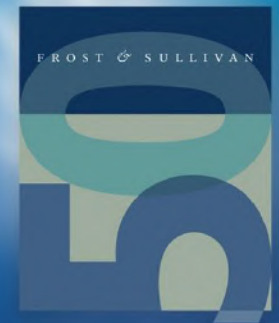


# Review of Indian Foreign Trade Regulator



# Directorate General of Foreign Trade



# Current Growth of Exports Vis-à-Vis Target

In April 2015, the Narendra Modi government set a mammoth target of increasing India's exports to \$900 billion by 2020.

To reach \$900 billion by 2020, India will need annual export growth between 15% and 20%. Export growth has not been positive so far and may not be positive in immediate quarters. India's merchandise export growth has been negative since September 2015.

Lower demand for imports and weak global economy: The World Trade Organization cut its global trade growth estimate for 2015 to 2.8% from 3%. For 2016, the estimate was lowered to 3.9% from 4%.

In 2015, petroleum product exports fell by 52%, which accounted for 18.8% of the total exports. Engineering goods, which constituted 21.9% of the total exports, saw a drop of 11%. Gems and jewelry, the third-largest export component (13% of total exports), declined 7%.

In the next 3-plus years, if things improve, India might hit 50% of the incremental target. This translates to exports worth between \$600 billion and \$650 billion by 2020, a **gap of \$250-\$300 billion vis-à-vis target.**

# Global Comparison of Major Economies With India

Country	Economy Size in 2005	Economy Size in 2016	Exports in 2005*	Exports in 2015*	Ease-of-Doing-Business Rank 2005	Ease-of-Doing-Business Rank 2016
United States	\$13 trillion	\$18 trillion	\$0.9 trillion	\$1.5 trillion	3	8
China	\$2.3 trillion	\$11.4 trillion	\$1.1 trillion	\$2.3 trillion	91	78
Japan	\$4.6 trillion	\$4.1 trillion	\$0.7 trillion	\$0.6 trillion	10	34
Germany	\$2.8 trillion	\$3.4 trillion	\$0.9 trillion	\$1.3 trillion	19	17
United Kingdom	\$2.4 trillion	\$2.9 trillion	\$0.4 trillion	\$0.5 trillion	9	7
<b>India</b>	<b>\$0.8 trillion</b>	<b>\$2.2 trillion</b>	<b>\$0.1 trillion</b>	<b>\$0.3 trillion</b>	<b>116</b>	<b>130</b>
Brazil	\$0.9 trillion	\$1.8 trillion	\$0.1 trillion	\$0.2 trillion	119	123
South Africa	\$0.2 trillion	\$0.5 trillion	\$0.05 trillion	\$0.07 trillion	28	74

\* Export of Merchandise Goods

Source: IMF, World Bank, [www..statistica.com](http://www..statistica.com)

# Directorate General of Foreign Trade (DGFT)

Trade Scenario Before 1991	Trade Scenario After 1991
Requirement for license	End of <b>License Raj</b>
Bureaucratic control	Process of global integration to Indian economy commenced
Complex legislations and manufacturer protective policies	Increase information flow between geographically remote location
High import duties	Growth of cash cultural contacts
Foreign trade-related aspects handled by Chief Controller of Imports and Exports (CCI&E)	Evolution of <b>DGFT</b> and export promotion policies

- Directorate General of Foreign Trade (DGFT) is a government organisation in India responsible for the formulation and implementation of EXIM policies, Guidelines, and Principles for Indian importers and exporters of the country.
- Right from its inception till 1991, when liberalization in the economic policies of the government took place, the organization has been essentially involved in the regulation and promotion of foreign trade through regulation. Before 1991, it was known as Chief Controller of Imports and Exports (CCI&E)
- It is functioning under the umbrella of the Department of Commerce, Ministry of Commerce & Industry, headquartered in New Delhi.
- Officials of DGFT work in close coordination with other related economic offices, such as:
  - Customs Commissionerates
  - Central Excise Authorities
  - Directorate of Revenue Intelligence Authorities
  - Enforcement Directorate

