impact of DTC on SEZ?

As per the DTC, SEZ developers will be allowed profit-linked deductions for all SEZs notified on or before 31 March 2012. Units in SEZs that will commence commercial operations by 31 March 2014 too will be allowed profit-linked exemptions. Developers and units notified after these dates will only have investment-linked exemptions and not profit-linked exemptions. There is concern about these dates among developers and units particularly in the big SEZs with long gestation time.

What is the Issue with Goods and Services Tax (GST) in context with SEZ?

As per the GST model being considered, GST will be levied on imports with necessary constitutional amendments. Though full and complete set off would be available on the GST paid on import of goods and services, after the introduction of the GST, tax exemptions, remissions, etc. related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed. Regarding special Industrial Area Schemes, such exemptions, remissions would continue up to legitimate expiry time both for the Centre and the States. However, any new exemption, remission, or continuation of an earlier one would not be allowed. In such cases, the Central and State Government could provide reimbursement after collecting the GST.

National Manufacturing Policy and National Investment and Manufacturing Zones (NIMZ)

The Planning Commission has recently released the draft of the country's first ever National Manufacturing Policy. The objective of the National Manufacturing Policy is to boost the country's share of industrial production, employment; development of world-class infrastructure and investments in India's manufacturing space.

Summary of the Policy:

- Manufacturing's share in India's GDP has been stuck at 16% since the 1980s. The policy aims to increase the share of manufacturing in the country's GDP from the current 16% to 25% by 2022.
- The National Manufacturing Policy aims to create 100 million additional jobs in the next decade.
- The draft policy envisages establishment of **National Investment and Manufacturing Zones (NIMZ)** equipped with world-class infrastructure that would be autonomous and self-regulated developed in partnership with the private sector.
- Each **National Investment and Manufacturing Zones** to have 5,000 hectares.
- ✓ Land will be selected by State Governments. Preference would be given to uncultivable land.
- ✓ Both state and central Government would fund trunk infrastructure.
- ✓ The policy embodies an easy exit policy and single window clearance in zones
- ✓ The NIMZ would be managed by special entity
- ✓ The policy has envisaged fiscal sops to boost manufacturing.
- ✓ Small & medium enterprises to be reimbursed for technology purchase.
- ✓ Industrial training and skills development programmes

- ✓ Flexible labor laws and simplified & expeditious exit mechanism for sick units
- ✓ Relaxation in environmental regulations
- ✓ Financial and tax incentives to small and medium enterprises
- ✓ Incentives to states for infrastructure development
- ✓ Incentives for Green Manufacturing
- ✓ Rationalization of business regulations to reduce burden of procedural and regulatory compliance on businesses
- ✓ Increased focus on employment intensive industries, capital goods industry, industries with strategic significance and those in which India enjoys a competitive edge and the SME sector.
- ✓ Make industrial land (land acquisition) available through creation of land banks by states.

How the Policy would achieve the above objectives?

- ✓ Foreign investments and technologies will be welcomed while leveraging the country's expanding market for manufactured goods to induce the building of more manufacturing capabilities and technologies within the country.
- ✓ Competitiveness of enterprises in the country will be the guiding principle in the design and implementation of policies and programmes.
- ✓ Compliance burden on industry arising out of procedural and regulatory formalities will be reduced through rationalization of business regulations.
- ✓ Innovation will be encouraged for augmenting productivity, quality, and growth of enterprises; and Effective consultative mechanism with all stake holders will be instituted to ensure mid-course corrections.

Which Industry verticals will be give special attention?

