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EMERGING GLOBAL ECONOMIC SITUATION: ITS IMPACT ON INDIA'S TRADE AND SOME POLICY ISSUES

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Foreword

The Economic Division in the Department of Economic Affairs has initiated a working paper series from October 2007 with the objective of improving economic analysis and promoting evidence based policy formulation. The themes covered in the series include both macroeconomic and sectoral issues of relevance for national policy, strategy for addressing emerging global and national development concerns and the agenda for economic policy reforms.

The paper by Dr. H.A.C. Prasad, Senior Economic Adviser, Ministry of Finance on "Emerging Global Economic Situation: Its impact on India's Trade and some Policy Issues" is very topical given the falling growth rate of exports in the current global situation. Besides outlining some macro policy issues, it deals in depth with many micro, sector-specific and issue-specific policies. I am sure that this paper will contribute to the discussion and debate on the subject and help in the design of suitable policies.

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Disclaimer and Acknowledgements

The views expressed in this paper are those of the author alone and do not necessarily reflect the views of the Ministry of Finance or Government of India.

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Indian Economic and Trade Situation: The overall growth rate of the Indian economy was 6.5 percent in 2011-12 as against 8.4 percent achieved in each of the previous two years. In 2012-13 Q1, growth was at 5.5 percent compared to 8.0 percent in 2011-12 Q1. The slowdown is attributable both to domestic as well as global factors. There has been a slowdown in the global economy from 5.1 percent in 2010 to 3.8 percent in 2011. The RBI also followed a tight monetary policy during most of 2011-12 to rein in on inflation which contributed to the increase in the cost of borrowings. These along with reduced investment activity contributed to the slowdown in the industrial sector. Overall industrial growth moderated sequentially in each of the four quarters of 2011-12 and was at 2.9 percent compared to a growth of 8.2 percent in 2010-11. During April–August of the current fiscal, industrial growth was at 0.4 percent. Due to a combination of factors like industrial slowdown affecting tax revenues and higher expenditure on subsidies on fuel and fertilizers, fiscal deficit shot up to 5.8 percent of GDP in 2011-12 as against a BE of 4.6 percent of GDP. Headline WPI inflation, though moderated from 9.56 percent in 2010-11 and 8.94 percent in 2011-12 was at 7.81 percent in September 2012. Food inflation has particularly been a cause of concern. Trade and current account deficits widened to 10.3 percent and 4.2 percent of GDP in 2011-12 respectively. The sharp decline in the rupee during Q1 (April-June) of 2012 indicates among others, supply-demand imbalance in the domestic foreign exchange market due to widening of CAD, slowdown in FII inflows and strengthening of US dollar in the international market due to the safe haven status of US Treasuries. Like many other currencies rupee also depreciated though sharply by 12.7 percent against the dollar in 2011-12 and by 7.8 percent in September 2012 compared to March 2012 though it has recovered marginally in the recent past.

During 2011-12, India's exports and imports registered growth rates of 21.3 percent and 32.3 percent respectively. Rising crude oil prices, along with increase in gold and silver prices contributed significantly to the import bill resulting in a high trade deficit growth of 55.6 percent. In April-September 2012 export growth was negative at (-)6.8 percent. After a growth of 10.1 percent in January 2012, export growth has been negative or low in the subsequent months. In September 2012 it was at (-)10.8 percent. In fact, exports have been falling month over month even in absolute terms since May 2012. During April-September 2012, import growth was also negative at (-)4.4 percent. Trade deficit in April-September 2012-13 is lower by 0.2 percent over corresponding period of previous year.

International Trade in Services: Global exports of services have shown consistent rise in the 2000s decade with a healthy average annual growth rate of around 9.5 percent, except in 2001 and 2009 - periods of global slowdown and economic crisis. In 2011, while world exports of commercial services grew by 12 percent in Q1, 17 percent in Q2 and 14 percent in Q3, since Q4 the slowdown started with 5 percent growth, thus resulting in an overall growth of 11 percent in 2011. While in the first quarter of 2012 world exports and imports of commercial services grew by only 3 percent and 4 percent respectively, in the second quarter of 2012 both exports and imports of services grew by zero per cent. Thus, trade in services has also been affected by the emerging global situation.

India's Trade in Services: In 2011-12, India's services export growth was 7.1 percent, services import growth was (-)6.9 percent and net services trade growth was 31.3 percent. Among the miscellaneous category, while software services exports grew by 12.2 percent, non-software services exports grew by a negative (-)11.2 percent. Services export growth in Q1 of 2012-13 (April-June 2012) is at a low of 2.0 percent, while services import growth is at 15.9 percent. As a result, growth in net services trade is negative at (-) 13 percent. In July and August 2012, net services trade growths were 1.3 and (-)4.8 per cent, respectively. Thus lesser cushion is available from services trade to trade deficit this year.

The challenges and Policy options on the Trade front for India: The challenges for India on the trade front are many. Some are due to the current emerging global situation and some are systemic and long term in nature.

Macro and long term challenges and policies: While the Government has initiated second generation reforms, in the trade sector these could include, further lowering of tariffs to ASEAN levels, while carefully taking note of domestic concerns and simultaneously removing duty benefit schemes which may become redundant in a low tariff regime. While India is relatively less vulnerable to the developments in the US, EU, and other developed countries due to its diversification of exports to Asia and ASEAN, there are concerns on the bilateral trade deficit front with countries like China and Switzerland. While substantial progress has been achieved on the market diversification front, a lot more needs to be done on the product diversification front as India’s export presence is limited in the top items of world trade. While India has made new forays in skill-and capital-Intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional areas of strength, i.e. in the labour-intensive exports like textiles, leather and leather manufactures, handicrafts, and carpets. India’s push towards regional and bilateral agreements should result in meaningful and result-oriented FTAs and CECAs, which carefully avoid inverted duties and take care of domestic concerns. A more conducive environment for trade in services can be created by liberalizing FDI inflows as FDI and trade in services have a close relationship given the nature of intra-firm trade of multinational parent firms with affiliates. Rationalizing taxes in services like shipping and telecom, going forward with totalization agreements, streamlining domestic regulations like licensing requirements & procedures and technical standards can also help in the growth and export of services.

Micro, Issue-specific, Sector-specific and Port-specific policies: This paper, basically, examines some issues and policies at the micro, sector-specific, issue-specific and port-specific levels. Nevertheless these are the ones which are basically do-able in the short and medium term and make the wheels of export growth move faster. These are as follows.

<u>Infrastructure Related</u>: Infrastructure related issues particularly ports related are the major issues affecting exports and imports. Even the best of our ports do not have state-of-the-art technology as in Singapore, Rotterdam and Shanghai. Port Infrastructure issues include - Frequent EDI server down/ maintenance, poor road conditions & port connectivity, congestions, vessel berthing delays, poor cargo handling techniques and equipment, lack of access for containerized cargo, etc., resulting in multiple handlings, increased lead time, high transaction costs and thus loss of market competitiveness. Some examples are as follows.

Some important infrastructure related issues in Chennai port are restriction in port access points to Chennai port, slow progress of Ennore-Manali Road Improvement Project (EMRIP), stalling of the Elevated four-lane Corridor Project (EFLCP), lack of developmental activities within the port area to ease the congestion for efficient movement of goods within the port area, need to expand the two-lane North Chennai Thermal Power Station(NCTPS) road, operationalising the Kattupalli Container Terminal and also extending it for non transshipment cargo. There are also various surcharges like congestion surcharge and Chennai trade recovery charge on the users of Chennai Port. Added to this is the levy of other unfair surcharges under various heads like container re-location charges, imbalance surcharge, etc. The charge on trade component is very low to the other charges shipping lines are charging. There should be definitiveness on such charges additionally leviable under specific circumstances. For imports although freight is paid for, yet delivery order charges which are not uniform nor in any proportion to the services rendered are collected from shipping lines. Many of these surcharges may not have legal sanction but these strong arm measures are imposed due to lack of regulatory and monitoring mechanism in India. These penalties levied by shipping companies due to the inefficient operation at the Chennai Port and consequent delays due to congestion have affected the cost of operations of the shipping lines. Advanced economies like US and European Union and recently even China have made it mandatory for shipping lines to file and seek approval of the various charges imposed by them on the exporters and importers which has helped these Governments to have close monitoring and also act as a deterrent for levy of these charges in a surreptitious fashion. The proposed Shipping Trade Practices Act to be introduced by the Government of India could also give legal support and relief from such levies.

In Mumbai Port, imports are held up due to port congestion at the JNPT Port at Mumbai as the infrastructure is inadequate. Export consignments are held up and the entry gates close prematurely resulting in export consignments being dumped in the buffer yard at a very high cost and delay in shipments. For the first time, congestion charge is levied @ $ 150/- for 20 ft TEU and is being collected from importers on import consignments due to this severe congestion. Also many vessels are by-passing the port carrying containers to be delivered at their next voyage thereby delaying vital raw materials for the industry.

Road congestion and Infrastructure bottlenecks around Petrapole and Benapole Border area are major problems to exporters trading with Bangladesh which lead to delays and payment of detention fees to ICD thus, increasing the transaction costs. There are also some general policy issues like good planning of infrastructure projects so that there are no delays or abandoning of projects at a later date as in the case of the development of Leather Parks in the 11th plan which was a non-starter.

<u>Trade Facilitation Measures</u>: There are many trade facilitation measures which can help export sector without any cost to the Government exchequer and need to be considered. In general there is an urgent need for simplifying the multiple documentation procedures. While India is ranked 132 on 'ease of doing business', on 'trading across borders', India is ranked 109 with Singapore at first rank and China at 60th. India requires 16 export documents to be cleared, while China needs 5, with good practice economies like France needing 2. Time to export is 16 days for India, and 5 for Denmark. Cost to export is $1095 per container, compared to $500 in China, and $450 in Malaysia. Number of import documents that need clearance is 9 in India, 5 in China, and 2 in France. Time

to import is 20 days in India, and 4 in Singapore. Cost to import is $1070 per container in India, $545 in China, and $439 in Singapore. A list prepared by the exporters of the documents and procedures needed in the Indian case shows that on an average an exporter is required to sign at about 130 places to complete an export transaction. Similar procedures are there on the import side. These need to be reduced to the barest minimum.

Other procedural and documentation reforms include abolishing the system of printing and certifying Export Promotion(EP) Copies of shipping bills as EDI interface already exists; accurate and quick filing of Export General Manifests (EGMs) as EGM errors are the major obstacles holding up disbursements of duty drawback and timely transmission of export data between Customs and DGFT for claiming export benefits; operationalising the Risk Management System (RMS) for exports, as it drastically reduces the processing delays and has been implemented in 23 major customs ports/airports for imports and is working well; addressing the issue of benefits under Accredited Clients Programme (ACP) which are being negated due to port congestion caused by poor connectivity; implementing 24x7 system for CFSs in letter and spirit and extending it both for export and import clearance and to all seaports and ACCs; reducing unnecessary paper work related to renewal of letter of undertaking (LUT) for export without payment of duty; addressing the issue of recovery of DEPB Granted on export of Rubber Mat/Door Mat with retrospective effect; discouraging the practice of insistence by banks for L/Cs through their branches in foreign countries; merging or streamlining MAI & MDA Schemes; rectifying the problems in EDI system as Shipping Bills are not being shown online due to problems with EDI systems at the ports and DGFT; removing Annual Average Export Performance condition under EPCG Scheme as the Export Obligation (EO) commitment already exists besides Actual User (AU) condition even after EO fulfillment; automatic approvals with fixed time periods to address the delaying tactics and any harassment of exporters; and addressing trade litigations as only a small percentage of trade disputes are settled in favour of the Government.

There are also many sector-specific trade facilitation issues which need to the addressed. In textiles sector, there are issues like allowing tolerance of +5 percent also on export of cotton yarn as there could be some variations in the weight of the cotton yarns exported upto -/+ 5 percent, extending the validity of Registration Certificates (RCs) issued for cotton yarn exports as there are possibilities of delay in shipments due to genuine difficulty faced by the exporters, suspending Cabotage Rule for cotton movement from Gujarat to Tamil Nadu for six months, so that foreign vessels can carry coastal cargo till the infrastructural facilities are streamlined in the country which could result in a saving of 2 percent of cotton cost for mills located in Tamil Nadu & Andhra Pradesh and reducing the cost of transport by using the idle EXIM containers lying at West Coast ports for transporting the bales to major textile clusters in Tamilnadu and diverting the containers to container deficit areas in east coast for the South East and Far East Asian export markets on its return. Issues in the Gems and Jewellery sector include resolving the problem related to export of Gems & Jewellery by personal carriage through Mumbai and Jaipur Airports. In the case of rubber, there is a need to examine the issue of licensing controls by Rubber Board.

Some port-specific issues where trade facilitation is needed are the following. In Chennai port there are issues like increasing the number of leaves (entry points) at zero gate, providing adequate staff and speeding up duty drawback refunds. In Vallarpadam Port, there are issues like high Terminal Handling Charges (THC), increase in cut off time resulting in the containers missing the intended vessels and being rolled over to the next vessel, non-availability of EDI facility inside the International Container Transshipment Terminal (ICTT) and non-Availability of Customs facility at the ICTT. In Mumbai, there is the issue of timing of Customs office at Precious Cargo Customs Clearance Centre (PCCC) as at present, the Customs office at PCCCC remains open for export and import registration of the documents till 1.30 p.m. and the goods/parcel for exporting are received up to 4 p.m. In Cochin port, there are issues like insufficient availability of reefer containers, need for reducing cut-off time in Vallarpadam port which was fixed earlier based on the congestion in Cochin port, lack of correct knowledge of banned items, need for clearance of perishable items beyond 10 PM for flights for next day morning, need for quality certification on sundays and the issue of evaluation of consignee documents by some officers at Cochin air customs even though this document does not come under the purview of Cochin customs. In Calicut Air Port, there is delay in receipt of EDI shipping bills by the exporters and in Kolkata Airport there are unnecessary procedures and documents like giving an undertaking on non judicial stamp that the facts mentioned in the export documents about the quantity and quality of exports by jewellery exporters are true even when signed export documents binds the exporters firmly and equally.

<u>Tax and Customs Duty Related</u>: Some of the general tax and customs duty related issues are the need for time limit for disbursal of Duty Drawback, Service Tax Refunds and Central Excise Rebate claims to the exporters as delays in the release of the above claims adversely affect working capital which makes them less competitive; issues related to imposition of Minimum Alternate Tax (MAT) on SEZ units and developers and Dividend Distribution Tax (DDT) on the developers; and harmonization of Export Promotion Capital Goods (EPCG) Scheme as a third variant was added in the FTP on June 2012 but has not been implemented. In fact, no scheme should be announced without finalizing its implementation modality. This was done a few years back. But again the old system of announcing a scheme and then finalizing its implementation seems to have reappeared. Moreover, as duties of capital goods are being reduced periodically, the EPCG scheme is becoming less important. It is high time a list of the remaining capital goods items with high duties are prepared for which customs duty could be lowered in the next budget and the EPCG scheme scrapped. This will reduce transaction costs also. There are also issues like the Foreign Agency Commission, crediting payment of central excise rebate claims

directly to the bank account of the exporter. Introducing VAT refund system for purchases by foreigners is another issue. VAT is refundable in cash immediately in Thailand. In Singapore and other countries also it is refundable. India should introduce this system. This will increase the demand for purchases from India by foreigners visiting India.