Source: Frost & Sullivan

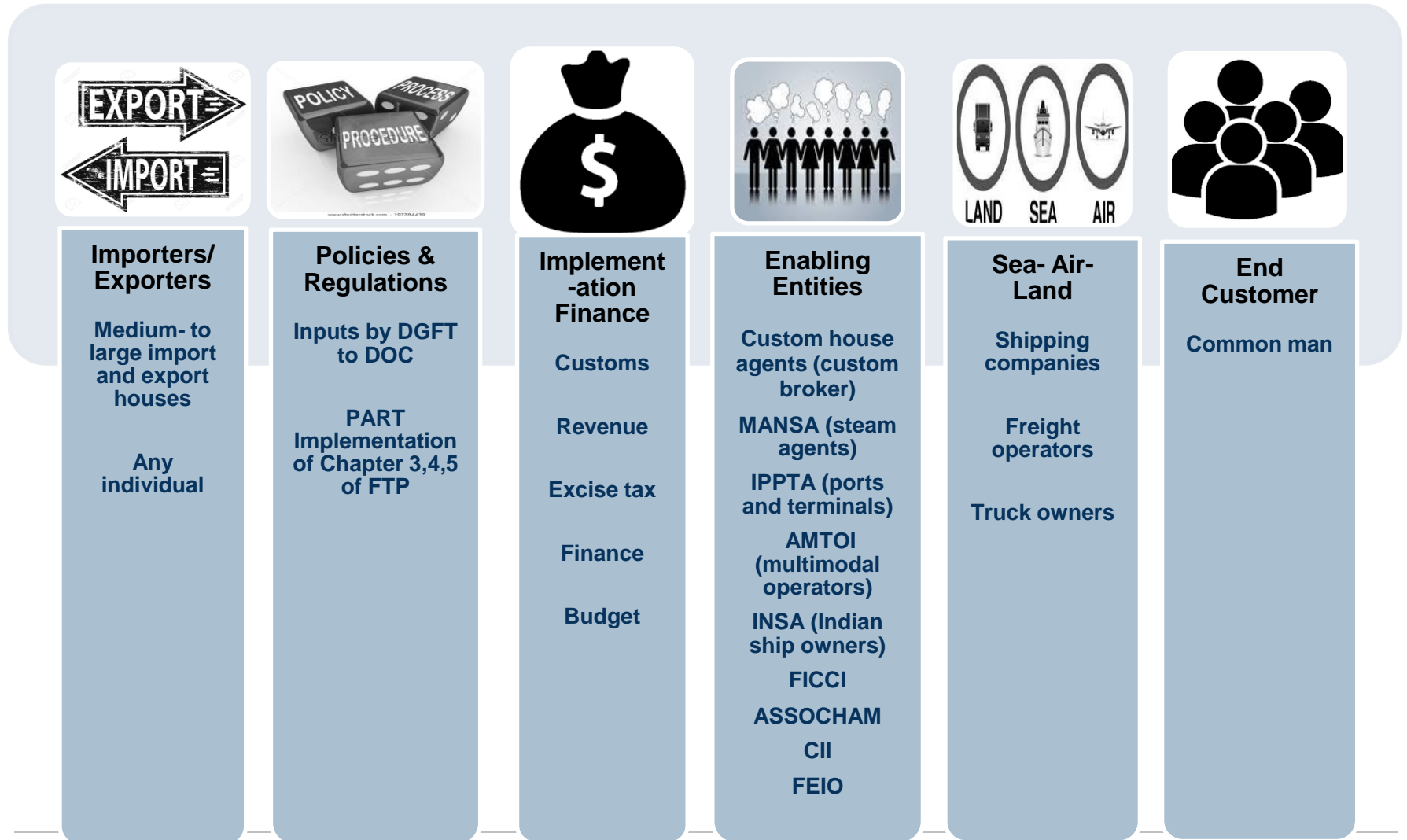
# Functions of DGFT—RA Level

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- **Export-Import Policy of India**
  - Inputs to policy committee for formulation of FTP
  - Classification as per ITC/HS code and conditions therein (inter-ministerial co-ordination with DGFT as the nodal body)
- **Implementation of FTP**
  - Issue of IEC codes
  - Implementation of Chapter 3, 4, and 5 of the FTP
  - Terminal Excise Duty (TED) drawback
  - Free sale and commercial certificates
  - Restricted licenses for Import/SCOMET Export licenses
  - Grievance redressal
  - Quality complaints and trade dispute resolution (Chapter 8)
- **Internal**
  - Audit + RTI + Litigation + MIS
  - Parliamentary questions + record management
- **Training**
  - Conduct programs for handholding new entrepreneurs, industry associations, universities, etc. under Niryat Bandhu Scheme of GOI
  - Online program by IIFT - An online NBS training module subsidized by DGFT is conducted by IIFT.