1. **Employment intensive industries** such as textiles and garments; leather and footwear; gems and jewellery; and food processing industries
2. **Capital Goods** such as machine tools; heavy electrical equipments; heavy transport, earth moving and mining equipments.
3. **Industries with strategic significance** such as aerospace; shipping; IT hardware and electronics; telecommunication equipment; defence equipment; and solar energy.
4. **Industries where India enjoys a competitive advantage** such as automobiles; pharmaceuticals; and medical equipment.
5. **Small and Medium Enterprises:** The Small and Medium Enterprises (SME) segment of manufacturing has in particular attracted due attention in the new policy as can be seen from the various financial and development incentives that have been envisaged therein. The need for special focus on the segment arises from the fact that currently, 8% of overall GDP, 45% of manufacturing output and 40% of the country's exports originate in more than 26 million SME units across the country. These SME units are engaged in the production of more than 6000 products, 22% of which are food products, 12% are chemicals and chemical products, 10% basic industry metals, 8% metal products, 6% each of electrical and machinery parts and rubber and plastic products (36% of miscellaneous products).

6. **Public Sector Enterprises** specially in defense and Energy sectors.

How they want to rationalize the Business Regulations?

- ✓ The policy notes that on an average, a manufacturing unit needs to comply with nearly 70 laws and regulations. Apart from facing multiple inspections, these units have to file sometime as many as 100 returns in a year.
- ✓ This kind of compliance burden puts-off young entrepreneurs and they are not willing to take up an entrepreneurial role. As a result, a large number of people who could have been self employed and would contribute to further employment and enhance economic activity, end up accepting jobs much below their potential.
- ✓ The policy suggests that Central/ State Governments may provide exemptions subject to fulfilment of conditions as provided in the statute. SPV may act as a facilitator in this regard. Mechanisms may be developed for cooperation of public or private institutions with government inspection services under the overall control of statutory authorities.
- ✓ In respect of laws and regulations pertaining to environment, Central/State Governments may delegate the power as allowed by the relevant statutes to an official of the State Pollution Control Board (SPCB) posted in the zone.
- ✓ The Environmental Clearances for NIMZ units under the EIA Notification, 2006 shall be considered on a high priority, and the units thereon will be exempted from public hearing provided under the EIA Notification, 2006 in cases where such estates have undergone public hearing as a whole. Further, facilitative instructions and guidelines may be issued at the Central and State level from time to time aiming at promotion of NIMZ investment while safeguarding environmental integrity.

Technology Acquisition and Development Fund

- ✓ The policy proposes establishment of a Technology Acquisition and Development Fund (TADF) for acquisition of appropriate technologies including environment friendly technologies; creation of a patent pool; and development of domestic manufacturing of equipments used for controlling pollution and reducing energy consumption.
- ✓ Operation, Monitoring and Review of the Fund will be done by the Green Manufacturing Committee. Green Manufacturing Committee will comprising representatives from the concerned Ministries/Departments of the Central Government and relevant sectoral experts from outside government. GMAC will give incentives for Green Manufacturing.
- ✓ Please note that **Technology Acquisition and Development Fund** will also function as an autonomous patent pool and licensing agency. It will purchase Intellectual Property (IP) rights to inventions from patent holders. Any company that wants to use the IP to produce or develop products can seek a license from the pool against the payment of royalties. This company may then produce the product for use in specified geographical areas subject to meeting agreed quality standards. The TADF would reserve the right to license more than one company for a particular patent.

Skill Development:

- NIMZ, the SPV will undertake skill up gradation in co-ordination with the National Skill Development Corporation (NSDC). Further, the policy seeks to expand the network of ITIs.
- There are currently 8306 it is / ITCs (as on July 15, 2010) with a capacity of training 1.16 million persons per year. Though the 11th plan already envisages setting up of 500 new ITIs in industrial clusters/SEZs and 1000 new ITIs in other areas based on demand via the PPP route, the overall availability of training infrastructure will remain grossly inadequate.
- So, to encourage the private sector to set up their own institutions, the government will provide weighted standard deduction of 150% of the expenditure (other than land or building) incurred on Public Private Partnership (PPP) project for skill development in the ITIs in manufacturing sector in separate facilities in coordination with NSDC.
- The policy also speaks of establishment of institutes of specialized learning such as a specialized Polytechnic for the automobile sector, or a Polytechnic focused on high-tech manufacturing and semiconductors for the electronics sector, or one that fosters innovation and product development in the IT/ITES sector