Some of the Sector-Specific tax related issues are as follows. In the Software & Electronic Goods Sector, there are issues like retrospective amendments in the definition of royalty which create difficulties in international transactions as the companies cannot pass on the tax incidence to the foreign suppliers of computer software; and the need to resolve transfer pricing issues The PMO has constituted a committee (Rangachary Committee) to look at issues related to taxation of these centers, but the pending issues need to be resolved urgently and a clear TP regime based on safe harbour mechanism needs to be introduced. There are also issues like long pending service tax refunds, and dual levy of service tax. In the Electronics goods sector, inverted duties especially due to dual use inputs such as Plastics, Copper, Aluminium, etc are affecting electronic hardware manufacturers. Zero duty also on inputs for manufacture of electronic components and parts wherever possible, including dual use inputs could be considered to avoid inverted duty. There is also a need to be cautious on Information Technology Agreement (ITA)-II as ITA-I has severely affected our electronic sector; and also while including any electronic components and parts in any future FTA’s. In Textiles sector, encouragement to a multi fibre approach needs to be given to increase production of blended fabric, by changes in duty structure that brings duties on manmade filament and yarn at par with cotton as the global ratio of use of cotton to manmade fibre is 40:60, while for India it is 66:34. In the case of Rubber, cess on Natural Rubber should be abolished as cess is discontinued for almost all the export commodities. In the Gems & Jewellery sector, with recent measures to re-impose import duties on cut and polished diamonds, bonded warehouse facility could be reintroduced. There is also the inverted duty structure due to Free Trade Agreement (FTA) under the India-Thailand FTA, resulting in finished jewellery from Thailand being cheaper than primary gold (raw material) available in India. This will affect Indian jewellery manufacturing industry and needs to be addressed. To address the high Gold imports instead of increasing the import duty on gold, VAT could be increased from 1 percent to 5 percent on sales of bullions, coins, primary gold and sale in Exchange Trade Fund (ETF) to private individuals (Unregistered Dealers). In the Chemicals sector, there are inverted duties in the case of Metallic stearate, crude napthalene and crude palm oil. Inverted duties have also been caused by the ASEAN FTA allowing imports of soap noodles, soaps and fatty acids into India at Nil duty compared to import of input oils at duties ranging between 10 percent to 15 percent used in the manufacture of these products besides the export tax at around 15 percent levied by Indonesia and Malaysia which also varies with oil prices. These need to be examined and rectified.

Credit Related: These include the issue of addressing the high interest cost, given the experiences of some competing nations of India like Brazil and China. The recommendations of the Technical Group of Exim Bank of India on cost effective export credit needs to be examined in this regard. These include among others modifying the extant RBI guidelines on overseas borrowings to permit Scheduled Commercial Banks (SCBs) to contract overseas borrowings of maturity less than 1-Year for extending buyers' credit in foreign currency to exporters with positive NFEE for last 3 years, for financing their imports of raw materials and consumables; and allowing off-shore branches of Authorised Dealers (ADs) in India to open Rupee accounts of non-resident entities, and also of Indian exporters wishing to hold INR export proceeds in the same currency – an "exchange earner's INR" account. There is also the issue of high service charge by banks as disbursal of export credit in foreign currency at a lower rate is unviable for the banks with the cost of foreign funds to the banks being much higher. Suitable measures such as capping on the service charges levied by banks need to be introduced to ensure that credit is available at lower cost to the exporters and at the same time banks supply the funds to exporters. Charges for renewal and enhancement of credit limits should also be rationalised.

Other Issues: These include tapping the domestic market for software; lowering and streamlining the different port charges; having a long term vision for Agro commodities exports by a stable Agri-Export Policy; promoting FDI in export sector in general and textiles in particular; addressing the skill mismatch which has contributed to the Indian industry and exports becoming less competitive; consistency in export-import policies; relocation of industries from US/Europe, addressing the high freight rates which is happening at a time when cargo traffic has slowed down in the world; repealing the Mathadi Kamgar Act in Maharashtra as the Mathadi Kamgar Union workers who are not trained and do not follow instructions but just take money, are forcing factories to employ them for loading and unloading operations; and narrowing the focus of TUFS to areas which have been unable to respond viz. the unorganized SSI sector in the value added stages of weaving, processing and RMG. There are also classification issues for some items which need to be rectified. There is also a need to explore further possibilities of payments with countries in local currency and rupee denominated exports should not encounter difficulties in availing the same incentives and benefits like duty drawbacks and tax incentives as in the case of other permitted currencies.

Conclusion: The above bunch of policies/issues at the sectoral, micro and port level are just illustrative and in no way exhaustive. If these and other such issues are addressed, the wheels of exports can move faster with minimum costs.

Chapter-I

Growth and Trade: World and India

(a) Global Economic Situation

Though there was some recovery in the global economy after the 2008 crisis, the developments in US and Euro area have worsened the global economic outlook. The world economy has been receiving shocks at regular intervals. The IMF's latest World Economic Outlook (WEO), October, 2012 has stated that the global economy has deteriorated further since the release of the July 2012 WEO Update, and growth projections have been marked down. Downside risks are now judged to be more elevated than in the April 2012 and September 2011 World Economic Outlook reports. Accordingly, GDP growth of global economy is revised downwards to 3.3 percent in 2012 and 3.6 percent in 2013 which is down by 0.2 and 0.3 percentage points respectively compared to the July projections. IMF has also reduced its earlier projections for world trade in goods and services to 3.2 percent for 2012 and to 4.5 percent for 2013, drastically down by 0.6 and 0.7 percentage points respectively. (See Table-1)

Table-1

GDP and Trade Growth

	Actuals (percent)		Projections (Percent)		Diff. from July 2012 projections	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**
World Output	**5.1**	**3.8**	**3.3**	**3.6**	**–0.2**	**–0.3**
Advanced Economies	**3.0**	**1.6**	**1.3**	**1.5**	**-0.1**	**–0.3**
United States	2.4	1.8	2.2	2.1	0.1	–0.1
Euro Area	2.0	1.4	–0.4	0.2	-0.1	–0.5
Germany	4.0	3.1	0.9	0.9	0.0	–0.5
France	1.7	1.7	0.1	0.4	–0.2	–0.5
Italy	1.8	0.4	–2.3	–0.7	-0.4	-04
Spain	–0.3	0.4	–1.5	–1.3	-0.1	–0.7
Japan	4.5	–0.8	2.2	1.2	-0.2	–0.3
United Kingdom	1.8	0.8	-0.4	1.1	–0.6	–0.3
Canada	3.2	2.4	1.9	2.0	-0.2	-0.2
Emerging and Developing Economies	**7.4**	**6.2**	**5.3**	**5.6**	**–0.3**	**–0.2**
Commonwealth of Independent States	4.8	4.9	4.0	4.1	-0.1	0.0
Russia	4.3	4.3	3.7	3.8	-0.3	–0.1
Developing Asia	9.5	7.8	6.7	7.2	–0.4	–0.3
China	10.4	9.2	7.8	8.2	–0.2	–0.2
India	10.1	6.8	4.9	6.0	–1.3	–0.6
Latin America and the Caribbean	6.2	4.5	3.2	3.9	–0.2	-0.3
Brazil	7.5	2.7	1.5	4.0	–1.0	-0.7
World Trade Volume (goods and services)	**12.8**	**5.8**	**3.2**	**4.5**	**–0.6**	**–0.7**
Imports						
Advanced Economies	11.4	4.4	1.7	3.3	-0.2	-0.9
Emerging and Developing Economies	14.9	8.8	7.0	6.6	–0.8	–0.4
Exports						
Advanced Economies	12.0	5.3	2.2	3.6	-0.1	–0.7
Emerging and Developing Economies	13.7	6.5	4.0	5.7	–1.7	–0.5

Source: IMF, World Economic Outlook, October, 2012

The euro area periphery has been at the epicenter of the crisis with a further escalation in financial market stress starting with Greece and Spain, and then permeating to the whole of Euro Area including the more stable economies like Germany. There have been doubts about governments' ability to deliver on fiscal adjustment and reform as well as the extent of willingness to help by partner countries. This has resulted in large capital outflows, a renewed surge in sovereign yields and further bank deleveraging, and contraction in credit to the private sector. Recent activity indicators as per IMF have continued to languish and indicators of activity and unemployment show increasing and broad-based economic sluggishness in the first half of 2012 and no significant improvement in the third quarter. Incoming data for the United States also suggest less robust growth and an underlying loss of momentum. Negative spillovers from the euro area, limited so far, have been partially offset by falling long-term yields due to safe haven flows. Unemployment rate in USA was at 8.3 percent in July 2012 compared to 8.2 percent in June 2012 though latest figures for September 2012 show a fall to 7.8 percent. In EU area unemployment is in double digits at 10.5 percent in August 2012.

Emerging market economies including Brazil, China, and India have also not been spared with growth momentum slowing down partly due to external environment and partly domestic conditions like supply side constraints and policy tightening. Increased aversion to risks by investors and perceived growth uncertainty have led to equity price declines, capital outflows and currency depreciation.

(b) <u>International Trade Situation</u>

As per IMF's WEO October 2012, World trade volume (goods & services) is projected to grow by 3.2 percent in 2012 compared to 12.8 percent in 2010 and 5.8 percent in 2011. This projection is lower by 0.6 percentage points compared to IMF's July, 2012 projections. Imports in 2012 of advanced economies are projected to grow by 1.7 percent (4.4 percent actuals in 2011) and of emerging & developing economies at 7.0 percent (8.8 percent actuals in 2011). Exports in 2012 are projected to grow at 2.2 percent (5.3 percent actuals in 2011) for advanced economies and 4.0 percent (6.5 percent actuals in 2011) for emerging and developing economies. There is a drastic fall in import and export projections for emerging and developing economies by 0.8 and 1.7 percentage points respectively.

The month wise export growth rates of some major trading countries (Table 2) shows negative export growths in the last few months in Brazil, EU, South Africa, Russia, Australia, South Africa, Indonesia, Japan, Malaysia, Singapore, and Thailand. Even China's export growths in July and August 2012 were low at 1 and 2.7 percent respectively though it has picked up in September 2012 to 9.9 percent. US export growth, which was better than other countries is now in single digits and was very low at 1.1 percent in July 2012 and 1.5 percent in August 2012.

Table 2

Monthwise export growth rates of some major trading partners of India (per cent)

	USA	Brazil	EU (27)	Russia	Australia	South Africa	China	Hong Kong	Indonesia	Japan	Malaysia	Singapore	Thailand
2011m8	18.5	36.0	25.9	40.0	37.0	35.0	24.4	6.5	30.6	13.8	17.3	16.6	29.0
2011m9	18.1	23.6	15.6	27.8	27.6	21.1	17.0	-3.3	35.3	12.3	17.4	14.3	14.8
2011m10	11.9	20.5	4.9	30.4	16.4	7.3	15.8	11.2	19.7	2.6	13.9	3.9	-1.4
2011m11	11.4	23.1	6.3	33.1	13.9	-2.0	13.8	1.7	10.4	1.6	6.6	9.1	-12.9
2011m12	8.0	5.8	4.4	20.3	16.1	-1.9	13.3	7.4	3.0	-1.4	5.0	8.5	-8.2
2012m1	7.3	6.1	2.6	30.9	9.9	4.3	-0.6	-8.4	4.8	-2.6	-1.0	-4.0	-2.6
2012m2	12.6	7.7	2.2	15.1	16.2	0.9	18.3	14.5	10.9	2.4	14.3	27.2	3.7
2012m3	6.3	8.4	-4.2	7.4	0.3	-6.7	8.8	-6.4	1.2	5.1	-1.4	-1.5	-4.9
2012m4	2.8	-3.0	-7.0	-1.7	0.1	-13.2	4.9	5.8	-3.2	10.4	-2.6	1.2	-2.0
2012m5	6.1	0.0	-8.7	5.0	-6.3	-7.5	15.3	5.4	-8.1	12.1	3.1	1.1	10.2
2012m6	8.1	-18.3	-7.8	-7.3	-4.9	-17.6	11.3	-4.5	-13.0	-0.8	-1.6	-3.9	-2.3
2012m7	1.1	-5.6	-7.7	-3.2	-6.5	-6.5	1.0	-3.1	-6.9	-7.6	-7.9	-3.3	-4.5
2012m8	1.5	-14.4	-8.4	-5.6	-14.4	-15.7	2.7	1.1	-26.3	-7.5	-8.6	-8.9	-7.0
2012m9		-14.1					9.9			-11.8			

Source: Computed from WTO data.

The month-wise import growth rates of the different trading partners of India (Table 3) which affects the demand for India’s exports are also not encouraging. USA’s import growth rate has been in single digit for the last few months and was negative at (-)0.6 percent in August 2012. EU’s import growth was highly negative since May, 2012 (-11 percent growth in August, 2012). China’s import growth rate in August, 2012 is negative at (-)2.6 percent though in September2012 it improved to 2.4 percent. Singapore’s import growth has also been low in the last few months and was highly negative at (-)11.2 percent in July, 2012 though it picked upto 1.2 percent in September 2012. Japan’s import growth was negative at (-)7.1 percent in August, 2012 though it improved to 2.4 percent in September 2012. Brazil’s import growth rate is highly negative in August and September, 2012 at (-)13.9 percent and (-)13.7 percent respectively.

Table 3

Monthwise import growth rates of some major trading partners of India (percent)

	USA	Brazil	EU (27)	Russia	Australia	South Africa	China	Hong Kong	Indonesia	Japan	Malaysia	Singapore	Thailand
2011m8	14.3	31.2	26.1	26.6	37.5	24.3	30.1	13.7	17.0	31.9	12.8	31.0	44.1
2011m9	12.9	13.1	14.1	17.5	19.3	24.0	20.7	2.0	56.9	23.3	13.6	14.1	41.9
2011m10	12.3	18.4	4.6	19.2	21.3	16.0	28.5	10.7	30.3	25.8	0.4	10.7	20.7
2011m11	12.4	21.1	3.8	22.9	14.7	26.6	21.9	8.4	21.3	18.5	7.0	18.0	-2.4
2011m12	10.7	16.9	0.3	13.2	12.7	11.9	11.8	8.1	13.8	15.9	9.3	4.9	21.6
2012m1	9.6	16.8	1.0	17.8	26.2	17.5	-15.3	-10.3	22.5	17.6	1.4	8.7	-4.2
2012m2	9.7	4.4	3.5	13.6	14.7	13.6	40.0	21.3	30.5	15.0	18.8	28.9	8.3
2012m3	6.0	6.1	-5.5	6.1	17.2	2.4	5.3	-4.4	11.3	9.7	1.1	1.5	25.6
2012m4	6.3	1.6	-8.1	-1.2	6.1	-1.3	0.2	5.1	10.2	10.5	5.7	1.2	7.9
2012m5	4.9	2.7	-11.1	-0.1	7.5	5.6	13.1	4.7	14.0	11.6	12.9	3.9	18.2
2012m6	0.1	-3.9	-11.5	-3.0	1.8	-1.9	6.1	-2.5	3.8	-0.7	-2.0	2.5	2.6
2012m7	2.8	-5.2	-11.0	7.7	-0.3	-4.1	4.7	-1.4	0.3	2.7	3.5	2.3	13.7
2012m8	-0.6	-13.9	-11.0	-2.5	5.0	-1.8	-2.6	1.4	-6.7	-7.1	-1.6	-11.3	-8.8
2012m9		-13.7			-1.9		2.4			2.4		1.2	

Source: Computed from WTO data.