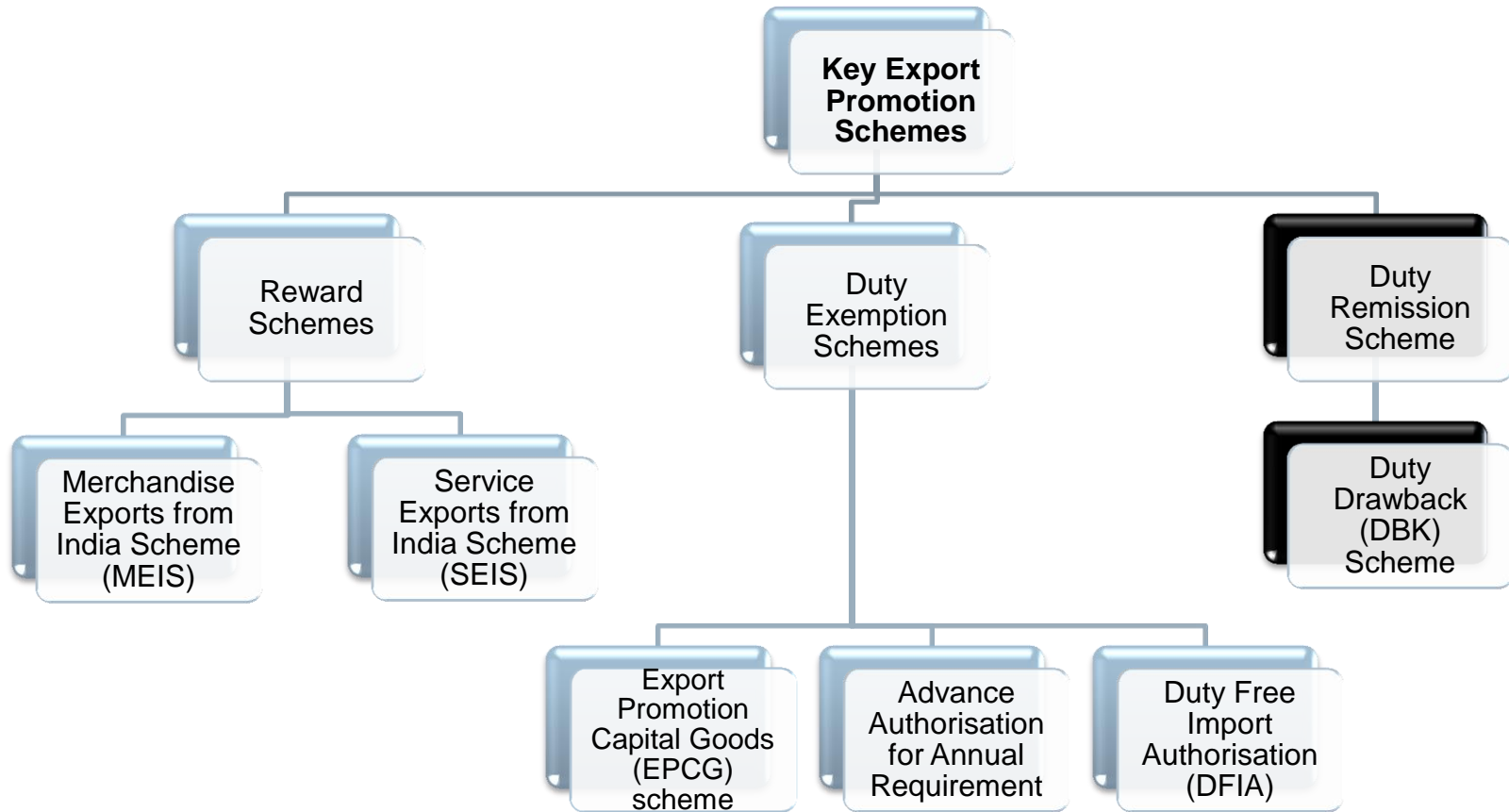
Source: Frost & Sullivan

# DGFT As It Stands in the Trade Value Chain



# FTP 2015-20: Export Promotion Schemes

## Framework of Implementation



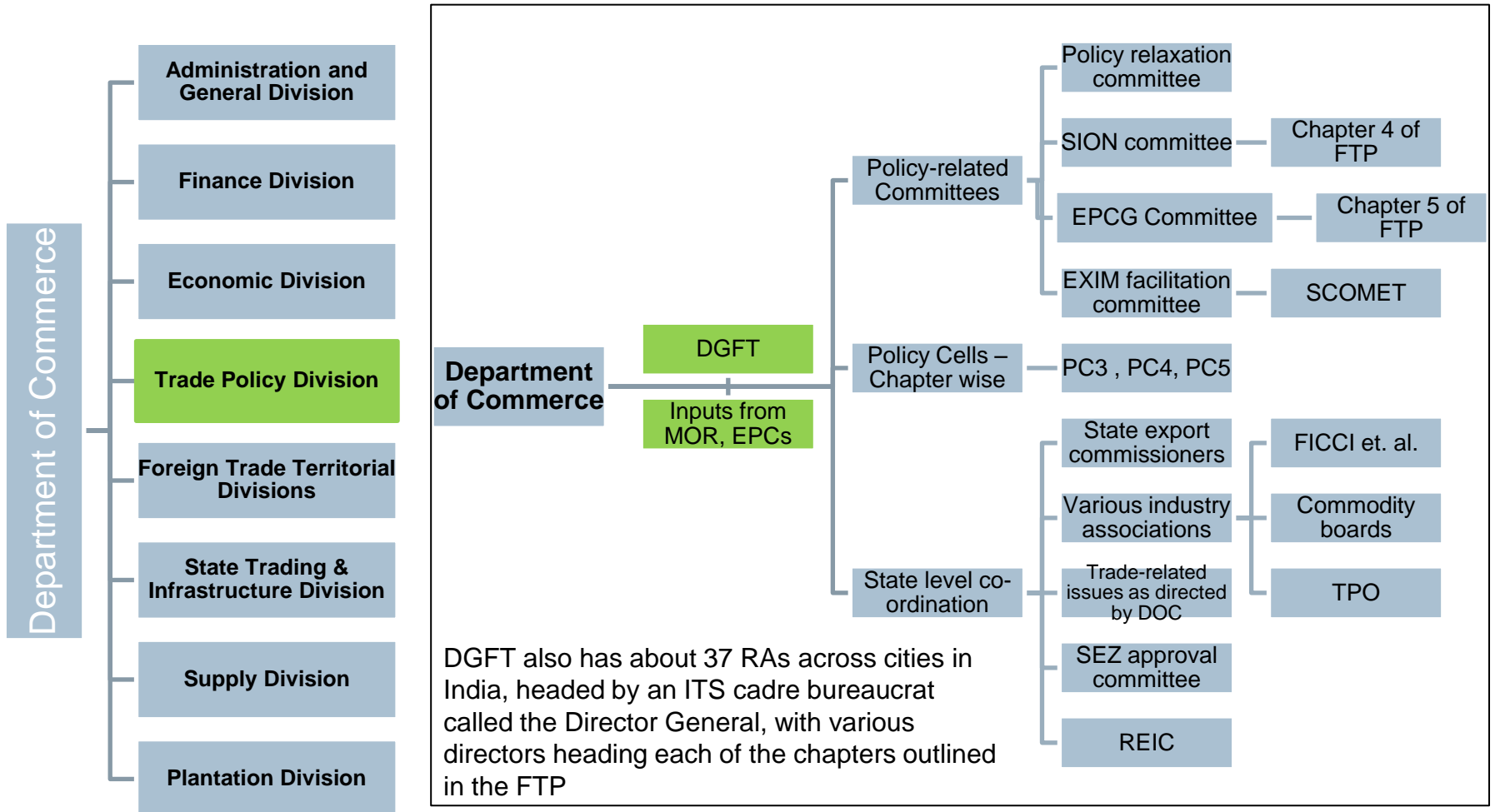
Implemented by DGFT



Implemented by Customs

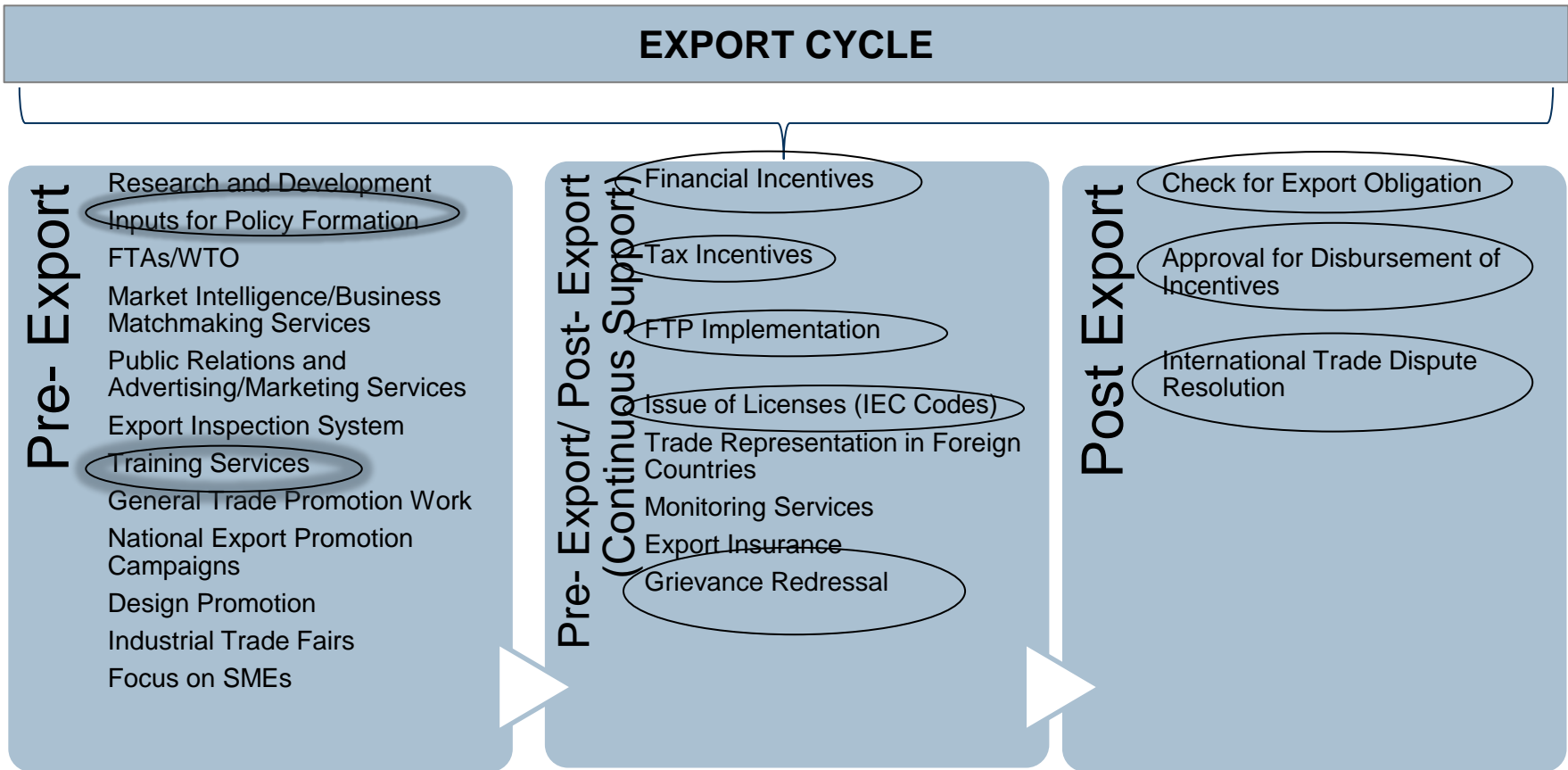


# Government Bodies Involved in FTP Formulation



As per Article 77(3) of the constitution, Dept. of Commerce (DOC) is the entrusted department by GOI for formulation of FTP. **DOC formulates the FTP with inputs from various departments and bodies, such as MOR, DGFT, MoFA, EPC/TPOs** etc.

