

UNIT 15 EXPORT INCENTIVES IN INDIA

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15.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the need and importance of export incentives in India
- describe various incentives provided for the expansion of production base for export
- explain the fiscal and financial incentives provided to the exporters
- describe the measures taken by the Government of India to strengthen the export marketing effort.

15.1 INTRODUCTION

You have learnt the role of several specialised institutions in export promotion in unit 14. Export business is instrumental in the economic development of the country. In order to boost the export business Government of India have provided various export assistance and facilities both for production and marketing activities. In this unit you will learn various assistance provided to Indian exporters to promote the export business.

15.2 NEED AND IMPORTANCE OF EXPORT INCENTIVES

Export promotion was accorded a very low priority during the initial programme of economic development in India. During the 1950s and almost up to mid-1960s export-promotion was not at all considered as an essential element in India's economic development process. Easy and adequate availability of external assistance from World Bank and other international agencies as well as developed countries has provided India with more than adequate amount of foreign exchange for financing development as well as essential imports. Hence, the urgency of earning foreign exchange through expanding exports was not there. In addition, because of the large size of the domestic market in India, 'import-substitution' rather than the 'export-promotion' was considered as a more useful strategy for India's economic development process. Similarly during the period of the First Three Five year Plans over 1950-51 to 1965-66, Indian economy was in a formative stage. Consequently India's capacity to export manufactures or industrial products was extremely limited. Hence, on this

account as well, India could not look at international markets especially because of her extremely limited capacity to offer supplies of industrial products.

However, after 1965-66, the aid-flows to India were substantially reduced. Consequently, for the first time India was made to depend significantly on her own exports for acquiring foreign exchange to meet her needs of essential imports. Moreover, by the second-half of 1960s, a number of industries especially in the engineering, chemicals, leather, marine and other sectors have reached a stage from where they were looking for an opening in international market.

Government of India had therefore considered it as appropriate to lay emphasis on the need for export promotion so as to enable the country to meet the needs of imports. Fortunately, it received an encouraging response from the industrial sector which was also looking for international markets. Over the last couple of decades export promotion has assumed critical importance in Indian economy. Export growth has become the main determinant of economic growth in India. With the increasing burden of debt-servicing on the one hand and the situation of aid-fatigue on the other, exports have now emerged as the only viable source of meeting the foreign exchange needs of Indian economy. Hence, the feasibility of financing almost entirely depends upon the growth in Indian exports. It may, therefore, be stated that the future economic growth in India is inseparably linked with growth in Indian exports. Hence, export promotion is being an overriding consideration in policy formulation.

Export promotion policy in India has three main segments. They are as follows :

- a) Policies for increasing investment and production in export sector.
- b) Price-support measures for rendering exports more competitive.
- c) Measures for strengthening marketing effort by the export sector.

15.3 EXPANSION OF PRODUCTION BASE FOR EXPORTS

The first pre-requisite of export promotion policy is to ensure larger exportable surpluses. In other words if a country wants to export more, it must have more to export. It will have more to export only if more and more is produced for export. Hence, it calls for increasing flow of production and investment resources into the export sector.

15.3.1 Relaxations in Industrial Licensing Policy/MRTP/FERA/Foreign Collaborations

With a view to facilitate relatively easier creation/expansion of production capacities for increasing export potential of Indian economy, necessary relaxations have been provided for in the policies for industrial licensing, MRTP (Monopolies and Restrictive Trade Practices Act) and FERA (Foreign Exchange Regulations Act) etc. The Foreign Exchange Regulation Act has been liberalised and rupee has been made fully convertible for all approved external transactions. As a result, exporters of goods and services and those who are in receipt of remittances are able to sell their foreign exchange at market determined rates. The importer and foreign travellers are also able to buy foreign exchange at market determined rates. Exporters have also been allowed to maintain foreign currency accounts. There is a general liberalisation of remittance of foreign exchange for visits abroad, agency commission, export claims, reduction in export value, reimbursement of expenses incurred on dishonoured export bills, consular fees, etc. Consequently, creation of additions of production capacities for export is liberally allowed, both in the large-scale as well as small-scale sectors. Foreign collaboration and foreign capital investment is also liberally permitted for the export sector. 100% foreign equity has been permitted to the units in EPZ/EOU/EHTP/STP. All these policy measures are envisaged to go a long way in facilitating easy expansion as well as technological upgradation of export base in India through attracting larger flows of investment and other resources.