After the 2008 crisis, many countries could reach the pre-crisis levels of exports, but few countries could reach the pre-crisis trends of export growth. India's performance has been really good compared to other countries on the export front as it could not only surpass pre-crisis levels but also reach pre-crisis trends and maintain it for a fairly long time in the post-crisis period (see Figures 1 to 7). But in the last few months export growth has started to decelerate.

Figure 1

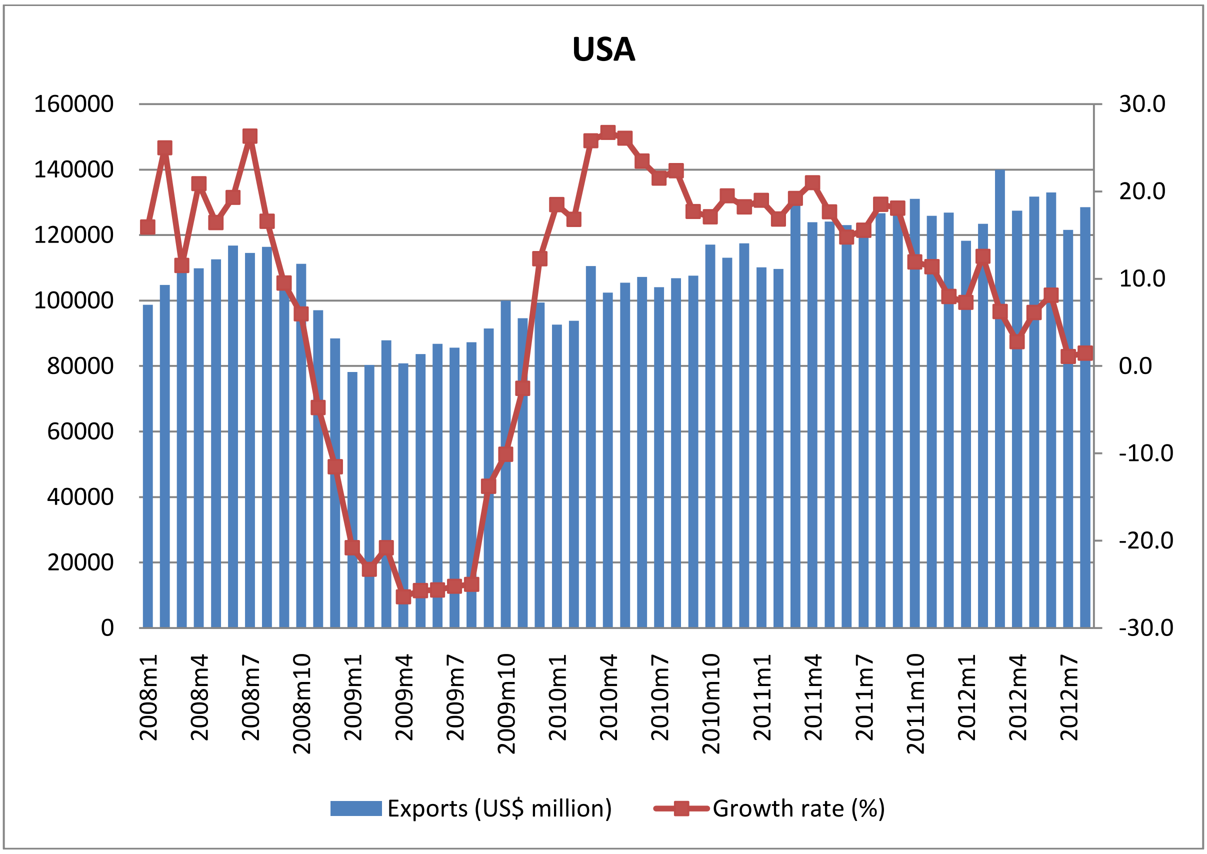


Figure 2

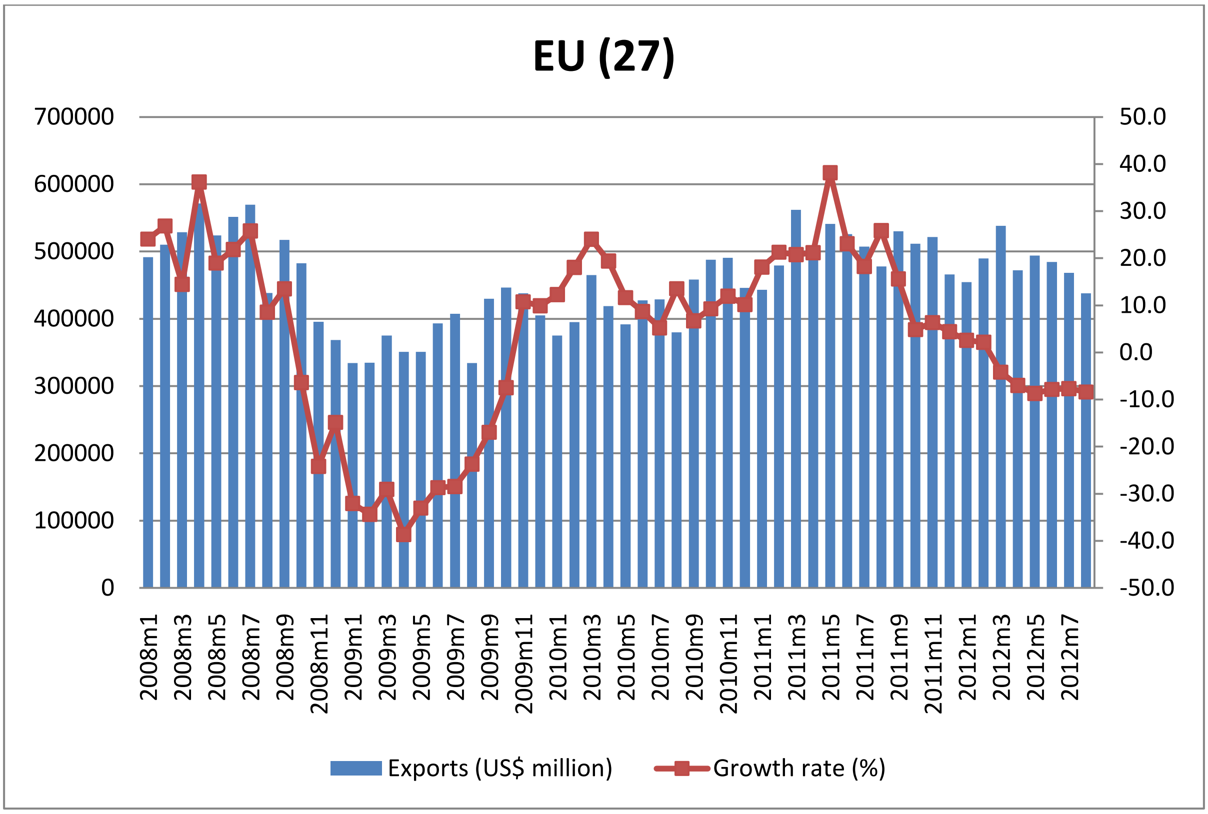


Figure 3

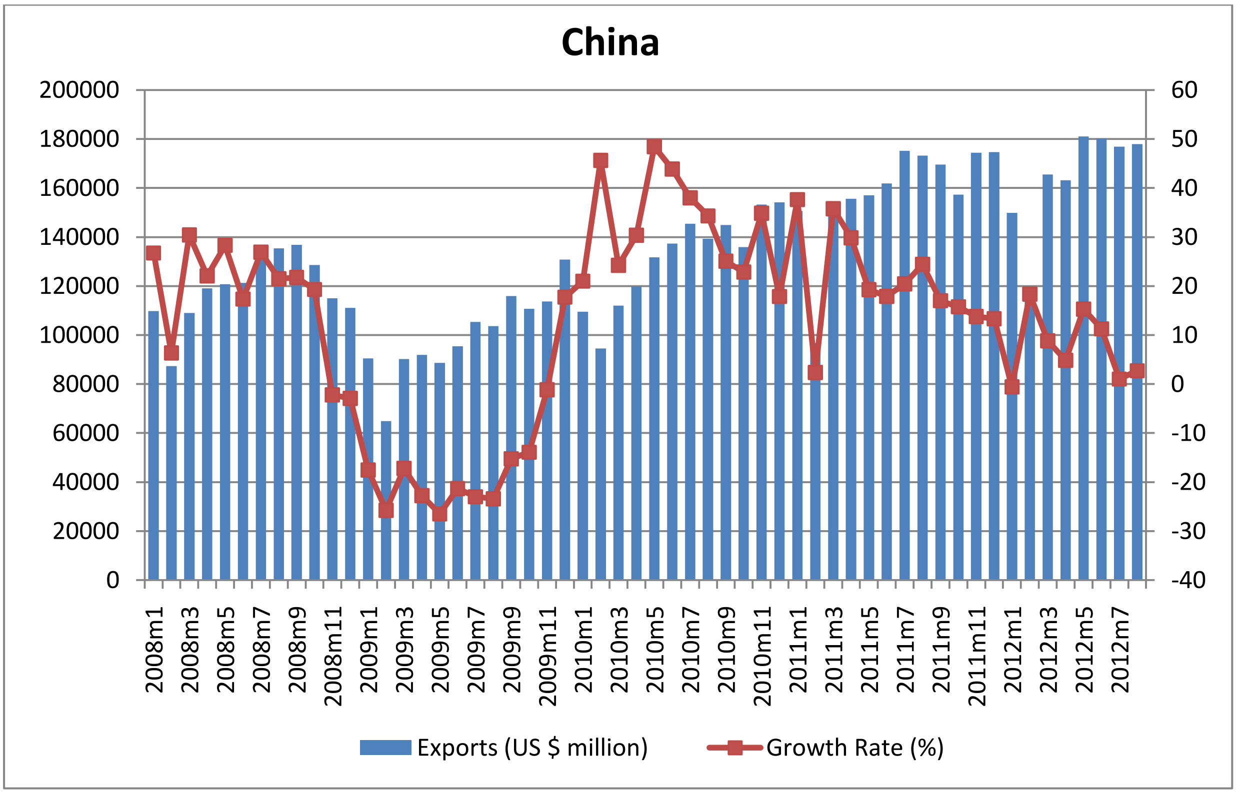


Figure 4

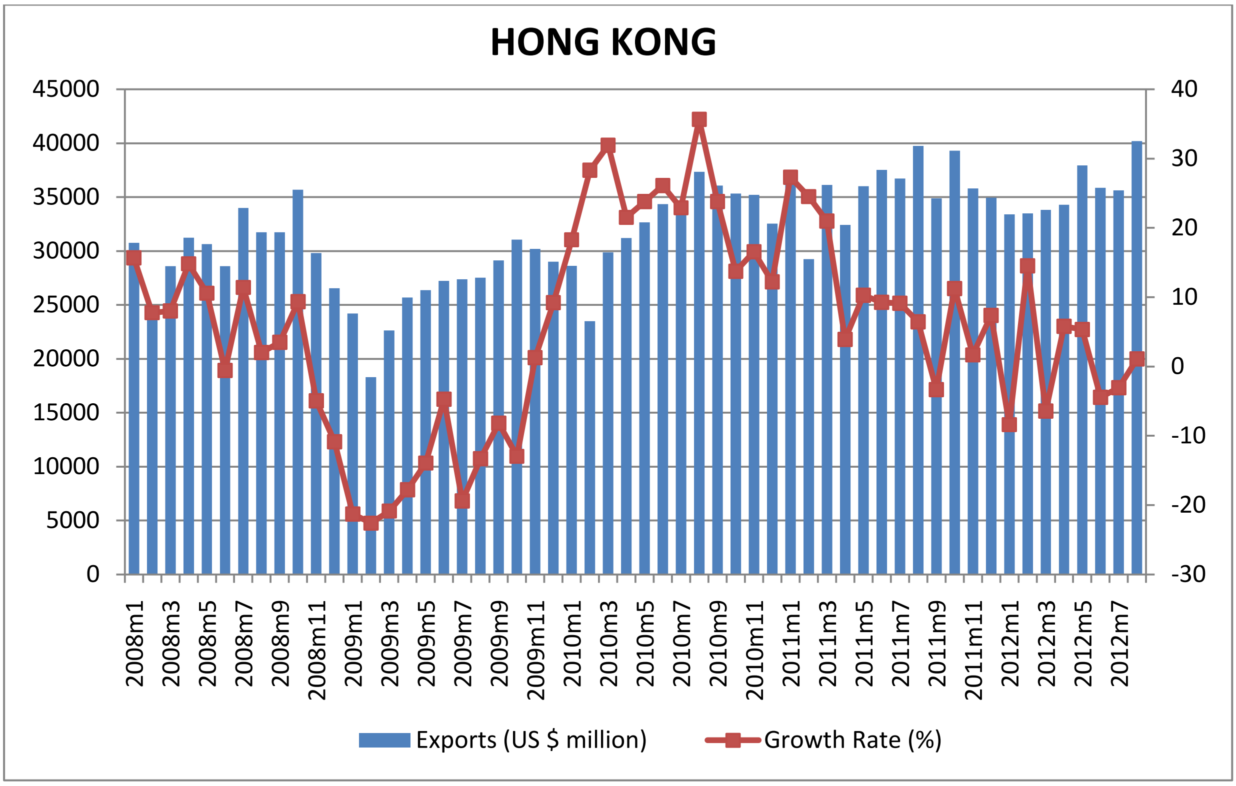


Figure 5

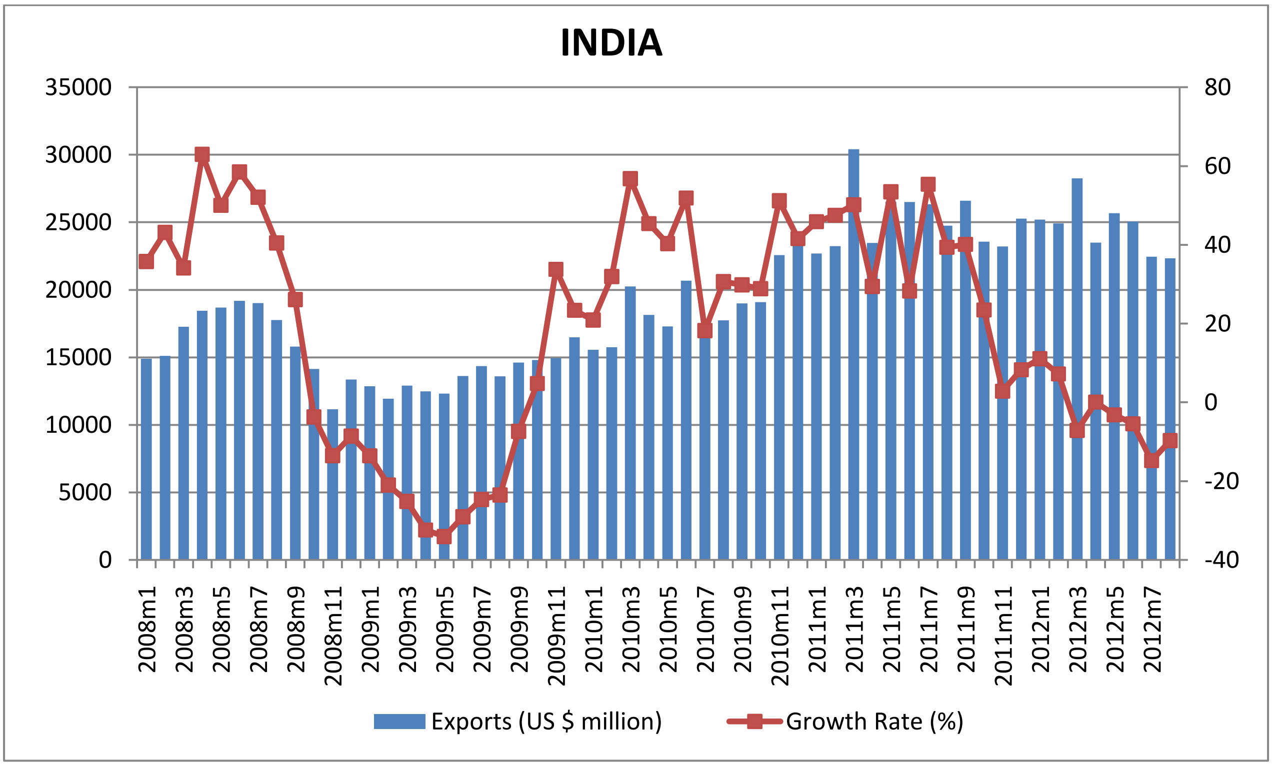


Figure 6

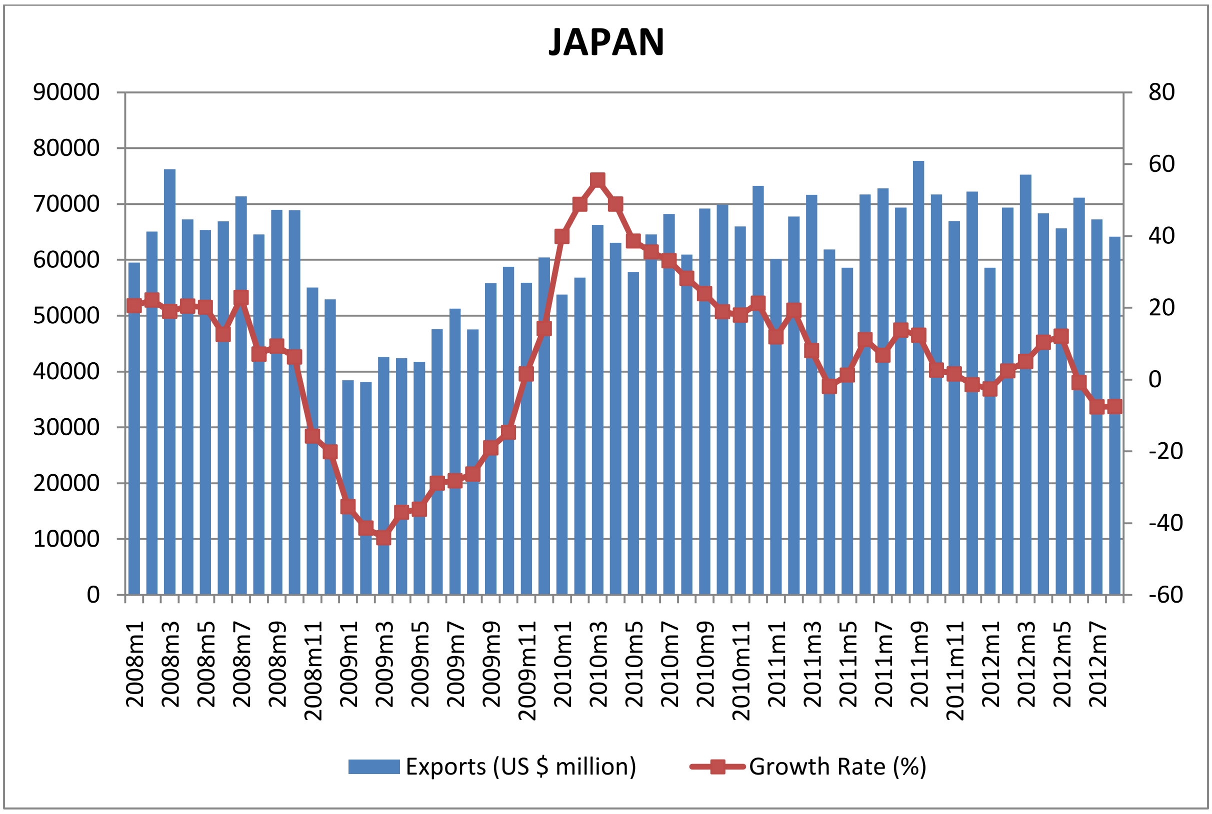
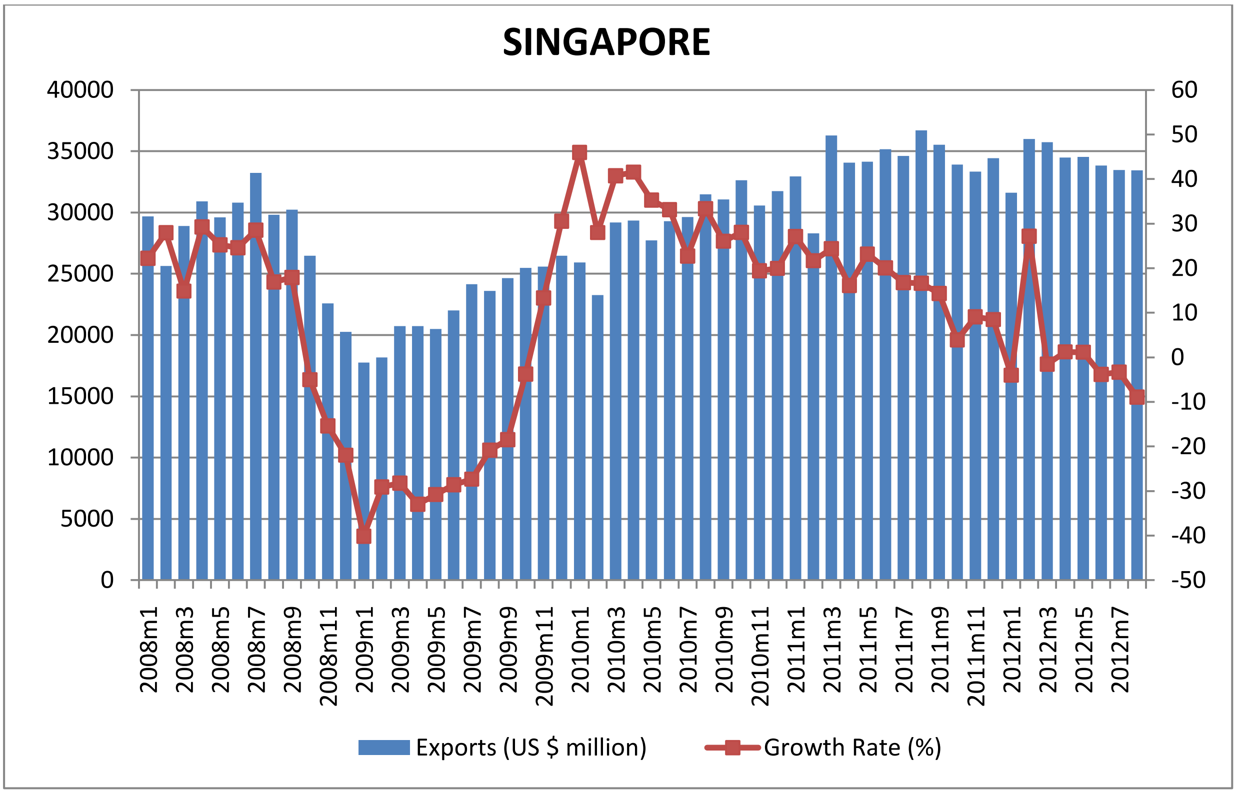


Figure 7



(c) **Indian Economic Situation**

Slowdown in Indian Economy: The overall growth rate of the Indian economy was 6.5 percent in 2011-12 as against 8.4 percent achieved in each of the previous two years. In 2012-13 Q1, growth was at 5.5 percent compared to 8.0 percent in 2011-12 Q1. The slowdown is attributable both to domestic as well as global factors. There has been a slowdown in the global economy from 5.1 percent in 2010 to 3.8 percent in 2011. The growth of the advanced economies declined from 3.0 percent to 1.6 percent respectively in these two years. The RBI followed a tight monetary policy during most of 2011-12 to rein in on inflation which contributed to an increase in the cost of borrowings. These along with reduced investment activity contributed to the slowdown in the industrial sector. Overall industrial growth moderated sequentially in each of the four quarters of 2011-12 and was at 2.9 percent compared to a growth of 8.2 percent in 2010-11. During April–August of the current fiscal, industrial growth was at 0.4 percent. In August 2012, it was at 2.7 percent. A persistently negative growth in capital goods, negative growth in mining and low growth of intermediates have contributed to this slow down. Depressed sentiments, low profitability of corporate sector and tight monetary policy continue to constrain investment, affecting industrial growth.

Higher Fiscal Deficit: Due to a combination of factors like industrial slowdown affecting tax revenues and higher expenditure on subsidies on fuel and fertilizers, fiscal deficit shot up to 5.8 percent of GDP in 2011-12 as against a BE of 4.6 percent of GDP. The Budget for 2012-13 seeks to resume fiscal consolidation with fiscal deficit at 5.1 percent of GDP.

Inflation: Headline WPI inflation, though moderated from 9.56 percent in 2010-11 and 8.94 percent in 2011-12 was at 7.81 percent in September 2012. The all-India CPI inflation (combined) has moderated to 9.73 per cent in September, 2012 from 10.03 per cent in August, 2012. Food inflation which has now moderated to 7.86 percent in September 2012 has particularly been a cause of concern. Government and RBI have been taking administrative, fiscal and monetary measures to contain inflation.

Balance of payments: This has been under stress during the fiscal 2011-12. Trade and current account deficit widened to 10.3 percent and 4.2 percent of GDP in 2011-12 respectively. The capital inflows at 3.7 percent of GDP fell short of financing the current account deficit and the rupee was under pressure. The sharp decline in the rupee during Q1 (April-June) of 2012 indicates among others, supply-demand imbalance in the domestic foreign exchange market due to widening of CAD, slowdown in FII inflows and strengthening of US dollar in the international market due to the safe haven status of US Treasury Bills. The rupee recovered marginally in July 2012. Rupee depreciated by 12.7 percent against the dollar in 2011-12 and by 7.8 percent in September 2012 compared to March 2012. There was depreciation in the currencies of other competing countries as well, as can be seen in table 4.

Table: 4

Exchange Rate of Other Emerging Economies

Table : Appreciation (+) / Depreciation (-) of Exchange Rates of Select EMEs against US Dollar @ (percent)			
SI	**Currency**	**2011-12**	**September 31, 2012 over March 2012**
	Current Account Deficit Countries		
1	Brazilian Real	-10.8	-11.2