# As-is Scenario of DGFT's Activities



The circled portions are the activities undertaken by DGFT in the current as-is scenario.

# DGFT and the Global Trade Promotion Best Practices

Global Best Practices in Trade Promotion	DGFT	JETRO	TISA	Apex-Brazil	Comments
Research and Development	X	✓	✓	✓	The policy-related committees under DOC do this role. DGFT has very limited role in this activity.
Market Intelligence/Business Matchmaking Services	X	✓	✓	✓	Ad-hoc. Trade fair visits are sponsored by EPCs under MAI and MDA grants.
Public Relations and Advertising/Marketing Services	X	✓	✓	✓	Partially facilitated by EPCs/ TPOs
Trade Representation in Foreign Countries	X	✓	✓	✓	38 embassy posts notified under DOC, however, the representatives in most of the embassies, currently, are from other departments, such as MoFA, MoHA, etc. (non-trade specialized bureaucrats). No representation from MoC&I.
Monitoring Services	X	✓	✓	✓	Tariff and other non-tariff issues looked into by divisions in DoC.
Training Services	✓	✓	✓	✓	Fairly limited. DGFT conducts some preliminary workshops under the Niryat Bandhu scheme. An online NBS training module subsidised by DGFT is conducted by IIFT.
General Trade Promotion Work	X	✓	✓	✓	Fairly limited trade promotion activities. Few activities are done via TPO/EPCs.
National Export Promotion Campaigns	X	✓	✓	✓	Make in India, etc. is the work of PMO+DIPP.
Industrial Trade Fairs	X	✓	✓	✓	MAI and MDA grants given by MoC&I via Export Promotion Councils.
Focus on SMEs	X	✓	✓	✓	No specific body in MoC&I.