15.3.2 Liberal Import of Capital Goods

Import policy of India has made specially liberal provisions for easy import of capital goods of all types. Accordingly, imports of machinery and equipment are allowed without import

licence. In addition, special provisions have been made for import of capital goods at a concessional rate of import duty. **Export Promotion Capital Goods (EPCG) Scheme** has been introduced for liberal import of capital goods. Under this scheme, capital goods for the manufacture of goods and for providing services, can be imported at zero duty or 10% duty against an obligation to export four times of CIF value over 5 years and six times of CIF value over 8 years respectively. Computer systems can also be imported under this scheme. Import of Capital goods for farm sector may be allowed at zero duty against obligation to export six times the CIF value on FOB basis over six years, if the import of capital goods is of Rs.5 crores or more.

15.3.3 Export Processing Zones (EPZ), Export-Oriented Units (EOU), Electronic Hardware Technology Parks (EHTP) and Software Technology Park Units (STP)

Units undertaking to export their entire production of goods may be set up under Export Processing Zones (EPZ) Scheme, Export Oriented Units (EOU) Scheme, Electronic Hardware Technology park (EHTP) Scheme or Software Technology Park (STP) scheme. Such units may be engaged in manufacture, production of software, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, viticulture, poultry and sericulture. Units engaged in service activities may also be considered.

These units may import all types of goods, including capital goods for manufacture, production or processing provided they are not prohibited items. Second hand capital goods may also be imported in accordance with the provisions of the policy. These units are permitted to sell 25% of the production in value terms in the Domestic Tariff Area subject to payment of applicable duties. Rejects upto 5% of the value of production may also be sold in the DTA. Supplies from DTA to these units will be regarded as deemed exports. Foreign equity upto 100% is permissible to these units. These units shall be exempted from payment of corporate income-tax for a block of five years in the first eight years of their operation.

15.3.4 Assured Supply of Raw-material Imports

As regards making available the supplies of imported raw-materials to the export sector, the import policy provides the scheme of Duty Free Licence. Import of raw materials, intermediates, components, consumables, parts, accessories, mandatory spares and packing materials may be permitted against a duty free licence. Duty Free Licence includes Advance Licence, Advance Intermediate Licence and Special Imprest Licence.

An **advance licence** is granted to a merchant-exporter or manufacturer-exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. An **Advance Intermediate Licence** is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter holding an Advance Licence/Special Imprest Licence. A **Special Imprest Licence** is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the categories mentioned in the policy.

15.4 ELIGIBILITY FOR EXPORT /TRADING/STAR TRADING/SUPER STAR TRADING HOUSES

Export/Trading/Star Trading/Super Star Trading Houses have been accorded special status. When exporters achieve the specified level of exports over a period, they may be recognised as EH/TH/STH/SSTH. The exporters, registered with FIEO or EPC are eligible for this purpose. The export performance criteria may be based on either f.o.b. value of exports or net foreign exchange earnings. Let us discuss them in detail.

- (i) **F.O.B. Criteria** : The manufacturing or merchandising units, who have achieved the following targets can be accorded the status of above mentioned Export Houses. Deemed exports are not counted for this purpose. Look at Table 15:1 for this criteria.

Table 15.1
FOB Criteria

Category of Houses	Average FOB value of exports during the preceding three licensing years	FOB value of eligible exports during preceding licensing year
Export Houses	Rs.20 crores	Rs.30 crores
Trading Houses	Rs.100 crores	Rs.150 crores
Star Trading Houses	Rs.500 crores	Rs.750 crores
Super Star Trading Houses	Rs.1500 crores	Rs.2250 crores

Exporters have option to get recognition for the year. In this case relaxation in above turnover has been permitted to the exporters.

ii) **Net Foreign Exchange Earnings** : Exporters have an option for obtaining the status of Export and other houses based on the following Net Foreign Exchange Earnings. Look at Table 15.2 for this criteria.