2	**Indian Rupee****	**-12.7**	**-7.8**
3	Mexican Peso	-7.0	-1.35
4	South African Rand	-11.5	-8.03
5	Turkish Lira	-10.5	-0.5*
	Current Account Surplus Countries		
1	Argentina	-7.5	-4.4*
2	Indonesian Rupiah	-5.1	-4.2
3	Malaysian Ringgit	-1.4	-1.18
4	South Korea Won	-2.7	-8.03
5	Thai Baht	-1.8	-0.92
6	**Russian Ruble**	**-2.8**	**-6.62**
7	China	4.2	-0.49
@: year-on-year variation. * July 31, 2012 over March 2012.			

Source: Computed from IMF data. **RBI

(d) India's Merchandise Trade

Trade in 2011-12: During 2011-12, India's exports at US $ 304.6 billion registered a growth rate of 21.3 percent over the level of US $ 251.1 billion in 2010-11. Imports during this period were US $ 489.2 billion which was 32.3 percent higher than the imports of US $ 369.8 billion in 2010-11. Rising crude oil prices, along with increase in gold and silver prices contributed significantly to the import bill. Of the total imports in 2011-12, POL imports at US$ 154.9 billion grew by 46.2 percent. Trade deficit for 2011-12 at US$ 184.6 billion was 55.6 percent higher than in 2010-11.

Trade in 2012-13 (April-September): The major Trade indicators for September 2012 and April-September 2012-13 are given in table 5:-

Table: 5

Major trade indicators of India for April-September 2012-13

	Value ($ Billion)	Growth Rate (percentage in dollar terms)	Value ($ Billion)	Growth Rate (percentage in dollar terms)
	September 2012	September 2012	April-September 2012-13	April-September 2012-13
Exports	23.70	-10.8	143.68	-6.8
Imports	41.78	5.1	232.93	-4.4
POL Imports	14.09	30.7	80.78	6.8
Non-POL Imports	27.69	-4.5	152.14	-9.4
Gold & Silver Imports	4.56	-4.0	21.19	-32.9
Non-POL, Non-Gold & Silver Imports	23.12	-4.5	130.96	-3.9
Trade Deficit	-18.08	37.02	-89.25	-0.2

Source: Computed from DGCI&S data.

Exports: Export growth on customs basis in dollar terms in April-September 2012 is negative at (-)6.8 percent. After a growth of 10.1 percent in January 2012, export growth has been negative or low at 4.3 percent in February, (-)5.7 percent in March, 3.2 percent in April, (-)4.2 percent in May, (-)5.4 percent in June, (-)14.8 percent in July, (-)9.7 percent in August and (-) 10.8 per cent in September, 2012. In fact, exports have been falling month over month even in absolute terms since May 2012. Export growth in rupee terms is at 12.52 percent in April-September, 2012 due to the direct effect of depreciation of the rupee.

Imports: During April- September 2012, import growth was negative at (-)4.4 percent. It was in negative territory since May 2012 to August 2012. Oil import growth was low at 6.8 percent and Non-Oil import growth was negative at (-) 9.4 percent. Gold and Silver import growth was highly negative at (-)32.9 percent. Non-oil Non-Gold & silver import growth in April-September 2012 has been negative at (-)3.9 percent reflecting the lower demand for inputs needed for industrial activity and exports.

Trade Deficit: Trade deficit in April- September 2012-13 on customs basis at US$ 89.25 billion is lower by 0.2 percent over corresponding period of previous year, though in September 2012, trade deficit increased by 37.0 percent.

(e) <u>International Trade in Services</u>

Global exports of services have shown consistent rise in the 2000s decade with a healthy average annual growth rate of around 9.5 percent, except in 2001 and 2009 - periods of global slowdown and economic crisis. After having increased by 13 percent in 2008 (as per WTO data), world exports of services fell sharply with negative growth of 12 percent in 2009, only to bounce back in 2010 with 9 percent growth and in 2011 by 11 percent. In 2011 the value of services exports at US$ 4,150 billion was above the 2008 pre-crisis peak of US$ 3,842 billion. While world trade in services is dominated by the developed countries, emerging economies like China and India are now playing an increasing role. India is the most dynamic exporter of commercial services in the world with a growth rate of 20 percent in 2011, the highest among the top 10 exporters. While, India ranks 6th among the leading world exporters of Commercial Services in 2011 with a value of $ 148 billion and a share of 3.6 percent, China ranks 4th in the list with a share of 4.4 percent though it has a lower growth rate of 7 percent in 2011.