# DGFT—Existing Challenges and Pain Points

Fairly limited mandate on trade promotion activities	<p>Very few activities under the Niryat Bandhu scheme</p> <hr/> <p>RAs in India are not mandated to study the issues endemic to the region in their jurisdictions and provide active hand holding.</p> <hr/> <p>International Trade Administration (ITA), a unit under US Dept. of Commerce has year-round <u>trade mission schedule</u>, <u>international buyer programs</u>, and channels on <u>YouTube</u> with 100s of explainer videos.</p>
Limited statistical and data analysis	<p>DGCI&amp;S in India collects the trade data, however, the data is not disseminated through regular web-based efforts and webinars in a form palatable to the export community at large. The effect is rich available data with no use and lack of market intelligence/business matchmaking analysis.</p> <hr/> <p>ITA, on the other hand, with its stated goal to provide statistical information for selecting markets and products conducts a series of <u>webinars</u> related to trade issues.</p>
No liaison with the Indian commercial consulates	<p>Not able to actively provide inputs and follow up with Indian commercial consulates abroad, while US commercial service has a presence in 75 major countries</p> <hr/> <p>Lack of structured communication between trade and consulates</p>
Low staff count & eCommerce	<p>The staffing of Indian offices of DGFT is not comparable with US commercial service. DGFT is present in 37 Indian cities, ITA, on the other hand, has 109 domestic offices in the US and 128 commercial consulates in 75 countries globally.</p> <hr/> <p>More robust eCommerce system, more digitalization, upgradation, compatibility as current system has several manual interventions—as stated in FTP (Chapter 1 of FTP- pgs 18, 21, &amp; Chapter 4 of HBP- pg 110)</p>

# DGFT As-is Structure—Summary of Findings

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**1. Currently, DGFT has severe constraints with respect to trade promotion. The 28 TPOs notified under FTP are undertaking few trade promotional activities under the MAI and MDA grants furnished by MOC.**

**2. DGFT, with respect to policy formulation, is limited to only providing inputs to DOC, similar to other departments, such as DOR, MoFA, EPCs/TPOS, etc.**

**3. Fairly limited role in research & development, policy and data analysis, and market intelligence/business matchmaking services**

**4. Part implementation of chapters 3,4, and 5 of FTP alongside DOR and Department of Customs**

**5. Complicated EDI system with less or limited integration with other participating government agencies. Single window portal is an urgency.**

# End-user Perceptions on DFGT



# End-user Perceptions

## 1. Proactive approach to policy shaping lacking in the current DGFT structure.

### Obtaining inputs to policy creation by Department of Commerce

- Adequate information not gathered from trade within the country
- Inputs not backed by market development-based research on core export destinations as identified by trade and government
- Lack of a structured feedback/input mechanism by the various participating government agencies, including the department of revenue regarding policy
- Lack of forward-looking inputs that could better shape the FTP – seen more reactive to India's position in global trade
- More often an adopter rather than a leader or trendsetter

### Providing support to policy creation

- Often perceived as more leaning towards four- and five-star export houses
- Institutional domain knowledge of DGFT not adequately used to obtain global inputs into policy creation
- Lack of constant feedback from other ministries on improving trade activity from India
- Holistic trade approach not part of the current DNA of DGFT. More sector focussed and not setting the future direction of trade.

# End-user Perceptions (continued)

## 2. Lack of customer facing intimacy

### **Number of entities interacting with DGFT on behalf of customer, and, as a result, DGFT does not have a detailed understanding of customer**

- Over a period of years, DGFT has moved away from getting a detailed understanding of the customer, which is a primary need when obtaining detailed inputs that will shape policy.
  - Generally, exporters and importers do not interact directly with DFGT, but rather through other entities, such as custom house agents/brokers/consultants/associations, etc.
- Preferred export houses are dealing with DGFT.
- Understanding the detailed requirements of the clients, coupled with a global understanding of the trade drivers/restraints, will support policy and implementation.
- Department of Revenue is often seen as having a detailed understanding of who the customer is. Its mandate is to increase the revenue by implementation, rather than proactive, forward-looking actions.
- Lack of proactive approach to understanding the needs of the industry
- DGFT can adopt a proactive approach by compiling scientific research and analysis on the needs of the industry and providing feedback for policy inputs.
- Need exists for DGFT to transform into a more customer-friendly organisation that has a good sense of the customer, takes interest in proactively understanding their needs, and presenting a more efficient, user-friendly attitude.



