Export assistance and incentives

Export incentives Devices used by countries to encourage exports. These can include tax incentives for exporters, allowing them exemptions from the normal provisions of anti-monopoly legislation, preferential access to capital markets, priority Developing countries have started manufacturing industries only recently. As a result, their cost of production generally tends to be high because of the following reasons: ? Total market availability within the country is small with the result that the economies of large-scale production cannot be reaped. Productivity of labor is low because the level of mechanization as compared to that in the developed countries is low. ? Manufacturing units in developing countries, being small and new, have considerably less expertise in the field of international marketing and because the volume of exports is low, the per unit cost of trade promotion expenditure tends to be high. India has to raise higher resources for development which has to be done through a number of indirect levies which tend to push up the overall cost of production.

Most developing countries have, therefore, resorted to a number of export promotion measures. India has also been providing export assistance to Indian exporters. However, the WTO Agreement on Subsidies and countervailing duties does not allow specific types of export subsidies. The Government of India is, therefore, removing those export incentives which are not WTO compatible. NEW SYSTEM OF EXPORT ASSISTANCE: From 1992, export incentive system in India has been made simple. There are essentially three major incentives.

These are: (1) Market-based Exchange Rate; (2) Fiscal Concessions, and (3) Facilities under the Export-Import Policy. These are discussed in detail below:

MARKET BASED EXCHANGE RATE: For long, external value of the rupee was managed by the Reserve bank of India (RBI) by pegging the value of the rupee to a basket of currencies. RBI used to keep the value of the rupee at a level which was higher than the real value. In the post-Economic Reforms period, the Government of India decided to abolish all direct incentives to exports and promote exports through the exchange rate mechanism.

Accordingly, the Liberalized Exchange Rate Management System (LERMS) was introduced. Under this system, there were two exchange rates: one official rate which was determined by the RBI as was the practice earlier; and second, a rate which was quoted by the banks based on the demand-supply position. Exporters had to surrender 40 per cent of their foreign exchange earnings to banks and could sell the residual 60 percent at the market rate which was normally expected to be more attractive than the official rate.

Through this mechanism the Government hoped to achieve two objectives: First the difference between the market rate and the official rate would provide enough incentives to the exporters. Second, this would introduce a self-balancing mechanism for the balance of trade, because only that much imports could be made which could be financed through the market i. e. the resources available through the 60 percent account. One year's experience revealed that rupee remained stable in the international market. This gave to the Government for full convertibility on the trade account.

Accordingly, rupee was made fully convertible for export-import transactions in March 1993. This would provide more financial benefit to the exporters as under the LERMS, they had to surrender 40 per cent of their receivables at a discount which averaged about 15 per cent when LERMS was in operation.

Since March 1993, the exchange rate of the rupees is fully determined by the demand supply conditions in the market. Under such a system, exporters will get benefit when rupee depreciates while importers will lose. When rupee appreciates, the balance of benefits will be just the reverse. TAX CONCESSIONS: a)In the computation of total income, Section 80-HHC allows a deduction of the whole of the profit derived from the export of goods or merchandise. The requirement of minimum tax contained in Section 115-J does not apply to exporting corporate assesses. This benefit is also available to supporting manufacturers exporting through Export/ Trading Houses provided that the amount of deduction claimed is retained as a reserve for the purpose of the business of the assesse. However, the budget for the year 2000-2001 has reduced this exemption by 20 per cent every year to be phased out in five years. b)Exemption from taxation of the profits from overseas projects to the extent of 50 per cent. (c)Exemption from taxation of 50 per cent of royalty, commission, fees or any similar payment obtained from the exports of technical know-how and technical services. (d)A 10-year tax holiday for 100 per cent export-oriented units and for units located in Free Trade/Export Processing Zones. (e)Discounted rates of customs duty on imports of selected items of machinery for export production. ? EXPORT ASSISTANCE AND INCENTIVES AVAILABLE TO THE EXPORTS

Export assistance and a variety of facilities and export incentives available to the Exporters are given in mindset and more aggressive approach is needed to developtechnology. Export capabilities and to enhance such exports. These may include better Management of trade policies at international level, simplified procedures, better Incentives for high value-technology incentives exports etc. Export incentives can play an integral role in developing export capability and can encourage exports by providing financial assistance to exporting companies to enable them to compete effectively in international markets.