While world exports of commercial services grew by 12 percent in Q1 2011, 17 percent in Q2 2011 and 14 percent in Q3 2011, since Q4 2011 the slowdown started with 5 percent growth as per WTO and UNCTAD data. In the first quarter of 2012 world exports and imports of commercial services grew by only 3 percent and 4 percent respectively and in Q2 2012 both export and import growth of services were zero per cent. In Q2 2012, growth rate of US exports and imports of commercial services were 4 percent and 5 percent respectively, Europe's was (-)5 percent and (-)6 per cent for exports and imports, China's 3 percent and 23 percent, Japan's (-)3 percent and 7 percent, India's 1 percent and 7 percent respectively. Thus, trade in services has also been affected by the emerging global situation.

(f) <u>India's Trade in Services</u>:

In 2011-12, Services exports were US$ 142.3 billion while services imports were US$ 78.2 billion. While services export growth was 7.1 percent and import growth rate was (-)6.9 percent in 2011-12, net services grew by 31.3 percent. Among the miscellaneous category, while software services exports at US$62.2 billion grew by 12.2 percent, non-software services exports at US$40.3 billion grew by a negative (-)11.2 percent.

The latest data on services trade as per RBI's September 2012 release of Balance of Payments data shows that services export growth in Q1 of 2012-13 (April-June 2012) is at a low of 2.0 percent, while services import growth is at 15.9 percent. As a result, growth in balance of trade in services is negative at (-) 13.00 percent. The latest data for July and August 2012 shows a growth of 6.4 percent and (-)4.2 percent for services exports, 10.3 percent and (-)3.7 percent growth for services imports and 1.3 percent and (-)4.8 percent growth for net trade in services. Thus lesser cushion is available from services trade to the trade deficit this year.

In 2012-13 Q1, export growth of telecommunications, computer and information services is at 6.2 percent. Of this, computer software services export growth is at a low of 6.0 percent. Among other important services, export growth of other Business Services is at 39.7 percent mainly due to the high export growth rate of professional and management consulting services (54.2 percent) and technical, trade-related and other business services (26.4 percent).

Travel services growth is at (-) 5.2 percent. This reflects the lower growth in tourist arrivals and foreign exchange earnings. In Q1 of 2012-13 the growth of Foreign Tourist Arrivals (FTA) was at 4.2 percent compared to 10.7 percent in Q1 of 2011-12 and 8.6 percent in 2011-12 whole years. Foreign Exchange earnings in dollars terms from FTAs is also negative at (-)3.9 percent in Q1 of 2012-13 compared to 21.6 percent in Q1 of 2011-12 and 19.5 percent for the whole year of 2011-12. Transportation services growth is negative at (-)2.5 percent due to the low growth in trade activity. In fact, growth of traffic handled at major ports was negative at (-) 3.5 percent during April-August 2012 over corresponding previous period. The low growth in trade in travel and transportation services is also reflected in the low growth of GDP of Trade, Hotels, transport and communication in Q1 of 2012-13 at 4 percent at constant prices.

Chapter II

The challenges and Policy options on the Trade front for India

The challenges for India on the trade front are many. Some are due to the current emerging global situation and some are systemic and long term in nature. If the global situation turns worse internally, the pressure for stimulus measures could again increase and externally, protectionist measures from trading partners could increase. The Policy options are equally difficult in such a situation– the damn if you do this and the damn if you do that phenomenon. Knee jerk reactions could have repercussions. Some of the issue and policies for India are given below.

(a) <u>Macro and long term challenges and policies</u>: Macro and long term policies include the following. While the Government has initiated second generation reforms, in the trade sector these could include, further lowering of tariffs to ASEAN levels, while carefully taking note of domestic concerns and simultaneously removing duty benefit schemes which may become redundant in a low tariff regime. While India is relatively less vulnerable to the developments in the US, EU, and other developed countries due to its diversification of exports to Asia and ASEAN, there are concerns on the bilateral trade deficit front with India's high and growing trade deficits with countries like China and Switzerland. A lot more needs to be done on diversification of India's export basket as its export presence is limited in the top items of world trade. While India has made new forays in skill-and capital-Intensive exports like information technology (IT), gems and jewellery, and engineering goods, it is losing steam in its traditional areas of strength, i.e. in the labour-intensive exports like textiles, leather and leather manufactures, handicrafts, and carpets. While there are no signs of any meaningful conclusion of WTO negotiations in the near horizon, India's push towards regional and bilateral agreements should result in meaningful and result-oriented Free Trade Agreements (FTAs) and Comprehensive Economic Cooperation Agreements (CECAs), which carefully avoid inverted duties and take care of domestic concerns.

As stated by us in the Economic Survey 2010-11, services trade is uncharted territory with plenty of opportunities and challenges. A more conducive environment for trade in services can be created by liberalizing FDI inflows as FDI and trade in services have a close relationship given the nature of intra-firm trade of multinational parent firms with affiliates. Rationalizing taxes in services like shipping and telecom, going forward with totalization agreements, streamlining domestic regulations like licensing requirements & procedures and technical standards can also help in the growth and export of services. These, along with systematic marketing of services, collection and dissemination of market information by setting up a portal for services, streamlining the services data system, and a more focused, coordinated, and synchronized policy by the different agencies involved, could help the services sector make further strides.

This paper, basically, examines some issues and policies at the micro, sector-specific issue-specific and port-specific levels. Nevertheless these are the ones which are basically do-able in the short and medium term and make the wheels of export growth move faster. These are given in the following section under different heads.

(b) **Micro, Issue-specific, Sector-specific and Port-specific policies**

I **Infrastructure Related**

- Infrastructure related issues particularly port related are the major issues affecting exports and imports. Even the best of our ports do not have state-of-the-art technology as in Singapore, Rotterdam and Shanghai. Port Infrastructure issues include - Frequent EDI server down/ maintenance, poor road conditions & port connectivity, congestions, vessel berthing delays, poor cargo handling techniques and equipment, lack of access for containerized cargo, etc., resulting in multiple handlings, increased lead time, high transaction costs and thus loss of market competitiveness. Some examples are as follows.

1. **Chennai Port**

- Restriction in access points to Chennai port
The city of Chennai has grown around Chennai Port and this has had a major impact on expansion and access to the port. Though the port had initially 14 gates for entry and exit, over the years, urbanization has led to a situation where effectively, only two entry and exit points are available on a round the clock basis. This restriction in access points has been compounded by the inadequate road access to Chennai Port.

- Ennore-Manali Road Improvement Project (EMRIP) slow progress
The ambitious EMRIP – a connectivity project - envisaged over a decade at the cost of Rs 100 crores developed by a Special Purpose Vehicle (SPV) formed by National Highway Authority of India (NHAI), Chennai Port Trust (CPT), Ennore Port Ltd. (EPL) and Tamilnadu Government is progressing slowly and revised cost estimates are `600 crores. One of the reasons attributed for this delay is due to traffic and unauthorized parking of trucks along the Manali Oil Refinery Road (MORR) and Inner Ring Road (IRR). EMRIP project needs close monitoring to become operational before the end of 2012 and in particular, the first 1.6 Kms of the access road from zero gate should be made operational at an early date.

- The Elevated four-lane Corridor Project (EFLCP). The work of this `1655 crore project of 19 km road from the port's southern Gate No 10 to Maduravoyal at the Western outskirts of Chennai leading to the NH-4 connecting Ennore port developed by the Chennai Port Trust and Government of Tamilnadu on 50:50 cost sharing basis has been stopped half way due to State Government's decision to rework the route. These kinds of issues should not come while implementing the project and this project needs to be completed urgently to help trade.

- <u>Two other major issues that severely impact trade using Chennai Port</u>. These are the following:-

  - Lack of adequate access to the port especially for containerized cargo.

  - Lack of developmental activities within the port area to ease the congestion for efficient movement of goods within the port area.

It is a common sight today to witness queues of containers laden with export goods waiting in excess of 48 hours to gain access to the port. Both these constraints have severe financial implications on trade as this has invariably led to imposition of various surcharges like congestion surcharge and Chennai trade recovery charge on the users of Chennai Port. It was also arbitrarily levied varying monthly from $ 75 per TEU to $200 per TEU. Added to this is the levy of other unfair surcharges under various heads like container re-location charges, imbalance surcharge, etc. The charge on trade component is very low to the other charges shipping lines are charging. There should be definitiveness on such charges additionally leviable under specific circumstances. An exporter is unable to factor such additional costs and is always taken by surprise in the last minute. For imports although freight is paid for, yet delivery order charges which are not uniform nor in any proportion to the services rendered are collected from shipping lines. Many of these surcharges may not have legal sanction but these strong arm measures are imposed due to lack of regulatory and monitoring mechanism in India. These penalties are being levied by shipping companies due to the inefficient operation at the Chennai Port and consequent delays due to congestion have affected the cost of operations of the shipping lines.

The round trip from the container freight station to the port is approximately 20-25 kms and currently it takes between 2-3 days to complete this. This delay has far more serious impact on the Exim trade where export goods miss their targeted schedules and committed delivery schedules resulting in penalties and damages to export trade. Advanced economies like US and European Union and recently even China have made it mandatory for shipping lines to file and seek approval of the various charges imposed by them on the exporters and importers and this has helped these Governments to have a close monitoring and also act as a deterrent for levy of these charges in a surreptitious fashion. The proposed Shipping Trade Practices Act to be introduced by the Government of India could give legal support and relief from such levies. Chennai port should also actively develop an alternate road for exiting the second terminal thereby reducing the current congestion.

- Expanding the two-lane North Chennai Thermal Power Station (NCTPS) road: Ennore and L&T Kattupalli ports may go the Chennai Port way and be bogged down by congestion issues if the state government fails to act swiftly to expand the five-km two-lane NCTPS road.

- Operationalising Kattupalli Container Terminal and extending it also for non transshipment cargo: This is ready but not yet operationalised due to delay in issuing relevant notification. This has been notified as a facility to handle only transshipment containers. If this could be extended to handle all import / export containers, density of traffic to Chennai port can be reasonably reduced which can bring down congestion. This needs to be considered.

2. **Mumbai Port**

- Port Congestion: Imports are held up due to port congestion at the JNPT Port at Mumbai as the infrastructure is inadequate. Export consignments are held up and the entry gates close prematurely resulting in export consignments being dumped in the buffer yard at a very high cost and delay in shipments. The exporters miss their deadlines to the annoyance of the importers in foreign lands. For the first time, congestion charge is levied @ $ 150/- for 20 ft TEU and is being collected from importers on import consignments due to this severe congestion. Also many vessels are by-passing the port carrying containers to be delivered at their next voyage thereby delaying vital raw materials for the industry.

- Mumbai Airport – Infrastructure has not developed much on the cargo side in this Airport.

3. **Indo-Bangla Border Infrastructure**

- Road congestion and Infrastructure bottlenecks around Petrapole and Benapole Border area are major problems to exporters trading with Bangladesh. Most of the times, trailers need to wait 10 to 12 days for clearance even after submission of all necessary documents in time. These delay time increase to 15 to 20 days if holidays fall during or half year closing period i.e. Sept and March ending. During such delays, detention fees need to be paid to ICD which increases the transaction costs. There is thus a need for a relook at the Infrastructure development schemes and their progress around Indo-Bangla Border.

- As an alternative, exporters started bulk shipping via Narayanganj, and Hemnagar. Here also there are difficulties in getting clearance and delays. So, automatic clearance system is needed.

4. **General**: Infrastructure projects should be planned well so that there are no delays or abandoning of projects at a later date. The best example is the

development of Leather Parks in the 11th plan which was a non-starter. As one of the sub-schemes of the Indian Leather Development Programme (ILDP), vide Notification dated 5th Nov 2009, the Govt. of India had notified a scheme for 'Development of Leather Parks' with an outlay of `300 crore. The objective of the scheme was to create additional capacities in the leather sector and assist the industry in addressing the infrastructure needs of the entire leather sector in a holistic manner. As per the scheme guidelines, a group of minimum 7 legally independent companies which are interested in setting up production units in the Park, could form a Special Purpose Vehicle (SPV). Total Project cost for a Park was to be funded through GOI assistance @ 50 percent of the cost, subject to a maximum of ` 40 crore per park, equity from Industry and Loan from Banks / Financial Institutions. The SPV would mobilize funds other than Govt. Grants to execute the project. However, no new Leather Park was established in the country under the Scheme 'Development of Leather Parks' during Eleventh Five Year Plan period 2007-2012. Now the DIPP is planning to merge this scheme with a new scheme 'Mega Leather Cluster'.

II **TRADE FACILITATION MEASURES**

1. **General**

- Simplifying the multiple documentation procedures: As per the World Bank and International Finance Corporation (IFC) publication Doing Business 2012, India is ranked 132 on 'ease of doing business'. While Singapore is in first place, even neighbouring countries like Sri Lanka, Vietnam, Pakistan and Bangladesh are ahead of India. On 'trading across borders', India is ranked 109 with Singapore at first rank and China at 60th. India requires 16 export documents to be cleared and China 5 with good practice economies like France at 2. Time to export is 16 days for India, 21 for China, and 5 for Denmark. Cost to export is $1095 per container, compared to $500 in China, and $450 in Malaysia. Number of import documents that need clearance is 9 in India, 5 in China, and 2 in France. Time to import is 20 days in India, 24 in China, and 4 in Singapore. Cost to import is $1070 per container in India, $545 in China, and $439 in Singapore. A list prepared by the exporters of the documents and procedures needed in the Indian case shows that on an average an exporter is required to sign at about 130 places to complete an export transaction. The details are given in table 6.

Table 6

(i) EPCG Application : To be filed on EDI Mode with digital signature but required to submit **one hard copy of EDI** application and two copies of manual application with requisite enclosures. Every page of the application and enclosures are to be sealed and signed by the Applicant.

Hard copy of EDI Application	5 pages
Two hard copy of manual	10 pages
Enclosures	
IEC	1 page
RCMC	2 pages
EM / IL/ IEM	5 pages
Proforma Invoice	2 pages
Catalog	4 pages
Justification	1 page
Declaration	2 pages
Total	**32 pages**

(ii) Advance Authorisation:

By and large, same as EPCG requirements.	**32 pages**

(iii) Central Excise:

ARE documents, Bond / LUT etc.	**8 pages**

(iv) Application for benefits on Promotional Schemes:

Application copy	5 pages
Enclosures	7 pages
Total	**12 pages**

(v) Duty Drawback Brand Rate :

Application with DBK I, II, III statements with other enclosures	**20 pages**

(vi) Import Clearance:

Bill of Entry & Declaration	**2 pages**

(vii) Export Clearance:

Shipping Bill	4 pages
Invoice ,Packing List and other enclosures	6 pages
Total	**10 pages**

(viii) Sales Tax Purpose:

Declaration , true copies etc	**6 pages**

(ix) CFS to ICTT and vice versa:

Request letter and other enclosures	**7 pages**
Grand TOTAL	**129 pages**

Similar procedures are there on the import side. These need to be reduced to the barest minimum.