Table 15.2
Net Foreign Exchange Criteria

Category of Houses	Average Net Foreign Exchange Value of eligible exports during the preceding three licensing years	Net Foreign Exchange value of exports made during the preceding licensing year
Export Houses	Rs.16 crores	Rs.24 crores
Trading Houses	Rs.80 crores	Rs.120 crores
Star Trading Houses	Rs.400 crores	Rs.600 crores
Super Star Trading Houses	Rs.1200 crores	Rs.1800 crores

Exporters have also an option to get recognition for one year. In this case relaxation in above earnings has been permitted.

EH/TH/STH/SSTH are entitled to the following special benefits :

- i) Import Facilities
- ii) Marketing Development Assistance
- iii) Foreign Currency Accounts
- iv) Foreign Exchange Facilities
- v) Other facilities like training of personnel, trade delegation, exemption from pre-shipment inspection, green channel facility, etc.

Check Your Progress A

1. Distinguish between Trading House and Star Trading House.

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2. What do you mean by Advance Licence?

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3. State whether the following statements are True or False :
- i) In the beginning India followed a policy of import substitution.
 - ii) Import Policy has made provisions for easy import of capital goods of all types.
 - iii) There is completely licence free and duty free import facility for all production inputs for Export Processing Zones and Export-Oriented Units.
 - iv) An advance licence is granted only to the manufacturer-exporter.
 - v) Foreign equity upto 75% is permissible to EPZ and EOUs.

15.5 RENDERING EXPORTS PRICE-COMPETITIVE

The second pre-requisite of export promotion policy is to render the exports increasingly price competitive in international market. A number of price support measures in the form of fiscal as well as financial incentives have therefore been provided for the export sector in India.

The need for price-support measures in the form of export incentives, arises on two accounts. First, price levels in international markets are invariably the lowest, because of the high degree of competition therein. On the otherhand, Indian economy, has over the years emerged as a high cost economy with low productivity. Hence, for successful and viable export effort there is the need for incentives to provide the price support for rendering India's exports competitive and viable.

Secondly, incentives for exports also become necessary to neutralise the domestic market-pull on Indian exporters. Hence, export incentives also aim at encouraging trade and industry in India to increasingly undertake export effort on a sustained basis.

Under the export promotion policy of India, various types of incentives have been provided for as price-support measures. These include (A) Fiscal Incentives and (B) Financial Incentives.

15.5.1 Fiscal Incentives

Fiscal incentives for export promotion include (i) duty drawback, (ii) central excise rebate and (iii) income tax exemption on export profits.

- i) **Duty Drawback** : Under this incentive import-duty and central excise duties on raw-materials, components, and packing materials used in export product, are refunded back to the exporter. This results in substantial reduction in the cost of material inputs for export-production. In other words, import duties and central excise duties, on material inputs for export activity are allowed to be drawn back by the exporters under the incentives policy for Duty Drawback. The scheme of Duty Drawback has been formulated by the Drawback Director under the Central Board of Revenue and Customs from the Ministry of Finance. Details regarding Drawback Scheme can be had from 'Drawback Rules' as notified by the office of Drawback Director. Refund of Duty Drawback is granted on post-export basis. The benefit of Duty Drawback has been provided on the basis of (a) all industry rates or (b) brand rates separately fixed for individual manufacturers of the export products. The incentive of Duty Drawback helps reduce significantly the material cost of export products. It is very important for countries like India, which have simple manufactures to offer for exports which are very much influenced by the material cost. You will learn detail procedure of Duty Drawback in Unit 16, Block 4.
- ii) **Central Excise Rebate** : Under this scheme, the Central Excise Duties on the inputs and final product or on the output proposed for export, are refunded to the exporter. It helps in further reduction in the overall cost of production for exports. The scheme also provides for a Bond System under which outright exemption from Central Excise Duties can be claimed by the exporter. The scheme is operated as per Central Excise Rules notified by the Central Excise department. You will learn in detail about the Central Excise Rebate in Unit 16,Block 4.