For South African industries facing exchange rate fluctuations and constant threats of competitors in other developing markets, tools to enhance global access to key markets are imperative. In addition to benefits available under the African Growth and Opportunities Act (AGOA) (legislation passed in the United States of America), bilateral trade agreements such as the one between South Africa and the European Union, the General System of Preferences (GSPs), the Department of Trade and Industry (DTI) and the International Trade Administration Commission (ITAC) provide assistance ranging from marketing support to export credits. The primary export incentives currently in operation in South Africa include: ? Export marketing and investment assistance scheme (EMIA) ? Tariff Restructuring Program, ? Sector Assistance Scheme (SSAS), ? Rebate Provisions ? Export Credit and Foreign Investment Reinsurance Scheme (ECRS), ? Duty Credit Certificate Scheme (DCCS), ? Motor Industry Development Program (MIDP), ? Sector Partnership Fund, ? Export Credit Incentives and ExportFinance. EXPORT MARKETING AND INVESTMENT ASSISTANCE SCHEME (EMIA)

The purpose of the EMIA scheme is to partially compensate exporters for certain costs incurred inrespectof activities aimed at developing export markets for South African products and to recruit new foreign direct investment into South Africa. Additional benefits are awarded to small, medium and micro-sized enterprises (SMMEs) and businesses owned by the previously disadvantaged. The financial assistance is in the form of reimbursement and is not a pre-paid benefit.

TARIFF RESTRUCTURING PROGRAM: By virtue of South Africa’s World Trade Organization (WTO) membership, import tariff levels are also being reduced and the import tariff listings are being simplified by reducing the number of tariff headings. Export incentives relate only to the export of goods destined for recognized export markets, which in general means to countries outside the Southern African Customs Union (SACU). SECTOR ASSISTANCE SCHEME (SSAS)

Financial assistance is available to industry sectors with the objectives of developing new export markets; broadening the export base; stimulating the participation of SMMEs in the export sector, promoting black economic empowerment (BEE) and women empowerment within the overall objective of job creation. REBATE PROVISIONS: Is aimed at the promotion of manufacturing and exportation of goods, and are available to certain manufacturing industries in respect of duties applicable to imported goods, raw materials and components used in manufacturing, processing and for export.

EXPORT CREDIT AND FOREIGN INVESTMENT REINSURANCE SCHEME (ECRS) Provides exporters with insurance cover against political and transfer risks, as well as commercial and insolvency risks. A special dispensation exists for SMMEs. DUTY CREDIT CERTIFICATE SCHEME (DCCS) This scheme is designed as a temporary " kick-start" measure to enhance the export competitiveness of certain prescribed textile and clothing products by offering duty credit certificates to qualifying exporters. These duty credit certificates could be used to off-set customs duties payable on import of similar products.

MOTOR INDUSTRY DEVELOPMENT PROGRAM (MIDP) Is available to motor vehicle assemblers and component manufacturers and exporters. The programme enables local vehicle and component manufacturers to increase production runs and encourages rationalization of the number of models manufactured by way of exports and complementing import of vehicles and components. EXPORT CREDIT INCENTIVE Financing at reduced rates by the Investment Development Corporation (IDC). An export credit incentive is available to selected expansion schemes expected to result in increased foreign exchange earnings.

Financing of credit for exporters of capital goods is also available through the IDC or private-sector merchant banks at reduced rates. ? Credit facilities under the export finance scheme for capital projects: Credit facilities are available to exporters of capital projects under the Export Finance Scheme for Capital Projects to allow them to compete internationally by offering buyers competitive rates denominated in US Dollars. FACILITIES AND INCENTIVES TO INDIAN EXPORTERS Promotion of export has been a major thrust area of the Ministry of Commerce And Industry for the last three decades.