- Abolishing the system of printing and certifying Export Promotion(EP) Copies of shipping bills: As there is an EDI interface between Customs and DGFT, all the relevant export information is transmitted electronically and physical printing and certification of EP copies of shipping bill is an archaic practice. This system needs to be done away with.

- Accurate and quick filing of Export General Manifests (EGMs): EGM errors are the major obstacles holding up disbursements of duty drawback and timely transmission of export data between Customs and DGFT for claiming export benefits. Customs have so far left it to the individual exporter to have these manifest errors corrected and their export benefit claims processed. There is a need for a robust monitoring procedure to ensure accurate manifest information filing by the carriers within 48 hours of vessel departure.

- Risk Management System (RMS) for exports: The purpose of RMS is to facilitate a large number of Bills of entry, which are perceived to be compliant with the Customs Laws and Regulations. Such self assessed Bills of Entry will be processed by the Risk Management System to evaluate the risk in the Bill if any. Duty will be calculated and challan will be generated by ICES based on declaration/self assessment by the importer. The goods will be ready for out of charge on the basis of the importers declaration/ self assessment and without any assessment/ examination by the officers. Thus, when Bills of Entry are filed through ICEGATE or Service Centre, importers would be able to obtain, the copies of their self assessed Bills of Entry and Challan within a very short time. After payment of duty, goods can be cleared on presentation of the required documents for Customs out of Charge to the Shed Appraiser posted at the shed concerned. Some Bills of Entry will, however, be selected by the RMS and sent for assessment and/or examination by the officers based on risk parameters and also on a random basis. Similarly, Bills of Entry may get selected for action based on specific intelligence available. Further, if any non-compliance is noticed, the system may also select such bills of entry for Assessment and/or Examination. All such Bills which are selected for action will be processed in the ICES as per the treatment and instructions communicated by the RMS. This system drastically reduces the processing delays and also addresses the current shortage of Customs Manpower at various customs locations. This system is working well and has been implemented in 23 major customs ports/airports for imports, but it is yet to be made operational for exports and physical verification of export cargoes continues.

- Accredited Clients Programme (ACP): Importers with a known track record of compliance and meeting the specified criteria, called Accredited Clients, are given assured facilitation under ACP. The Bills of Entry filed by such importers would be cleared without any assessment and examination by the officers based on the self-declaration. All ACP status holders can clear

Import containers from port directly within 3 days of arrival. But it does not happen due to the congestion caused by poor connectivity. Hence the 3 days limit cannot be met which automatically allows the terminal operators to evacuate the containers to various off port locations – CFS. Containers that land on Fridays are not cleared within 3 days of arrival. This causes delays, additional charges for ACP clients thereby defeating the very purpose of the Government creating a category of ACP. This issue needs to be addressed.

- <u>24x7 system for CFSs</u>: Container Freight Stations (CFS) are not working upto evening hours. Most of them close by 4 PM and as a result containers reaching the port after factory stuffing after 4 PM are to be halted till next day. Further one officer looks after 3 to 4 CFSs and hence may not be able to clear all containers at CFSs allotted to him same day. There is a need to make all CFSs work round the clock with officers available, so that there will not be congestion at any one CFS. Containers can then go to any CFS and get cleared and enter port without any delays/halting/long queue. Ministry of Finance has issued a Circular on 7th August 2012 mandating Customs at identified Air Cargo Complexes (ACCs) and Sea ports to work on a 24 X 7 basis from September 1, 2012 and this need to be implemented in letter and spirit. This system is only for Free Bills and should also be extended to scheme bills both for Export and Import clearance and to all seaports and ACCs.

- <u>Letter of undertaking (LUT) for export without payment of duty</u>: LUT is to be submitted by a manufacturer exporter before clearance of excisable goods for exports without payment of duty. The CBEC's Central Excise Manual mentions that it should be renewed every year, but there is no clarity about the procedure for such submission i.e. whether the same can be in the form of a letter or typed on a stamp paper of `100/-. In fact, there is no such restriction in the relevant Rule 19 of Central Excise Rules, 2002 read with relevant Notifications issued by the CBEC laying down the procedure to be followed for export of excisable goods without payment of duty against LUT. In the absence of specific procedure in the relevant Rules, the Excise Department insists on the following:

  → The LUT should be typed on a stamp paper of `100/- and duly notarized.
  → The LUT should be renewed every year.
  → The details of proof of export should be submitted relating to the previous year while submitting every LUT renewal, even though all the proofs of exports are submitted and accepted by the same Divisional Head i.e. Dy/Asstt. Commissioner of Central Excise.

  Specific guidelines need to be issued to reduce unnecessary paper work in the regard.

- Recovery of DEPB Granted on Export of Rubber Mat/Door Mat with retrospective effect. The Policy Circular No. 18/2009-2014 dated 08.12.2009, issued by the DGFT, says that rubber mats / door mats cannot be classified under the nomenclature of "Rubber Compounded Sheets / Ring / Gasket" for the purpose of claiming DEPB under Sr. No. 507 (previous 547) and by virtue of this circular, the authority concerned has started recovery of DEPB with retrospective effect. There are also a number of Supreme Court and High Court judgments against retrospective effect recoveries. As far as possible, orders and policies with retrospective effect should be done away with.

- Insistence by Banks for L/Cs through their branches in foreign countries: The suppliers have their own banks and do not have account with Indian banks and prefer L/Cs on the bankers of their choice. Various nationalized banks insist importers to have L/Cs for shipment from foreign countries through their branches in those countries which leads to delays. This practice of Banks needs to be discouraged.

- Streamlining MAI & MDA Schemes: Carrying out exhibitions / BSMs sanctioned under the Market Access Initiative (MAI) Scheme becomes difficult if there is poor response from the exporters. To be eligible for MAI grants, the criteria of having the prescribed minimum number of participants should be fulfilled as otherwise there will be a cut in the grants. Therefore MAI events should be allowed to be converted into Market Development Assistance (MDA) events on a case by case basis. The two schemes could even be merged or streamlined.

- Problems in EDI system: Shipping Bills are not being shown online. This is due to Problems with EDI systems at the ports and DGFT which needs to be rectified.

- Removing Annual Average Export Performance condition under EPCG Scheme: Para 5.5 of Foreign Trade Policy (FTP) for EPCG Scheme calls for maintenance of 3 years average export performance. Regarding duty benefit availed, the Export Obligation (EO) commitment already exists besides Actual User (AU) condition even after EO fulfillment. Therefore the Annual Average Performance condition could be removed. This will simplify the procedural hassles like fixing average export performance, reporting, etc., and help in quick redemption of authorizations.

- Automatic Approvals with fixed time periods: Customs officers at Appraiser level are reported to follow delaying tactics and harass the exporters. So automatic approvals with fixed time periods are needed and interface with officers should be reduced drastically.

- Addressing Trade Litigations: Only a small percentage of trade disputes are settled in favour of the Government. A threshold level should be fixed in the case of Trade disputes and cases which are below a specific value should not be taken up.

2. **Sector- Specific**

(a) **Textiles**

- Allowing Tolerance of +5 percent also on export of Cotton Yarn**:** Exports of Cotton Yarn are subject to Registration procedure laid down by DGFT vide Policy Circular No. 27 (RE-2010) / 2009-14 dated April 1, 2011. Under the system, Registration Certificates are given by the RAs specifying the quantity to be exported. In terms of DFGT Trade Notice No. 19 dated August 30, 2011 a penalty has been imposed in case of shortfall of more than 5 percent in the quantity exported. In other words, a shortfall in quantity exported upto 5 percent is condoned and attracts no penalty. A tolerance of +5 percent should also be allowed and should not be penalized, as there could be some variations in the weight of the Cotton yarns exported upto -/+ 5 percent.

- Extending the validity of Registration Certificates (RCs) issued for Cotton Yarn exports: Presently, Registration Certificates for the export of Cotton yarn are issued by the RAs with a validity period of 30 days for shipment. Exporters, on many occasions, are not able to strictly comply with this time limit for shipment due to reasons beyond their control such as quality problems detected in raw-materials, delay in receiving raw-materials, non-availability of trucks especially when the manufacturing units are located far away from port, if the containers are to be sealed by the Excise officers. Earlier, DGFT vide Policy Circular No. 51 dated 28.12.2011 had allowed a onetime revalidation for 15 days from the date of expiry of RCs. However, this provision was withdrawn vide DGFT Public Notice No.102 dated 16.3.2012. Since there are possibilities of delay in shipments due to genuine difficulty faced by the exporters, the provision of extension in the validity of RCs for 15 days could be re-introduced.

- Suspending Cabotage Rule for Cotton movement from Gujarat to Tamil Nadu for six months: The textile industry in India is one of the major segments of the Indian economy. One of the unusual features of the growth of this industry in India is that the raw material i.e. cotton is produced in the Western Region of Gujarat and Maharashtra while the Industry converting this cotton into yarn by the process of spinning is based largely in the Southern Region. Consequent to the increase in the fuel price in the recent past, the transportation cost for cotton has gone up substantially. Since Tamilnadu produces only five lakh bales of cotton annually, the textile mills have to procure over 95 lakh bales from other States particularly from Gujarat and Maharashtra. The mills are spending around `4.50 per kg for transporting cotton from Gujarat and Maharashtra as against around `2.00 per kg spent by the mills in China for procuring the same cotton from Gujarat. So the Cabotage Rule need to be relaxed for transporting cotton from Gujarat and Maharashtra to Tamil Nadu during the Cotton season i.e. for a period of six months from October to March, so that foreign vessels can carry coastal cargo till the infrastructural facilities are streamlined in the country. This could result in a saving of 2 percent of cotton cost for mills located in Tamil Nadu & Andhra Pradesh.

- The cost of transport could also be brought down substantially if the idle EXIM containers lying at West Coast ports for transporting the bales to major textile clusters in Tamilnadu like Coimbatore, Tirupur, Karur, Erode, Madurai, etc., are used. On its return, the containers could be diverted to container deficit areas to east coast for the South East and Far East Asian export markets. This movement will also greatly help the shipping industry.

(b) **Gems and Jewellery sector**

- Export of Gems & Jewellery by Personal carriage through Mumbai and Jaipur Airports: Export of diamonds, gemstones and gold jewellery through personal carriage through Mumbai and Airports stopped though it is allowed in other airports. Customs authorities have stopped the facility of personal carriage of gems and jewellery both for export and import at Mumbai and Jaipur.

  → Mumbai Customs Commissionerate opines that the facility can be started only if the safe deposit vault is installed by the Bharat Diamond Bourse (BDB). BDB has requested Mumbai International Airport Private Limited for allocating space of 200 sq ft for constructing the safe deposit vault for custody of personal carriage of import and export of precious cargo. Exporters want this to start immediately by using the available vault of customs at Airport. Recently, export by personal carriage was allowed in Mumbai Airport. However, customs authorities need to sort this out for smooth and continuous functioning of this facility.

  → Jaipur has limited international flights and there is no problem in personal carriage of these facilities for such flights. When Gateway ports other than Jaipur (like Delhi) are used the problem arises. Customs authorities in these airports do not accept the sealing of goods done in Jaipur. Exporters feel that gems and jewellery parcels may be allowed to be appraised by Jaipur customs and the Gateway airports may be instructed to accept the documents signed by Jaipur customs appraiser. This is a procedural issue and customs need to resolve it.

(c) **Rubber**

- Abolish Licensing Controls by Rubber Board: Every consumer is required to obtain license from the Rubber Board to procure rubber and required to submit monthly, half yearly and yearly returns to the satisfaction of the Rubber Board. Thus consumers of natural rubber are affected as it increases the transaction costs. Also the amount of paper work continues to multiply. This needs to be addressed.

3. **Port Specific**: Some Port-Specific issues where trade facilitation is needed are given below:-

(a) **Chennai Port**

- Increasing number of leaves (entry points) at gates and providing adequate staff: Need to increase the number of leaves at the zero gate in Chennai to at least 10 and also post adequate number of customs officials to ensure that the containers are able to exit the port quickly. More personnel of CISF are also needed to relieve the congestion being faced at the entry and exit points.

- Duty Drawback Refund: While Duty Drawback is credited within a month to A/c in other places including busy ports like Navasheva, it takes six months in Chennai as Chennai customs software is not upgraded and there is shortage of staff. While the issue of shortage of staff needs to be addressed, efforts should also be put up by the Chennai customs to speed up refunds as done by ports like Navasheva.

(b) **Vallarpadam Port**

- High Terminal Handling Charges (THC): Since the new port came into existence the amount of THC collected when compared to the old port is exorbitantly high. There is also a High Court of Kerala order in this context and this need to be addressed.

- Increase in cut off time: Of late the port operators have increased the cut off time resulting in the containers missing the intended vessels and being rolled over to the next vessel. By this the exporters are not only put to penalties of late shipment but the port authorities have also started collecting money towards container retention & roll over charges.

- Non-Availability of EDI facility: Due to non-availability of EDI facility inside the International Container Transshipment Terminal (ICTT), the exporters have to go back to the Customs House Cochin which is located about 40kms away after parking export containers inside the ICTT. This not only creates time delays in shipments but also increases the Shipping charges.

- Non-Availability of Customs facility: As there are no customs facility for inspection available at the ICTT the import containers have to be taken to the old Cochin Port/ Customs to complete the import formalities.

(c) **<u>Mumbai</u>**

- <u>Timing of Customs office at Precious Cargo Customs Clearance Centre (PCCC)</u>: The gems and jewellery exporters are facing hardships due to the timing of appraising of the Custom Office at PCCCC, Mumbai. At present, the Custom office at PCCCC remains open for export and import registration of the documents till 1.30 p.m. and the goods/parcel for exporting are received up to 4 p.m. After 4 pm, no parcel for exports is accepted as per a Notice dated 18th May, 2012. Given the high volume of exports from this sector and the fact that most of the trading happens through Antwerp, which is four and a half hours behind India in terms of time, the Customs at Mumbai PCCCC should clear export parcels at least till 8 p.m. so that by the next day the parcel reaches Belgium. The same delay results in extra interest costs and sometimes loss of export orders also if parcels come on Friday 2nd half and are cleared on Monday as there is a delay of two and half days, which literally hampers exports. Since customs for general cargo is open for 24 hours, the PCCCC could also remain similarly open for 24 hours or at least till late night to facilitate export shipment.

(d) **<u>Cochin Port</u>**

- <u>Availability of Reefer Containers</u>: Sufficient reefer containers are not available in Cochin port. Hence necessary steps need to be taken to increase the availability of reefer cargo in sufficient time atleast during the peak season i.e. from August to November.

- <u>Reducing cut-off time</u>: Stuffed containers have to be reported to the port before cut-off date ie. two days prior to sailing. This cut-off date (two days) was fixed earlier based on the congestion in Cochin port. But the same cut-off date is now also followed even for shipment from Vallarpadam port, where there is no congestion. As a result, exporters have to unnecessarily report two days prior to sailing. Hence the cut-off date needs to be taken off or reduced to a reasonable level.

- <u>Correct Knowledge of banned items</u>: Cochin customs does not allow any shark species, groupers etc claiming that they all come under negative list. While some items in a category are banned, all items are not banned. However, customs inspectors have no clear idea and all items of a category are banned. This needs to be addressed.