National Investment and Manufacturing Zones

- National Investment and Manufacturing Zones (NIMZs) will be developed as integrated industrial townships with state-of-the art infrastructure and land use on the basis of zoning; clean and energy efficient technology; necessary social infrastructure; skill development facilities, etc., to provide a productive environment to persons transitioning from the primary sector to the secondary and tertiary sectors.
- These NIMZs **would be managed by SPVs** (Special Purpose Vehicles) which would ensure master planning of the Zone; pre-clearances for setting up the industrial units to be located within the zone and undertake such other functions as specified in the various sections of this policy.
- To enable the NIMZ to function as a self governing and autonomous body, it will be declared by the State Government as an **Industrial Township** under Article 243 Q(c) of the Constitution.
- In sum, the NIMZs would be large areas of developed land, with the requisite eco-system for promoting world class manufacturing activity.

What is major difference from SEZ?

- NIMZ would be different from SEZs in terms of size, level of infrastructure planning, and governance structures related to regulatory procedures and exit policies.

Size:

- An NIMZ would have an area of at least 5000 hectares in size.

Land Availability:

- The State Government will be responsible for selection of land suitable for development of the NIMZ including land acquisition if necessary.
- Government owned land or Private Lands falling within the proposed NIMZ, to be acquired by the State Government or Land under existing industrial areas/estates/sick and defunct units including PSUs.

- ✓ NIMZ would be preferably developed on waste lands; infertile and dry lands not suitable for cultivation.
- ✓ The use of the agricultural land will be kept to minimum. There should be reasonable access to basic resources like water.
- ✓ It should not be within any ecologically sensitive area or closer than the minimum distance specified for such an area.

Who will own NIMZ?

- ✓ It is left to the State Government to adopt a model that it considers most workable. The State Government may keep the ownership of NIMZ itself or transfer the ownership to a state government undertaking.
- ✓ The state Government may have joint ownership with a private partner and aopt any other appropriate model.

How NIMZ will be administered?

- ✓ The administrative structure of NIMZ will comprise of a Special Purpose Vehicle, a developer, State Government and the Central Government.
- ✓ A NIMZ will be notified by the Central Government , by notification in the Official Gazette. Once notified, an SPV will be constituted to exercise the powers conferred on, and discharge the functions assigned to it under this Policy to manage the affairs of the NIMZ.
- ✓ Every SPV shall be a legal entity by the name of the NIMZ. This SPV can be a company.
- ✓ The appropriate financial and administrative structure of the SPV will be agreed to among different stakeholders giving due representation to nominees of different stakeholders on the Board of SPV.
- ✓ The CEO of the SPV will be a senior Central/State government official. This SPV will prepare a Master Plan for the Zone. It will prepare a strategy for development of the Zone and an action plan for self regulation to serve the purpose of the policy.
- ✓ These shall be submitted to the Board of Approval. After the approval, the Zone will be developed by the SPV. Please note that Central Government will bear the cost of master planning for the NIMZ.
- ✓ The SPV can take up the work of development on its own through various agencies/contractors or take up the development in partnership with a developer who shall be selected through a transparent process. the State Government would help in Water Requirement, Power connectivity, Infrastructure Linkages.

Role of Central Government

- ✓ As mentioned above, a NIMZ will be notified by the Central Government, by notification in the Official Gazette. The Department of Industrial Policy and Promotion will act as the nodal agency for the central government in matters pertaining to the NIMZs.
- ✓ The application for setting-up of NIMZ will be forwarded by the state to the DIPP for approval. DIPP will constitute a Board of Approval, which will consider all applications for establishment of NIMZs and approve such proposals as are found feasible.