# End-user Perceptions (continued)

## 3. Ineffective implementation of the policies

**Lack of a robust digital solution, combined with procedural delays at various stages, hampers effective implementation.**

- IEC codes are issued to individuals/companies that often lack the required credentials. This results in a number of issues at later stages with imports/exports.
- DGFT is currently rolling out a digital solution. This solution needs to be robust and seamless with other agencies, which, currently, is not the case.
- In addition to the digital interface with the customer, there are other procedural delays resulting from manual intervention at various stages.
- Customers are faced with the prospect of delayed exports due to the lack of the digital interface with other participating government agencies.
- Implementation of FTP is done by a number of departments, which often confuses the customer.
- End users feel that once the policy is approved, the operational implementation must be handled by one department.
- Number of committees at DGFT is often seen as a partial implementation arm, resulting in procedural delays.
- Holistic view must be developed at the Ministry of Commerce level to discern why the cost of logistics is about 14%, which is very high compared to the global average of 7%.

# End-user Perceptions (continued)

## 4. Proactive problem identification and solving

**DGFT should be the face of trade in and outside the country that will proactively identify and solve problems.**

- Regional DGFTs seem to lack the required expertise/will to solve the problems of exporters and, instead, refer them to Delhi.
- In some instances, cases have been pending before DGFT for more than 3 years as a result of requesting a name change for the product.
- DGFT needs to be more proactive in problem solving and providing coordination amongst other participating government agencies.
- DGFT, after issuing the IEC codes, has no mechanism of properly monitoring the IEC issued, often resulting in malpractice/misuse.
- Exporters often feel that the problem arises as a result of the lack of clear identification of the problem, and it gets entangled in bureaucratic procedures.
- DGFT does not summon its collective domain knowledge of international trade and commerce, making it more difficult to proactively identify problems.
- India is often subject to international anti-dumping fines as a result of the lack of proactive problem solving.

# End-user Perceptions (continued)

## 5. More of a reactive regulator than a proactive promoter and facilitator

### **DGFT should transform itself into a more proactive trade promoter and facilitator.**

- End users strongly feel that DGFT needs to be retained, but not in its current form as a reactive regulator of trade.
- DGFT must be sole authority to provide inputs on all FTP policy-related matters with a proactive and forward-looking outlook, given the complexities of global trade.
- DGFT should be more visible in the global market as the trade promoter and should facilitate Indian companies to conduct market expansion activities in a more proactive way.
- Develop a detailed understanding of the kind of products/services/solutions required in the various geographies and guide the Indian exporters.
- Bring all the trade promotion activities under the umbrella of DGFT so that, in the eyes of the investors, there is a single entity that they need to tap into, rather than dealing with several entities.
- DGFT must be the nodal agency that will empower Indian trade.
- Trade promotion and investment promotion must be the transforming agenda for DGFT going forward if India is to play a leading role globally.

# End-user Perceptions—Summary

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**1. DGFT will need to continue to provide policy inputs to the Ministry of Commerce by being more proactive in gaining inputs from trade and other ministries. It should be very involved in policy making.**

**2. Going forward, all entities involved in trade promotion must be brought under the umbrella of DGFT under a new name.**

**3. Must develop a robust digital solution and be fully digitised with interface from other ministries to facilitate smooth functioning of trade. Continuous on-the-job training for personnel is needed.**

**4. DGFT should be the sole nodal agency for trade in and outside the country that proactively identifies and solves trade problems.**

**5. DGFT must transform from a regulator to a trader promoter and facilitator.**

**Thank You**