- <u>Issue of Clearance of Perishable items</u>: Cochin air customs does not clear cargo beyond 10PM even for flights for next day morning. As a result, the chilled fish cargo is left in the warehouse which is not temperature controlled for about 6-9 hours affecting the product quality.

- Issue of Quality certification on Sundays: Cochin customs insists that for shipment sent on Sunday morning the Q-certificate should be dated the same day. Exporters are unable to do this since the Export Inspection Authority (EIA) does not issue Q-certificate unless it is dated on the health issuing date which will be a normal working day.

- Issues of evaluation of consignee documents: Some officers at Cochin air customs want evaluation of the consignee documents even though this document does not come under the purview of Cochin customs (except on some specific 'Intelligence' report on goods) and is used by the customs authorities in the importing country to evaluate the goods for taxation purpose. Further the consignee documents go in a sealed cover since loss of any documents means cargo will not get cleared at the Border Inspection Post (BIP).

(e) **Calicut Air Port**

- Receipt of EDI Shipping bills: There is delay in receipt of EDI shipping bills by the exporters in Calicut Air Port.

(f) **Kolkata Airport**

- Unnecessary procedures and documents: At Kolkata Airport, jewellery exporters are required to give an undertaking stating that the facts mentioned in the export documents about the quantity and quality of exports are true even when signed export documents binds the exporters firmly and equally. While going paperless is the trend these days, the customs has imposed the requirement of the said undertaking not on the exporter's letter head but on a non-judicial stamp paper and that too to be signed by such partners/directors of the company whose name appears only on the Importer Exporter Code.

III TAX AND CUSTOMS DUTY RELATED

A. General

- Disbursal of Duty Drawback, Service Tax Refunds and Central Excise Rebate claims to the exporters: Presently, there is a delay in the release of the above claims. As a result, the working capital of the exporters is adversely affected which makes them less competitive in this high interest rate regime. There should be a time limit of say 30 days for sanction of rebate and grant of refunds. If the amount is not refunded within 30 days the exporters should be entitled to get interest for delayed refund.

- Special Economic Zones (SEZs): Imposition of Minimum Alternate Tax (MAT) on SEZ units and developers and Dividend Distribution Tax (DDT) on the developers has affected investment in SEZs. MAT at 18.5 percent and

DDT at 15 percent were not imposed earlier on SEZs and amendments to this effect were made in the Finance Act 2011. As per the SEZ Act, 2005, 100 Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50 percent for next 5 years thereafter and 50 percent of the ploughed back export profit for next 5 years was given. The developers and units have taken legal recourse and filed petitions against the imposition of MAT and DDT in separate courts in Tamil Nadu, Karnataka, Andhra Pradesh and Gujarat. This issue needs to be addressed. Recently the Department of Commerce has prepared a discussion paper on potential reform of the SEZ policy and operating framework which needs to be examined.

- Export Oriented Units (EOUs): Exemption from income tax to EOUs for 10 years discontinued since April, 2011. This has resulted in loss of interest of investors in this scheme and many EOUs are debonding. A committee had submitted a report last year. The recommendations of the committee on EOUs include among others the following:

    a. Extending investment linked income tax benefit to EOUs.

    b. Allowing indirect tax exemption (customs and central excise duty) to all goods and services for manufacture of finished goods/services.

    c. Exemption of service tax on services consumed wholly within EOUs.

  These recommendations of the committee need to be examined.

- Harmonization of EPCG Scheme: In the Foreign Trade Policy (FTP) on June 2012 besides the two types of Export Promotion Capital Goods (EPCG) Schemes (0 percent and 3 percent basic customs duty schemes) a third variant was introduced. Under this third variant exporters can import capital goods on payment of applicable duties and then seek remissions of such duties paid. This has not been implemented. In fact, no scheme should be announced without finalizing its implementation modality. This was done a few years back. But again the old system of announcing a scheme and then finalizing its implementation seems to have reappeared. Moreover, as duties of capital goods are being reduced periodically, the EPCG scheme is becoming less important. It is high time a list of the remaining capital goods items with high duties are prepared for which customs duty could be lowered in the next budget and the EPCG scheme scrapped. This will reduce transaction costs also.

- Foreign Agency Commission: Foreign Agent's Commission should be exempt from TDS upto a limit of 12.5 percent of FOB value, the maximum allowed by RBI, for export benefit. The only way to get refund in case of such TDS would be on filing of tax return by foreign agents who may not be tax payers in India. This issue needs to be sorted out by Department of Revenue as it could also lead to litigation.

- Payment of Central Excise Rebate Claims: Payments against Central Excise Rebate claims should be credited directly to the Bank Account of the exporter instead of giving cheques as in the case of Duty Drawback claims.

- Introducing VAT refund system for purchases by foreigners: VAT is refundable in cash immediately in Thailand. In Singapore and other countries also it is refundable. India should introduce this system. This will increase the demand for purchases from India by foreigners visiting India.

B. Sector-Specific

1. Software & Electronic Goods Sector

- Retrospective amendments in the definition of royalty: These retrospective amendments create difficulties in international transactions as the companies cannot pass on the tax incidence to the foreign suppliers of computer software. Moreover, this widened definition of "Royalty" to include rights in respect of use of computer software is not in line with the internationally accepted taxation principles.

- Transfer pricing adjustments and litigations: These have significant implications for the IT sector. The magnitude of the issue can be judged from the fact that the total quantum of adjustment made on companies rendering software services (Information Technology or "IT") and ITES in the cycle of TP assessments ending in October 2011 amounted to approximately US$ 2 billion and more than 300 players (covering all the large captive service companies) in the industry are facing TP/PE litigation in the courts in India. The PMO has constituted a committee (Rangachary Committee) to look at issues related to taxation of these centers, but the pending issues need to be resolved urgently and a clear TP regime based on safe harbour mechanism needs to be introduced.

- Service tax issues: Issue of long pending service tax refunds, dual levy of Service Tax are added costs for the industry and need to be addressed.

- Inverted Duties due to ITA-1 & FTAs: Inverted duties especially due to Dual Use inputs such as Plastics, Copper, Aluminium, etc are affecting electronic hardware manufacturers. Zero duty also on all inputs for manufacture of electronic components and parts wherever possible, including dual use inputs could be considered to avoid inverted duty.

- ITA-II: Since ITA-I has severely affected our electronic sector, we need to be cautious in implementing ITA-II which includes some consumer electronic items and certain security related products. We should also be cautious while including any electronic components and parts in any future FTA's.

2. **Textiles**

- Encouragement to a multi fibre approach to increase production of blended fabric, by changes in duty structure that brings duties on manmade filament and yarn at par with cotton. At present cotton dominates with fibre neutrality facing fiscal policy constraints. The global ratio of use of cotton to manmade fibre is 40:60, while for India it is 66:34 as cotton is free of duty and cotton yarn has optional duty, while PTA/DTA/MAG and additives like spin finish oil and rayon grade wood pulp, the raw material for polyester filament yarn and polyester staple fibre is subject to import duty and yarn itself to a (compulsory) excise duty which has been raised successively and is at 12 percent now.

3. **Rubber**

- Cess on Natural Rubber to be Abolished: Cess has been abolished on all items except tobacco which is harmful to health. Export taxes should generally be discouraged. Since cess is discontinued for almost all the export commodities, cess on natural rubber should also be abolished.

4. **Gems & Jewellery**

- The problem of setting up of private /public bonded warehouses in SEZ/DTA: This provision was deleted from FTP/ HBP (Handbook of Procedures) in 27/08/2009 as the import duty on polished diamonds was abolished. With recent measures to re-impose import duties on cut and polished diamonds, genuine trading activity is affected. Bonded warehouses helped genuine trading activity and was allowed earlier. In the changed situation where import duties are levied on cut and polished diamonds bonded warehouse facility could be reintroduced.

- Inverted Duty Structure due to FTA: Under the India-Thailand Free Trade Agreement, Jewellery imported from Thailand attracts total customs duty@ 1.03 percent. At present a Nominated Agency importing primary gold in India has to pay 4 percent plus Surcharge/Cess as import duty. In case of importing finished jewellery by an importer the duty is 10 percent plus other Surcharge/Cess. The FTA with Thailand has created a situation whereby an importer of finished jewellery (need not be a Canalizing Agency also) can import finished gold jewellery attracting only 1.03 percent as import duty. Importing finished gold jewellery after paying import duty on Value Addition of 3 percent charged by Thai Jewellery

Manufacturers is still cheaper than importing Primary Gold from anywhere else. For example, cost of Gold is 100. Adding 3 percent Value Addition it will be 103. Adding 1.06 percent import duty will be equal to 104.06 for Thai Jewellery whereas, cost of Primary Gold is 100 + 4.12 percent import duty = 104.12. Since finished jewellery from Thailand is cheaper than primary gold (raw material) available in India, this will affect Indian Jewellery Manufacturing Industry and needs to be addressed.

- <u>Addressing high Gold imports</u>: Increasing the import duty on gold from 1 percent to 4 percent has not yielded the desired result of reduction in outflow of Foreign Exchange on account of import of gold. Parallel economy has already started as there is adequate margin for the operators as high as 5 percent (4 percent import duty plus 1 percent VAT). Additionally, the imposition of 1 percent tax collected at source (TDS) for cash purchases above `5 lakhs has given incentives to operators to supply raw materials out of the books. As per many reports and also from the World Gold Council's (WGC) findings, about 40 percent of total imports was used in primary gold form for Investment. Investors are diversifying from Stock Exchange to Bullion Market with the desire to earn speculative gains. To obtain the desired result, instead of increasing the import duty, VAT should be increased from 1 percent to 5 percent on sales of bullions, coins, primary gold and sale in Exchange Trade Fund (ETF), etc. to private individuals (Unregistered Dealers). If the buying and selling price has a difference of 5 to 6 percent then an increment of price by 6 to 7 percent over a given period would yield the speculator no gain, (because he being an unregistered dealer would make him lose the entire amount of VAT paid). Under such circumstances, speculators playing on gold would shy away, reducing the requirement of importing gold.

5. <u>**Chemicals**</u>

- <u>Inverted duty structure</u>: These need to be examined and rectified in the following cases:-

  1. Metallic stearate: Customs duty on metallic stearates is 7.5 percent normal rate and 6 percent special rate. On Stearic acid customs duty is 30 percent and if imported from Malaysia it is 13 percent. So, increase in Import duty on Metallic stearate in line with stearic acid is needed.

  2. Crude Napthalene: Present basic customs duty is 10 percent and CVD 14 percent. Duty should be reduced as the finished product duty is lower than the raw material. This is a case of Inverted duty structure.

  3. Crude Palm oil imported from Indonesia and Malaysia has 15 percent duty while finished products imported have lower duty.

4. ASEAN FTA allowing imports of Soap Noodles, Soaps and Fatty Acids into India at Nil duty compared to import of input oils at duties ranging between 10 percent to 15 percent used in the manufacture of these products besides the export tax at around 15 percent levied by Indonesia and Malaysia which also varies with oil prices. This has led to a negative impact on soap noodle and toilet soap manufacturing in India.

IV **CREDIT RELATED**

- High interest cost: Foreign banks raise funds abroad at LIBOR plus 20 basis points. EXIM Bank of India is able to raise fund at LIBOR plus 350 basis points. The difference is due to India's lower sovereign rating. Consequently EXIM Bank can lend in foreign currency at LIBOR plus 650 basis points taking care of their spread. For exporters this translates into an interest cost of 6.5 percent per annum compared to 3 percent for EU manufacturers. Cost of borrowing in domestic currency is also high at 8-9 percent due to inflation and works out to 12 percent after taking care of the spread. For AAA rated countries funds are available at 20 to 35 basis points. India is in the lowest investment grade, BBB-. EXIM Bank can actually raise funds at LIBOR plus 500-550 basis points, while 650 basis points is an extreme case. This works out to around 5.75 percent interest cost per annum for medium term loans. For short term loans, it is still cheaper at LIBOR plus 225 basis points and with the margin, interest cost would be around 4.75 percent. Despite this, the high cost of credit for exporters is genuine and needs to be looked into. The experiences of some competing nations of India, i.e. Brazil and China are as follows:-

    - Brazil's commercial bank prime lending rate is one of the highest in the world, which ranged between 43.72-47.25 percent in 2007-2009, and 44 percent in 2011 according to World Bank's World Development Indicators. Brazil has launched Proes (Programa de Financiamento as Exportacoes or Export Financing Program), which offers subsidized export financing through an interest equalization mechanism to Brazillian exporters. The main purpose is to facilitate the liabilities of Brazilian exports with emphasis on equipment and machinery products that requires medium and long term financing. Banco Do Brasil bears the difference between the prevailing international market interest rate and the interest rate the exporter pays the Brazil based bank up to 1 percentage point above ten-year US Treasury bonds, depending on the product being financed.

    - Chinese Government also provides major export financial incentives through China Export and Import Bank (China EXIM Bank) and China Development Bank (CDB). China EXIM Bank's concessional loans at a low interest rate are provided to governments of developing countries having repayment guarantees of financial institutions or other institutions recognized by the China EXIM Bank or China's Ministry of Finance. It has also introduced Preferential Export Buyer's Credit (contract specific export buyer's credit) with an aim to promote and focus on national/regional economic and trade cooperation with China. CDB also provides Special Loans for the Development of African SMEs. This has directly and indirectly created 11,020 and over 390,000 local job opportunities, respectively, and promoted China-Africa trade volume of over US $311 million.

The following recommendations of the Technical Group of Exim Bank of India on cost effective export credit needs to be examined in this regard:-

- The extant RBI guidelines on overseas borrowings be modified to permit Scheduled Commercial Banks (SCBs) to contract overseas borrowings of maturity less than 1-Year for extending buyers' credit in foreign currency to exporters with positive NFEE for last 3 years, for financing their imports of raw materials and consumables.

- RBI may issue instructions to SCBs for temporary inter se adjustment of working capital and export credit limits enjoyed by an exporter with a consortium of banks or multiple banking arrangement so that limits are temporarily transferred to the banks who have foreign currency funds from the bank(s) that do not have with consequential borrower's risks.

- A target of 4 percent of Adjusted Net Bank Credit (ANBC) be stipulated for SCBs for export credit for Micro and Small Enterprises (MSEs) as a sub-target within the overall target for Priority Sector. Any shortfall in achievement of the sub-target by any SCB shall be deposited with Exim Bank to create an Accelerated Export Development Fund (AEDF) on the lines of Rural Infrastructure Development Fund (RIDF).

- An Export Competitiveness Fund (ECF) like TUFS with an initial cost of ` 5000 crore be set up by the Government of India, to be administered by Exim Bank of India, which will provide both foreign currency loans at market rates of interest and Rupee loans at concessional rate of interest of not exceeding 200 bps over 5-year G-Sec for extending to select high-tech sectors for the purposes of financing capital expenditure for upgrading manufacturing facilities.

- Allow off-shore branches of Authorised Dealers (Ads) in India to open Rupee accounts of non-resident entities, and also of Indian exporters wishing to hold INR export proceeds in the same currency – an "exchange earner's INR" account.

- Encourage branches of Indian banks at Singapore, Hong Kong and Dubai to participate in the Non-Deliverable Forward (NDF)/futures market – to attain better knowledge of the offshore markets and to align them more closely with the domestic markets.