- ✓ Each NIMZ will be notified separately by DIPP. In case an amendment is required to the concept and design of the project, as encapsulated in the preliminary project report submitted by the State Government, the same will be considered by the Board of Approval.
- ✓ Central Government will also improve/provide external physical infrastructure linkages to the NIMZs including Rail, Road (National Highways), Ports, Airports, and Telecom, in a time bound manner.
- ✓ This infrastructure will be created/upgraded through Public Private Partnerships to the extent possible. Viability Gap Funding through existing schemes will be provided. Wherever necessary, requisite budgetary provisions for creation of these linkages will also be made.

How many NIMZ will be established?

- ✓ It has been reported that at least seven National Investment and Manufacturing Zones (NIMZ) are proposed to be set up in the North and West.
- ✓ A survey has been commissioned to set up similar zones in the South. As mentioned above, these zones would be greenfield integrated industrial townships and the area would be at least 5,000 hectares.The 7 towns are as follows:
    1. Ahmedabad-Dholera Gujarat)900 sq km
    2. Shendra-Bidkin (Maharashtra) 84 sq km
    3. Manesar-Bawal (Harayana) 380 sq km
    4. Khushkhera-Bhiwadi-Neemrana (Rajasthan) 150 sq km
    5. Dighi Port Area (Maharashtra) 230 sq km
    6. Dadri-Noida-Ghaziabad (Uttar Pradesh) 250 sq km
    7. Pithampur-Dhar-Mhow (Madhya Pradesh)- 370 sq km

Conclusion:

We come to the conclusion that the plan is both ambitious and impressive, intending to give mega industrial townships autonomy, incentivise public private infrastructure development and facilitate access to green technologies. It'll boost the Made-in-India label's global competitiveness. It'll also hasten factory expansion, a must for absorbing India's young workforce growing by around 20 million annually. With manufacturing wages rising in China, we can leverage the advantage of cheaper, abundant labour to attract investors.

The NIMZ are to be limited to government-acquired waste and infertile land, which seems to be logical and sensitive decision. The core idea of this seems to skirt land-related strife and conserve ecologically sensitive areas. But, we also note that the project viability rides on logistics, there would be a requirement of fast development of the integrated infrastructure. Further, these zones will not appear overnight. We have an experience of procedural over delays and missed timelines. There should be a rule based process for expeditious development of these mega Hubs.

Chapter 9 : India's Foreign Trade Policy

Objectives

- ✓ An annual export growth of 15% with an annual export target of US$ 200 billion by March 2011;

✓ To come back on the high export growth path of around 25% per annum in the remaining three years of this Foreign Trade Policy i.e. upto 2014;

✓ To double India's exports of goods and services by 2014;

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

Salient features

✓ 27 new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 11 in Asia-Oceania.

✓ A large number of products from various sectors including Engineering products, value added Plastic products, Jute and Sisal products, Technical Textiles, Green Technology products, Project goods, vegetable textiles, Electronic items etc. have been included for benefits under Focus Product Scheme (FPS).

✓ The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.

✓ The incentive available under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.

✓ Market Linked Focus Product Scheme (MLFPS) has been greatly expanded by inclusion of products classified under more than 3600 ITC(HS) Codes at 8 digit level. Benefits to these products will be provided, if exports are made to 15 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia, New Zealand, Japan and China). A common simplified application form has been introduced for taking benefits under Focus Product Scheme (FPS), Focus Market Scheme (FMS), Market Linked Focus Products Scheme (MLFPS) and Vishesh Krishi and Gram Udyog Yojna (VKGUY).

