Subject – Indian Economy - I

Notes Unit 4 Part B

By -

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EXIM Policy -

Export Import Policy or better known as Exim Policy is a set of guidelines and instructions related to the import and export of goods. The Government of India notifies the Exim Policy for a period of five years (1997 2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current policy covers the period 2002 2007. The Export Import Policy is updated every year on the 31st of March and the modifications, improvements and new schemes becames effective from 1st April of every year. All types of changes or modifications related to the Exim Policy is normally announced by the Union Minister of Commerce and Industry who coordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of regional offices.

Highlight of Exim Policy 2002 - 07

1. Service Exports

Duty free import facility for service sector having a minimum foreign exchange earning of Rs. 10 lakhs. The duty-free entitlement shall be 10% of the average foreign exchange earned in the preceding three licensing years.

However, for hotels the same shall be 5 % of the average foreign exchange earned in the

preceding three licensing years. Imports of agriculture and dairy products shall not be allowed for imports against the entitlement. The entitlement and the goods imported against such entitlement shall be non-transferable.

2. Status Holders

a. Duty free import entitlement for status holder having incremental growth of more than 25% in FOB value of exports (in free foreign exchange). This facility shall however be available to status holder having a minimum export turnover of Rs. 25 crore (in free foreign exchange).
b. Annual Advance Licence facility for status holder to be introduced to enable them to plan for their imports of raw material and component on an annual basis and take advantage of bulk purchase.
c. Status holder in STPI shall be permitted free movement of professional equipments like laptop/computer.

3. Hardware/Software

a. To give a boost to electronic hardware industry, supplies of all 217 ITA1 items from EHTP units to Domestic Tariff Area (DTA) shall qualify for fulfillment of export obligation.

b. To promote growth of exports in embedded software, hardware shall be admissible for duty free import for testing and development purpose. Hardware up to a value of US$ 10,000 shall be allowed to be disposed off subject to STPI certification.

c. 100% depreciation to be available over a period of 3 years to computer and computer peripherals for units in EOU/EHTP/STP/SEZ.

4. Gem &Jewellery Sector

a. Diamonds &Jewellery Dollar Account for exporters dealing in purchase /sale of diamonds and diamond studded jewellery .

b. Nominated agencies to accept payment in dollar for cost of import of precious metals from EEFC account of exporter.

c. Gem &Jewellery units in SEZ and EOUs can receive precious metal Gold/silver/platinum prior to export or post export equivalent to value of jewellery exported. This means that they can bring export proceeds in kind against the present provision of bringing in cash only.

5. Removal of Quantitative Restrictions

a. Import of 69 items covering animals products, vegetables and spice antibiotics and films removed from restricted list

b. Export of 5 items namely paddy except basmati, cotton linters, rare, earth, silk, cocoons, family planning device except condoms, removed from restricted list.

6. Special Economic Zones Scheme

a. Sales from Domestic Tariff Area (DTA) to SEZ to be treated as export. This would now entitle domestic suppliers to Duty Drawback / DEPB benefits, CST exemption and Service Tax exemption.

b. Agriculture/Horticulture processing SEZ units will now be allowed to provide inputs and equipments to contract farmers in DTA to promote production of goods as per the requirement of importing countries.

c. Foreign bound passengers will now be allowed to take goods from SEZs to promote trade, tourism and exports.

d. Domestics sales by SEZ units will now be exempt from SAD.

e. Restriction of one year period for remittance of export proceeds removed for SEZ units.

f. Netting of export permitted for SEZ units provided it is between same exporter and importer over a period of 12 months.

g. SEZ units permitted to take job work abroad and exports goods from there only.

h. SEZ units can capitalize import payables.

i. Wastage for sub contracting/exchange by gem and jewellery units in transactions between SEZ and DTA will now be allowed.

j. Export/Import of all products through post parcel /courier by SEZ units will now be allowed.

k. The value of capital goods imported by SEZ units will now be amortized uniformly over 10 years.

l. SEZ units will now be allowed to sell all products including gems and jewellery through exhibition and duty free shops or shops set up abroad.

m. Goods required for operation and maintenance of SEZ units will now be allowed duty free.

7. EOU Scheme

Provision b,c,i,j,k and l of SEZ (Special Economic Zone) scheme , as mentioned above, apply to Export Oriented Units (EOUs) also. Besides these, the other important provisions are:

a. EOUs are now required to be only net positive foreign exchange earner and there will now be no export performance requirement.

b. Period of Utilization raw materials prescribed for EOUs increased from 1 years to 3 years.

c. Gems and jewellery EOUs are now being permitted sub contracting in DTA.

d. Gems and jewellery EOUs will now be entitled to advance domestic sales.