- Exim Bank to continue as the agency which administers the concessional lines of credit (under India Development and Economic Assistance Schemes - IDEAS); this route could be useful to promote INR invoicing. The unfamiliarity of the recipient country with INR, and the higher commercial rates of interest for INR lines of credit, may deter the acceptance of such lines, making it necessary for the Government to subsidise the rate of interest.

- RBI support would be necessary for making the required changes in regulations/approach in the following areas.

    1. The RBI will need to approve the extension of the INR Lines of Credit/Buyers Credit.

    2. Need to exercise greater flexibility in relation to the documentary requirements for nonresidents to hedge their INR exposures.

    3. To permit INR invoicing for trade with Asian Clearing Union (ACU) member countries (where the scope for INR invoicing to take off is quite high).

- Service Charge by Banks: The banks have been allowed the freedom to levy service charge. Since the disbursal of export credit in foreign currency at a lower rate is unviable for the banks as the cost of foreign funds to the banks is much higher and there is no support mechanism to bridge this gap in cost of funding, the banks are levying service charges as high as 2-4 percent. The objective of providing funds at maximum of LIBOR plus 350 basis points is not achieved as the service charge component is very high. Suitable measures such as capping on the service charges levied by banks need to be introduced to ensure that credit is available at lower cost to the exporters by placing a cap on the service charges levied by banks and at the same time ensuring that the banks supply the funds to exporters.

- Rationalization of Charges for Renewal and enhancement of credit limits: At present banks are charging for renewal and enhancement of credit limits. The charges are hitting small exporters. The transaction costs can be substantially reduced by permitting levy of bank charges with a value cap in case of renewal or enhancement of credit limits.

V OTHER ISSUES

- Tapping the Domestic Market for Software: Since export market for software is affected due to Global developments, back-up domestic market is needed. To boost domestic consumption particularly in software, there is a need to simplify government procurement processes to reduce time lag, tendering conditions and also allowing small companies to participate in government contracts. For this there is also a need to lower cost of broadband in the country to enable greater adoption and usage.

- Port Charges: Need to address the high non-remunerative costs incurred by exporters due to high and multiple port charges. The port charges in India are one of the highest in the World which is partly due to the inefficiency of ports and partly due to lack of streamlining of the different charges.

- Need to promote FDI in Exports Sector in General and Textiles in particular: China's exports was helped by FDI in its Export Sector. This is needed even in the Indian case. In some sectors like textiles FDI is not forthcoming due to the disaggregate nature of the sector and prevalence of small units, general aversion to FDI in this sector and policies like local content requirements.

- Skill mismatch: Technical education being provided by polytechnics and engineering colleges is not meeting the expectations of the industry. Most of the engineering graduates lack basic theoretical knowledge, analytical and communication skills and managerial competencies. This is one of the reasons for making Indian industry and exports less competitive. The incremental skill gap across various industries is given in Table 8. Therefore, there is an urgent need to train the workforce for all segments of the industry and making critical changes in the curriculum of the polytechnics and engineering colleges.

Table 8

Incremental Skill Gap across various Industries in 2022

Industries	Incremental requirement (in million)
Building and Construction Industry	33.0
Infrastructure Sector	103.02
Real Estate Services	14.0
Gems and Jewellery	4.6
Leather and Leather Goods	4.6
Organised Retail	17.3
Textiles and Clothing	26.2
Electronics and IT Hardware	3.3
Auto and Auto Components	35.0
IT and ITES	5.3
Banking, Financial Services and Insurance	4.2
Furniture and Furnishings	3.4
Tourism and Hospitality services	3.6
Construction Material and Building Hardware	1.4
Chemicals and Pharmaceuticals	1.9
Food Processing	9.3
Healthcare	12.7
Transportation and Logistics	17.7
Media and Entertainment	3.0
Education and Skill Development	5.8
Services Select informal employment sectors (domestic help, beauticians, security guards)	37.6
Incremental	**347**

Source: IMaCS and Aon Hewitt

- Issues related to India – EU Bilateral Trade and Investment Agreement: India is one among the beneficiary countries of EU GSP Scheme. Leather products of export interest to India under Chapter 42 and 64 are eligible under the EU GSP Scheme. Under Chapter 42 covering handbags, Wallets, brief cases, saddlery & harness, apparels etc., the MFN tariff range between minimum 2.7 percent to maximum 9 percent. India gets a rebate of 3.5 percent under this chapter. For footwear falling under Chapter 64, the MFN tariff range between 'Free' to as high as '17 percent'. The footwear under HS Code 6401 (Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes) and Footwear under HS Code 6402 (Other footwear with outer soles and uppers of rubber or plastics) and 6404 (Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials) in which the MFN tariff is 17 percent, India gets a rebate of 5 to 5.1 percent under GSP. For the product under 6403 (Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather) which is the major product of export to EU next to China, India gets a rebate of 3.5 percent under GSP from the MFN rate of 8 percent. Footwear falling under 6405 (other footwear with uppers of leather or composition leather or of textile materials) as well as footwear components falling under 6406 do not have any import duty under GSP scheme, which is applicable to India also. India's export of leather & leather products to EU has grown from US$ 1544.14 million in 2004-05 to US$ 3116.52 million in 2011-12. However, EU's total annual import of leather and leather products (including footwear) is around 3.48 percent from India. Barring China and Vietnam, the other major suppliers to EU like Indonesia, Thailand and Malaysia too get the same age rebate as India for the products under Chapter 42 and 64. However, the Regional Trade Agreement (RTA) partners which are also major suppliers to EU like Bosnia-Herzegovina, Serbia, Albania, Morocco, Tunisia etc., get duty free access to European market by way of their trade agreements with EU. Therefore, to provide competitive advantage to Indian leather industry there is need to get Duty Free Status for leather products and footwear falling under Chapters 42 and 64 respectively for Indian exports to EU under India – EU Bilateral Trade and Investment Agreement. This needs to be pursued.

- <u>Long term vision for Agro Commodities Exports by a stable Agri-Export Policy</u>. The sharp rise in inflation on account of food prices has brought the issue of Agri-exports under Focus. Due to domestic demand, switch on and switch off policy for Agri-exports is being adopted which results in losing the overseas markets which are developed with constant efforts over a period of time. There is a need to have a mechanism in place for better forecasting of crops and have a long term export policy for Agriculture exports so that common man is not adversely affected by the sharp price fluctuation and our credibility as reliable supplier remains in overseas markets. One example is of exports of edible Oil in branded consumer packs of upto 5 Kgs. Since 1st August, 2012, export of edible oils in branded consumer packs has been prohibited. In the edible oil economy of India, exports of premium edible oils like groundnut oil and sesame seed oil have a very small role. The total consumption of edible oil is estimated to be 160 Lakh Tons out of which imports constitute about 50 percent i.e. about 83 lakh tons. Export of edible oil in branded consumer pack was earlier allowed subject to the ceiling of 10,000 tons. The share of exports of 10,000 tons is a small fraction of 0.06 percent of India's total edible oil consumption. The exports of premium oil fetches much higher unit value realisation compared to the unit value of imported oil which can be used for consumption. Thus exports of edible oils should be continued as it will not have any impact on our economy. Exporters also have made huge investments and time in developing their brand. Imposing ban would hurt them very badly resulting in India's image being hurt. Once the value of Brand diminishes, it would be difficult to re-establish Indian brands in global markets.

- Assistance under MAI Scheme: A large number of companies in India spend significant amounts on export promotion activities like listing fee to be paid for displays in International Departmental Stores, Sampling of products to potential customers, etc. MDA assistance does not cover such activities undertaken by exporters. Further, the quantum of such assistance is limited to a mere `1.50 lakhs. Assistance under this initiative could be extended to cover all aspects of export promotion activities.

- Relocation of Industries from US/Europe: There are large numbers of companies in US/Europe which have closed down or are on the verge of closing down. They would like to migrate their manufacturing to India but retain brand/marketing in US/Europe as the case may be. Such companies should be consciously wooed. In addition road shows should be conducted in these countries. Industry associations can be engaged with the effort of identifying such companies abroad which can help in not only broadening our manufacturing base, but also help exports by already established companies.

- High Freight Rates
  Freight rates have increased substantially in 2012 as is evident from the data in table 7:-

Table 7

Europe Base Ports	**Freight rate in USD June 2012**	**Freight rate in USE June 2011**	**Difference in Freight Rate**
Hamburg	1165	783	382
Rotterdam	1165	783	382
Antwerp	1165	783	382
Felixstowe	1165	783	382

USA Base Ports	**Freight rate in USD for June 2012**	**Freight rate in USE June 2011**	**Difference in Freight Rate**
Charleston	2610	2159	451
New York	2610	2159	451
Norfolk	2610	2159	451
Savannah	2610	2159	451

Since most of the contracts are on CIF basis, this makes the Indian products very uncompetitive. The high freight rate is happening at a time when cargo traffic has slowed down in the world. This needs to be addressed.

- Repealing the Mathadi Kamgar Act: In Maharashtra, the Mathadi Kamgar Union are forcing the factories to employ them for loading and unloading operations. These workmen are not trained for loading and unloading the products of the export markets and they are basically designed to carry head loads in various wholesale markets and ports. They do not follow the instructions and just take their money without performing any functions. Maharashtra is the only state to have such an Act. This Act needs to be repealed as their union is not prepared to take any responsibility on proper loading by the Mathadi Kamgar employees, which results in heavy loss to the exporters due to damages during loading.

- Technology upgradation in Textiles Sector: There is a need for narrowing the focus of schemes in Textiles sector to areas which have been unable to respond viz. the unorganized SSI sector in the value added stages of weaving, processing and RMG. Technology upgradation has taken place largely at spinning stage and not at the value added stage. Only 3 percent of the fabric of the country is produced in the medium and large scale industry, the rest is either in the decentralized power loom (62 percent) or decentralized knitting (25 percent) or handloom (10 percent) sectors. Processing and dyeing is still done with outdated technology. Fabric is mainly sold as grey without the value addition that processing attracts. Weaving is in the decentralized sector. Weavers do not fit into banking norms. Their Accounting system is like that - No books of Account & No bank accounts. They do not get much of TUFS fund. So need to look into ways of giving fund under TUFS to small weavers. Just as the farm sector lending is priority lending, the weaving sector should also be brought under priority lending. The TUFS scheme should be revised with focus on SSI sector to address the technology bankruptcy of the decentralized powerloom industry. The changes desired include removal of the cap on SSI subsidies at `5 crore which limits weavers from expanding to optimum size; gradation of subsidy to the level of technology so that high end technology gets higher support; assistance to work sheds ; and enabling leasing and hire purchase of shuttle less power looms, etc.

Classification issues: There are some classification issues for some items as follows:-

  - Re-Classification of Peanut Butter from HS code 1517.90.20 to HS. Code 2008.11.10: The ITC HS code for peanut butter 1517.90.20 is not aligned with the HS codes used by most other countries. As India is a signatory to the Harmonized Commodity Description and Coding Systems generally referred to as "Harmonized System" developed by the World Customs Organization (WCO), the HS Codes at six digit level have to be the same across the globe, in order to facilitate international trade, by having a uniform system for the transmission of data and trade documentation including rules of origin, freight tariffs, transport statistics, price monitoring and collection, comparison and analysis of international trade statistics. For peanut butter, most of the countries have classified this item in Chapter 20, with HS Code 2008.11.10. In the absence of India having the same HS code as the importing countries, the exports of peanut butter are adversely affected as the exporters are not able to take advantages of the benefits of the PTA/RTAs. The exporters are not allowed clearance to Japan as the shipment was under "Comprehensive Economic Partnership Agreement between India and Japan". In addition, the exporters of peanut butter are also facing difficulty in Customs documentation both in India and importing country due to which they lose to the suppliers from other countries due to cut-throat competition in international markets. Therefore HS Classification of Peanut Butter in India should be amended to be in-sync with global classification i.e. Peanut butter should be classified under HS code 2008.11.10 and not under Chapter 15. This matter has now added to the woes of the exporters because Peanut Butter being in chapter 15 has also been banned for export along with the ban on edible oils though technically speaking it is not an edible oil.

- <u>Classification issue in Pharma Sector</u>: Need for inclusion of our Pharma Products such as Light Liquid Paraffin, Petroleum Jelly and Liquid Paraffin conforming to BP/USP standards manufactured under valid Drug Licence to all falling under Customs Chapter No.27 in the above Focus Product scheme which as per Exim Policy includes Pharma Products of Chapter 30 only under the above Appendix. For the mere reason that these products are falling under CH No.27, it should not be discriminated and made ineligible. All Pharma products must be equally treated and given the incentive. The above products are also not eligible under Focus Market Scheme which has excluded products of CH No.2709 to 2715 as well as under Status Holder Incentive Scheme which has totally excluded all these products.

- <u>RITC code</u>: The DGFT has not fixed any RITC code for Dried Fish Maws in particular in the Hand Book of Procedures. So the different Zonal Customs of India, like Mumbai, Chennai, Ahmedabad, Kolkata and Kandla are allowing use of different RITC codes. So need to look into the matter and finalise the RITC code for Dried Fish Maws. At present, exporters have been sending Dried Fish Maws export cargo from Mumbai. However, they are not allowed shipment. The Customs Department has suggested the use of RITC code 05119190 which is the code for Animal products and not fit for human consumption. The products are edible fish maws, which in layman terms is Air bladder/Swim bladder of a Fish. This commodity is not waste, neither is it an inedible item which is not fit for human consumption. The product is a Chinese delicacy and is eaten on daily basis in places having large Chinese inhabitants namely, China, Hongkong, Singapore, etc. Our neighbouring countries, namely Pakistan, Bangladesh, Srilanka and also some South American and African countries are exporting Dried Fish Maws at highly competitive prices and they are being supported greatly by the respective governments. This issue needs to be addressed.

- Exploring further possibilities of payments with countries in local currency and Rupee denominated exports. This could be explored with countries where we have adverse balance of trade or our balance of trade balances. Furthers rupee denominated exports should not encounter difficulties in availing the same incentives and benefits like duty drawbacks and tax incentives as in respect of other permitted currencies.

- Consistency in Policy: Consistent policy needed, for example DGFT was giving 5 percent VKGUY and 4 percent DEPB against export of Dried Fish Maws, Sharkfins. Suddenly Notice No.56/2009-2014 dated 20th April 2010 was issued saying that there is a value Cap of US$ 2.85 per kg. from 20.4.2010. Indirectly, it means the benefits are being stopped by the DGFT as Dried Fish Maws are very costly and prices starts from US$ 100/- to US$ 2,000/- per kg. Exporters had already entered into the advance export contracts with overseas buyers as Dried Fish Maws are to be exported till 6-8 months at one contract price. If exporters do not export Dried Fish Maws and Sharkfins at contract price, they have to compensate the overseas buyer and at same time the relation gets spoiled with overseas buyer and there are great chances of losing buyers. Just to keep relation with buyers, exporters have exported Dried Fish Maws in advance contract prices. So, they are losing 9 percent because they have already purchased goods at high prices from fishermen in advance assuming that Government will give 9 percent benefits. But suddenly benefits were stopped affecting exporters. To maintain reputation in market, they have borrowed huge amounts from banks and financial institutions to clear market dues and are thus paying heavy interest to the banks. This issue needs to be addressed.

The above issues at the micro, sector and port-specific levels are just an indicative list and by no means an exhaustive list.