Apart from this. Many other Central/State Ministries have also been involved in the promotion of India’s exports. Many Exports Promotion Councils, Public Sector Undertakings, Chambers of Commerce, Industries’ Associations and Services Organizations are also contributing towards the promotion of Indian exports. The facilities and incentives presently available to the Indian exporters include the Following. MARKETING DEVELOPMENT ASSISTANCE (MDA) The Ministry of Commerce and Industry has a scheme of MDA, which was launched in 1963 with a view to stimulate and diversify the export trade, along with he development of marketing of Indian products and commodities abroad. The MDA is utilized for: Market research, commodity research, area survey and research; Participation in trade fairs and exhibitions; Export publicity and dissemination of information; Trade delegation and study teams; Establishment of offices and branches in abroad; Grant-in-aid to Export Promotion Councils and other approved organizations for the development of exports and the promotion of foreign trade; and any other scheme which is generally aimed at promoting the development of markets for Indian products and commodities abroad.

MARKET ACCESS INITIATIVE (MAI) The Ministry of Commerce and Industry has introduced the MAI in April 2001 with the idea that the Government shall assist the industry in R&D, market research, specific market and product studies, warehousing and retail marketing infrastructure in select countries and direct market promotion activities through media advertising and buyer-seller meets. Financial assistance shall be available under the scheme to EPCs, industry and trade associations and other eligible activities, as may be notified from time to time. A small allocation of Rs 42 corer has been made for 2002-03. ?

CENTRAL ASSISTANCE TO STATES The State Governments shall be encouraged to fully participate in encouraging exports from their respective States. For this purpose, a new scheme " Assistance to States for Infrastructural Development for Exports" (ASIDE) has been initiated which would provide funds to the States based on the twin criteria or gross exports and the rate of growth of exports from different States. Eighty per cent of the total funds would be allotted to the States based on the above criteria and remaining 20 per cent will brutalized by the Centre for various infrastructure activities that cut across State boundaries, etc.

A sum of Rs 49. 5 crore has already been sanctioned for 2001-02 and furthers a sum of Rs 330 crore has also been approved for 2002-03. The State shall utilize this amount for developing complementary and critical infrastructure. TOWNS OF EXPORT EXCELLENCE A number of towns in specific geographical locations have emerged as dynamic industrial locations and handsomely contributing to India’s exports. These industrial cluster-towns have been recognized with a view to maximizing their export profiles and help in upgrading them to move up the higher value markets.

A beginning is being made to consider industrial cluster towns such as Tripura for Hosiery, Panipat for Woolen Blankets and Ludhiana for Woolen knitwear. Common service providers in these areas shall be entitled for EPCG Scheme, funds under the MAI scheme for creating focused technological services, priority assistance for identified critical infrastructural gaps from the Scheme on Central Assistance to States. Units in these notified areas would be eligible for availing all the Exim Policy Scheme. The Government of India has framed several schemes to promote exports and to obtain foreign exchange.

These schemes grants incentive and other benefits. The few important export incentives, from the point of view of indirect taxes are briefed below: ? FREE TRADE ZONES (FTZ) Several FTZs have been established at various places in India like Kandla, Noida, Cochin, etc. No excise duties are payable on goods manufactured in these zones provided they are made for export purpose. Goods being brought in these zones from different parts of the country are brought without the payment of any excise duty. Moreover, no customs duties are payable on imported raw material and components used in the manufacture of such goods being exported.