In October 2011, an extension to the Foreign Trade Policy was announced which incorporated some new schemes including the Niryat Bandhu Scheme. Here are the highlights:

Special Bonus Benefit Scheme

It has been decided to introduce a new scheme to provide special assistance to specified sectors for 6 months as special assistance. The support is given to Engineering, Pharmaceutical and Chemical sectors. The scheme would cover 50 products. Some of the major items under Engineering are cast article of alloys steel and stainless steel, hand tools, gas compressors, motorcycles and goods vehicle. The list under chemicals and pharma include carbon black, potassium iodide, niacin amide, erythromycin and its derivatives, ciprofloxacine etc. Valid till: 31.3.2012.

Special Focus Market Scheme (SFMS)

It has been decided to introduce a Special Focus Market Scheme with a view to increase the competitiveness of exports with a geographical 2 targeting. The scheme would provide additional 1 % duty credit when exports are made to these countries. This duty credit is over and above the duty credit granted under FMS i.e. if a item covered under FMS is exported to the countries listed under SFMS, then the total duty credit available would be @ 4%. The markets are categorized into three groups, namely Latin American, African and CIS countries. The total number of countries included under the scheme is 41. The list includes Cuba and Mexico as new entrants. Therefore, exports to these two countries would be entitled to duty credit scrip @4% of the FOB value of exports.

- List of Latin American Countries include Argentina, Colombia, Costa Rica, Cuba, Ecuador, Haiti, Mexico, Nicaragua, Panama Republic, Paraguay, Peru and Uruguay (Total 12 countries).
- List of African Countries include Angola, Cameroon, Congo D. Republic, Congo P Republic, Cote D'Ivoire, Ethiopia, Gabon, Gambia, Ghana, Liberia, Madagascar, Malawi, Mali, Namibia, Rwanda, Senegal, Sierra Leone, Sudan, Tunisia, Uganda, Zambia and Zimbabwe (Total 22 countries).
- List of CIS Countries include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan (Total 7 countries).

Focus Product Scheme

The list of items under FPS has been expanded to include 130 additional items. These items are mainly in the sectors of Chemical/ 4 Pharmaceuticals, Textiles, handicrafts, Engineering and electronics sector.These include chemicals like soda ash, other amides and their derivatives, silicon in primary forms, oxygen function amino compound, methyl diethanolamine, and only specified APIs. Textile items like polyester textured yarn, fully drawn yarn of polyester, viscose rayon type yarn, polyester chips, woven cotton fabrics denim 85% cotton over 200G/M2, unbleached or bleached cotton fabrics, dyed cotton fabrics knitted or crocheted have been included under the scheme.

Market Linked Focus Product Scheme

The list of items under MLFPS has been extended to cover new items to specified countries. It has been decided to extend MLFPS for exports of Agricultural tractors> 1800cc capacity which would now be eligible for duty credit for exports made to Turkey. Sugar machinery & high-pressure boilers would be eligible for Brazil, Kenya, South Africa, Tanzania and Egypt. The scheme has also been extended to all existing MLFPS Countries for printing inks, writing ink etc.

EDI Initiatives and reduction in transaction Cost

DGFT has established itself in the e governance field. From on line filing of application to electronic issuance of licenses, it has been a great success story. In furtherance of the EDI initiatives, online message exchange of DFIA Authorization with Customs has started. Therefore, now Advance Authorization, EPCG and DFIA are completely EDI enabled. DGFT has also become India's first digital signature enabled department in government of India, which has introduced a higher level of Encrypted 2048 bit Digital Signature. Digital certificate provides a high level of security for online communication such that only intended recipient can read it. It provides authentication, Privacy, non-repudiation and Integrity in the virtual world.

'Niryat Bandhu' - A scheme for International Business Mentoring

'Niryat Bandhu' scheme has been launched for mentoring first generation entrepreneurs. The officer (Niryat Bandhu) would function in the 'Mentoring' arena and would be a 'Handholding' experiment for the Young Turks in International Business enterprises. Under the scheme, officers of DGFT will be investing Time and Knowledge primarily to mentor the interested individuals who want to conduct the business in a legal way. Over time, it would be expected to develop a class of businessmen who carry out the international business in an ethical manner.