- iii) **Income-Tax Exemption** : Export incentives in the form of income-tax concessions have also been provided for exporters. Export profits are totally exempted from income-tax. However, for assessment purposes total taxable profits of the company/firm are calculated on the basis of the entire sales turnover including domestic as well as export sales. From the taxable profits so arrived at, that portion is exempted from income-tax, which represents the ratio of export-sales to total sales turnover. For instance, if export sales are 25 percent of the total sales turnover of the firm, then 25 per cent of the taxable profits will be exempted from income-tax.
- iv) **Exemption/Refund of other taxes** : Export transactions are also eligible for exemption/refund of sales tax.

15.5.2 Financial Incentives

The scheme of financial incentives include interest subsidy, financial assistance scheme for Agricultural, Horticultural and meat exports.

- i) **Interest Subsidy** : Export sector in India has also been given interest subsidy under which the working capital is made available by the banks to the export sector at a concessional or subsidised rates of interest. Under this scheme, working capital required for pre-shipment credit as well as post-shipment credit is provided to the export sector at concessional rates of interest. This measure helps Indian exporters to reduce the working capital cost of export operation.
- ii) **Financial Assistance Scheme for Agricultural, Horticultural and Meat Exports** : In order to promote the exports of agricultural, horticultural and meat products, Agricultural and Processed Food Products Export Development Authority (APEDA) provides financial assistance for the following purposes :
 - i) Feasibility surveys, consultancy and data base upgradation
 - ii) Development of infrastructure
 - iii) Export promotion and market development
 - iv) Packaging development
 - v) Quality control
 - vi) Upgradation of meat plants
 - vii) Organisation building and Human Resource Development
 - viii) Air Freight Assistance for export of horticultural and floricultural products.

Thus, export incentives in the form of tax-concessions or fiscal incentives, as well as financial incentives, play a major role in rendering Indian exports, competitive in the international market. However, in view of the highly competitive nature of international market, every country in the world makes an all-out effort to increase her exports, for which various types of different fiscal and financial incentives are provided. Thus the practice of incentives has almost become universal, covering both developed as well as developing countries.

15.6 STRENGTHENING EXPORT MARKETING EFFORT

The third pre-requisite of export promotion is the marketing effort. It may be noted that 'export' is primarily a 'sale' transaction. Production can be converted into 'sale' only through the marketing effort. In other words 'marketing effort' provides the necessary link or channel between production and sales. Hence, success on the export front is crucial dependent upon the marketing effort. Export promotion policy in India therefore pays special attention to the need for improving and strengthening export marketing effort. With this objective, the Government of India have established a very comprehensive network of institutions for servicing the export sector. In other words, an effort has been made to provide the necessary infrastructure for servicing the export sector, particularly to improve the export marketing effort. With this object in view Government of India have established a number of specialised institutions for providing necessary services and assistance to individual corporate units from the export sector.

Institutions established for strengthening export marketing effort include Export Promotion Councils, Commodity Boards, Special Authorities and Industry Associations. These are the key institutions servicing export effort at individual corporate level product-wise. The primary function of these institutions is to provide the exporter with export marketing guidance and advice as well as complete information and details covering almost all the critical elements involved in export marketing effort at the individual corporate unit level on a continuous basis.

In addition, separate institutions have also been established for providing technical and specialised services to the export-sector in India. These institutions provide necessary guidance, help and assistance to individual corporate units, especially in the field of packaging, quality control, risk coverage, long-term credit, trade fairs and exhibitions, settlement of disputes, package service and market information.

For supplementing the export-effort by the private sector, Govt. of India have also established a number of Corporations in the Government sector for directly undertaking export-import activity. Various State Governments have also established Export corporations for promoting exports from different states respectively.

Market Development Assistance : This assistance is provided for overall development of overseas markets. It is provided for sponsoring, inviting trade delegations within and outside the country, market studies, publicity, setting up of warehouses/showrooms, research and development, quality control, etc. MDA is largely available to Approved organisations, Export Houses/Consortia of Small Scale Industries, Individual exporters or other sponsored persons. The assistance is given for air fare, daily allowance, participation in fairs and exhibitions, etc. The assistance is disbursed by the FIEO and Ministry of Commerce.

External Marketing Assistance Scheme for Jute : The External Marketing Assistance Scheme provides grant of market assistance at the rate of 5% and 10% of FOB value realisation on export of specified diversified products. The benefit is available to both manufacturer-exporters and merchant exporters.