8. EPCG Scheme

a. The Export Promotion Capital Goods (EPCG) Scheme shall allow import of capital goods for preproduction and post production facilities also.

b. The Export Obligation under the scheme shall be linked to the duty saved and shall b 8 times the duty saved.

c. To facilities upgradation of existing plant and machinery, import of spares shall be allowed under the scheme.

d. To promote higher value addition in export, the existing condition of imposing an additional Export Obligation of 50% for products in the higher product chain to be done away with.

e. Greater flexibility for fulfillment of export obligation under the scheme by allowing export of any other product manufactured by the exporter. This shall take care of the dynamics of international market.

f. Capital goods up to 10 years old shall also be allowed under the Scheme.

g. To facilitate diversification in to the software sector, existing manufacturer exporters will be allowed of fulfill export obligation arising out of import of capital goods under the scheme for setting up of software units through export of manufactured goods of the same company.

h. Royalty payments received from abroad and testing charges received in free foreign exchange to be counted for discharge of export obligation under EPCG Scheme.

9. DEPB Scheme

a. Facility for pro visional Duty Entitlement Pass Book(DEPB) rates introduced to encourage diversification and promote export of new products.

b. DEPB rates rationalize in line with general reduction in Customs duty.

10. DFRC Scheme

a. Duty Free Replenishment Certificate (DFRC) scheme extended to deemed export to provide a boost to domestic manufacturer.

b. Value addition under DFRC scheme reduced from 33% to 25%.

11. Miscellaneous

a. Actual user condition for import of second-hand capital goods up to 10 years old dispensed with.

b. Reduction in penal interest rate from 24% to 15% for all old cases of default under Exim policy

c. Restriction on export of warranty spares removed.

d. IEC holder to furnish online return of importers/exporters made on yearly basis.

e. Export of free of cost goods for export promotion @ 2% of average annual exports in preceding three years subject to ceiling of Rs. 5 lakhs permitted.

Balance of Payment -

The balance of payments accounts of a country record the payments and receipts of the residents of the country in their transactions with residents of other countries. If all transactions are included, the payments and receipts of each country are, and must be, equal. Any apparent inequality simply leaves one country acquiring assets in the others. For example, if Americans buy automobiles from Japan, and have no other transactions with Japan, the Japanese must end up holding dollars, which they may hold in the form of bank deposits in the United States or in some other U.S. investment. The payments of Americans to Japan for automobiles are balanced by the payments of Japanese to U.S. individuals and institutions, including banks, for the acquisition of dollar assets. Put another way, Japan sold the United States automobiles, and the United States sold Japan dollars or dollar-denominated assets such as Treasury bills and New York office buildings….

Although the totals of payments and receipts are necessarily equal, there will be inequalities—excesses of payments or receipts, called **deficits** or **surpluses**—in particular kinds of transactions. Thus, there can be a deficit or surplus in any of the following: merchandise trade (goods), services trade, foreign investment income, unilateral transfers (foreign aid), private investment, the flow of gold and money between central banks and treasuries, or any combination of these or other international transactions.

Balance of Trade –

the difference in value over a period of time between a country's imports and exports of goods and services, usually expressed in the unit of currency of a particular country or economic union (e.g., dollars for the United States, pounds sterling for the United Kingdom, or euros for the European Union). The balance of trade is part of a larger economic unit, the BALANCE OF PAYMENTS (the sum total of all economic transactions between one country and its trading partners around the world), which includes capital movements (money flowing to a country paying high interest rates of return), loan repayment, expenditures by tourists, freight and insurance charges, and other payments.

If the exports of a country exceed its imports, the country is said to have a favourable balance of trade, or a trade surplus. Conversely, if the imports exceed exports, an unfavourable balance of

trade, or a trade deficit, exists. According to the economic theory of mercantilism, which prevailed in Europe from the 16th to the 18th century, a favourable balance of trade was a necessary means of financing a country's purchase of foreign goods and maintaining its export trade. This was to be achieved by establishing colonies that would buy the products of the mother country and would export raw materials (particularly precious metals), which were considered an indispensable source of a country's wealth and power….

The assumptions of mercantilism were challenged by the classical economic theory of the late 18th century, when philosophers and economists such as Adam Smith argued that free trade is more beneficial than the protectionist tendencies of mercantilism and that a country need not maintain an even exchange or, for that matter, build a surplus in its balance of trade (or in its balance of payments).

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