If entire production is not sold outside the country, the unit has the provision of selling 25% of their production in India. On such sale, the excise duty is payable at 50% of basic plus additional customs or normal excise duty payable if the goods were produced elsewhere in India, whichever is higher. ELECTRONIC HARDWARE TECHNOLOGY PARK / SOFTWARE TECHNOLOGY PARKS This scheme is just like FTZ scheme, but it is restricted to units in the electronics and computer hardware and software sector. ADVANCE LICENCE / DUTY EXEMPTION ENTITLEMENT SCHEME (DEEC)

In this scheme advance licence, either quantity based (Qbal) or value based (Vabal), is given to an exporter against which the raw materials and other components may be imported without payment of customs duty provided the manufactured goods are exported. These licence are transferable in the open market at a price. EXPORT PROMOTION CAPITAL GOODS SCHEME (EPCG) According to this scheme, a domestic manufacturer can import machinery and plant without paying customs duty or settling at a concessional rate of customs duty.

But his undertakings should be as mentioned below: Customs Duty RateExport ObligationTimetime 10%4 times exports (on FOB basis) of CIF value of machinery5 years Nil in case CIF value is Rs200mn or more. 6 times exports (on FOB basis) of CIF value of machinery or 5 times exports on (NFE) basis of CIF value of machinery. 8 years Nil in case CIF value is Rs50mn or more for agriculture, aquaculture, animal husbandry, floriculture, horticulture, poultry and sericulture. 6 times exports (on FOB basis) of CIF value of machinery or 5 times exports on (NFE) basis of CIF value of machinery. years . Note:- NFE stands for net foreign earnings. CIF stands for cost plus insurance plus freight cost of the machinery. FOB stands for Free on Board i. e. export value excluding cost of freight and insurance. DEEMED EXPORTS The Indian suppliers are entitled for the following benefits in respect of deemed exports: ? Refund of excise duty paid on final products ? Duty drawback ? Imports under DEEC scheme ? Special import licenses based on value of deemed exports The following categories are treated as deemed exports for seller if the goods are manufactured in India: 1.

Supply of goods against duty free licences under DEEC scheme 2. Supply of goods to a 100 % EOU or a unit in a free trade zone or a unit in a software technology park or a unit in a hardware technology park 3. Supply of goods to holders of licence under the EPCG scheme 4. Supply of goods to projects financed by multilateral or bilateral agencies or funds notified by the Finance Ministry under international competitive bidding or under limited tender systems in accordance with the procedures of those agencies or funds where legal agreements provide for ender evaluation without including customs duty 5. Supply of capital goods and spares upto 10% of the FOR value to fertilizer plants under international competitive bidding 6. Supply of goods to any project or purpose in respect of which the Ministry of Finance permits by notification the import of goods at zero customs duty along with benefits of deemed exports to domestic supplies 7. Supply of goods to power, oil and gas sectors in respect of which the Ministry of Finance permits by notification benefits of deemed exports to domestic supplies MANUFACTURE UNDER BOND

This scheme furnishes a bond with the manufacturer of adequate amount to undertake the export of his production. Against this the manufacturer is allowed to import goods without paying any customs duty, even if he obtain it from the domestic market without excise duty. The production is made under the supervision of customs or excise authority. DUTY DRAWBACK IT means the rebate of duty chargeable on imported material or excisable material used in the manufacturing of goods in and is exported.

The exporter may claim drawback or refund of excise and customs duties being paid by his suppliers. The final exporter can claim the drawback on material used for the manufacture of export products. In case of re-import of goods the drawback can be claimed. The following are Drawbacks: ? Customs paid on imported inputs plus excise duty paid on indigenous imports. ? Duty paid on packing material. Drawback is not allowed on inputs obtained without payment of customs or excise duty.

In part payment of customs and excise duty, rebate or refund can be claimed only on the paid part. In case of re-export of goods, it should be done within 2 years from the date of payment of duty when they were imported. 98% of the duty is allowable as drawback, only after inspection. If the goods imported are used before its re-export, the drawback will be allowed as at reduced per cent. ? NAME Yash patel COLLEGE NAME Kamala Mehta College of commerce ROLL NO. 156 PROJECT NAME Export assistance and incentives CLASS T. Y. BCOM (B) ?