Check Your Progress B

1. What do you mean by Duty Drawback ?
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2. What is Market Development Assistance?
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3. State whether the following statements are True or False :
 - i) Indian economy has emerged as a high cost economy with low productivity.
 - ii) The provisions for central excise rebate provide for a bond system under which outright exemption from central excise duties cannot be claimed by the exporters.
 - iii) Export profits are exempted from income-tax.
 - iv) Working capital is made available by the banks to the export sector at a subsidised rate of interest.
 - v) The External Marketing Assistance scheme provides grant of market assistance at the rate of 5% and 10% of FOB value realisation on export of specified diversified products.
4. Fill in the blanks :
 - i) If the export firm has achieved a target of the average annual net foreign exchange earnings of Rs.80 crores in the prescribed base period of three years the firm is known as.....
 - ii) Export/Trading/Star Trading/Super Star Trading Houses will be granted..... Licence against exports made during preceding year.
 - iii) The scheme of refunding back of import duties and central excise duty on raw materials and components is known as
 - iv) Market Development Fund provides necessary for market promotion.

15.7 LET US SUM UP

Of late export promotion has assumed critical importance in Indian economy. Export growth has become main determinant of economic growth. With the increasing requirements of imports, exports have now emerged as the only viable source of meeting the foreign exchange needs. Government of India have provided various incentives for export promotion. Export Promotion policy includes (i) Policies for increasing investment and production in export sector (ii) Price support measures for rendering exports more competitive, and (iii) measures for strengthening marketing effort by the export sector.

There has been relaxations in industrial licensing policy/MRTP/FERA/foreign collaboration to increase the flow of production and investment resources into the export sector. Apart from the provisions made for liberal import of capital goods, Export Processing Zones, Export-oriented units have been given completely licence-free and duty-free import facilities for all production inputs. Duty Free Licence Schemes have been granted to the registered exporters for supplies of adequate quantities of material inputs required for export. Export House, Trading House, Star Trading House and Super Star Trading House have been given special facilities to promote the export business. In order to make India's export competitive price viable support incentives have been given to the exporters. Fiscal incentives include (i) duty drawback (ii) central excise rebate and (iii) income-tax exemption on export profits.

The scheme of financial incentives include interest subsidy on working capital and Financial Assistance Scheme for Agricultural, Horticultural and Meat Exports.

The success on the export front is crucially dependent upon the marketing of the products. Hence, special efforts have been made for improving and strengthening export marketing effort. Government of India have established a number of specialised institutions for providing necessary services and assistance to the exporters. Marketing Development Fund provides necessary financial assistance for market promotion.

15.8 ANSWERS TO CHECK YOUR PROGRESS

- A 3 i) True ii) True iii) False iv) False v) False
B 3 i) True ii) False iii) True iv) True v) True
4 i) Trading House ii) additional iii) duty drawback iv) financial assistance

15.9 KEY WORDS

Advance Licence : The Licence is granted to a merchant-exporter or manufacturer-exporter for the imports of inputs required for the manufacture of goods without payment of basic customs duty.

Advance Intermediate Licence : The licence is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter holding an Advance Licence/Special Imprest Licence.

Deemed Export : The specified sales in India which are considered as exports.

Duty Drawback : The scheme under which import duty and central excise duties on raw materials, components, and packing materials used in export products are refunded back to the exporter.

Special Imprest Licence : The licence is granted to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the categories mentioned in the policy.

15.10 TERMINAL QUESTIONS

1. Explain the facilities/concessions for increasing the production-base for exports from India.
2. Analyse the different price support measures introduced in India for rendering India's exports more competitive.
3. Why the role of marketing effort is crucial in export promotion? Describe the measures undertaken in India for strengthening export marketing effort.
4. Explain the rationale for price-support measures for export promotion in India.
5. "Export Incentives have become a universal practice" Discuss.
6. Explain the framework of export incentives in India and analyse as to how far it provides a total approach to export promotion.

Note : These questions and exercises will help you to understand the unit better. Try to write answers for them. But do not send your answers to the University. These are for your practice only.