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Exporters less than thrilled by FTAs

Domain-B

22 December 2012: While the government's policy-makers see the FTAs and other trade liberalisation pacts with South-East Asian nations, recently inked or on the anvil, as 'transformational', Indian exporters are more sceptical about the value of such agreements, which they see as one-way traffic. While facilitating imports from nations like those of ASEAN, they do not help exports much.

This is because most ASEAN nations already have low tariff barriers, and lowering them a little further for Indian exports won't make much difference. On the other hand, if India lowers tariff barriers by a similar percentage, it will give a great incentive to exporters from those countries.

"The Comprehensive economic cooperation agreements (CECA) or comprehensive economic partnership agreements (CEPA) or free trade agreements (FTA) have facilitated more imports than exports from India. The recent export figures point to revisiting our strategy for exploiting the markets with which we have signed FTA, CECA or CEPA," the president of the Federation of Indian Export Organisations (FIEO), M Rafeeque Ahmed, said earlier this month in anticipation of this week's events.

India's exports to ASEAN went down to $14.66 billion in first six months of the financial year as compared to exports of $36.74 billion achieved in 2011-12. A further disaggregation of exports shows that exports to Singapore, Japan, Korea, Malaysia and Thailand in April-September was much less than the pro-rata exports in the corresponding period in 2011.

"The idea of signing the FTAs was to increase exports, but we have not seen the benefits. We should not just sign and leave it ... we must realise the potential areas that exporters can tap, something that the government should have done," Ahmed said.

Even officials in the commerce department who are responsible for negotiating the trade agreements have long complained that the benefits actually accrue to India's trading partners rather than to India.

They said that countries such as Japan and ASEAN members have low average tariffs, and any further reduction in duties cannot be significant. In contrast, India agrees to substantially lower its duties — and even remove them for thousands of items — in return for more service sector gains; a prospect that doesn't usually materialize.

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Emerging countries in world trade

C.P. Chandrasekhar & Jayati Ghosh, Business Line (The Hindu)

26 December 2012: In many ways, the past two decades have been seen as the period of "emergence" of some developing countries as major exporters and importers, as well as new sources of foreign capital flows.This is widely perceived to have significant implications for existing trade structures and patterns, as well as for global power expressed in other ways.

Within the developing world, four countries are usually marked out for their actual or potential significance in this regard: China, India, Brazil and South Africa. (It is no accident that there is also a grouping of these countries, BASIC, which is a subset of the BRICS group that also includes Russia.) All of these are seen to be economies that have been increasing their share of global trade and investment and are likely to become even more significant in future.They are also seen as countries that have experienced relatively rapid GDP growth in recent times, and have now become much larger in absolute terms (with GDP typically calculated in Purchasing Power Parity exchange rates rather than nominal exchange rates.)

There are also some other countries that are frequently cited as potential members of this group — particularly Mexico and Indonesia, once again relatively large economies with large populations and recent history of GDP growth perceived to be higher than average. Like much of the rest of the developing world, they have also sought to add to their holding of foreign exchange reserves even when these are financed by relatively expensive capital inflows.

In fact, all of these countries have also become more assertive in terms of their involvement in international negotiations, in groupings such as G20 and in their engagement with the Bretton Woods institutions, rightly demanding greater voice in a world economy that has hitherto been mostly dominated by G3.

Given the widespread perception of rapid change, it is worth examining the actual picture with respect to global trade shares

Advantage China

The most interesting feature that emerges from analyzing global merchandise export shares of these six countries from 1990 to 2011, calculated in nominal US dollars, is the sense of China being a huge, if impressive, outlier. It is only China that has experienced a really dramatic increase in its share of global exports, particularly in the period from 2003 onwards, such that it now accounts for more than 10 per cent of world merchandise exports.

The other feature that stands out is how the other countries still remain relatively minor players in terms of aggregate world merchandise exports.

India's trade share has increased, indeed it nearly tripled over the entire period, but it still remains well below 2 per cent, and the average for the three years 2009 to 2011 was less than 1.5 per cent.

Brazil shows even more moderate increase in global trade share, while Mexico, whose share increased from 1.2 per cent in 1990 to 2.6 per cent in 2001, has subsequently experienced a decline such that its share of world exports in 2011 was less than 2 per cent.

As far as the share of these countries in world exports of commercial services is concerned, once again, there are some surprises here.

It is often thought that the largest service exporter in the developing world is India, and this is the fond belief that drives much of Indian government strategy in trade negotiations as well, where it behaves as if it has an offensive interest in services.But in fact China exports of services have been higher consistently than that of India throughout this period and both seem to have increased their global shares at a similar pace even in the recent period. Until recently this was largely because of the significance of transport services in China's services exports, and the growth of such services could be easily explained by the rapid increases in merchandise exports from China.

However, in recent years, the picture has become more complex, with some other exports such as travel and computer and information services increasing very rapidly. Meanwhile, despite rapid though volatile growth in the period since 2003, India's share of global services exports is still only just above 3 per cent, while that of China is around 4.5 per cent.

Brazil's share of world services nearly doubled over these two decades, but still remained well below one per cent.

Growing deficits

Mexico's share declined continuously from 0.9 per cent in 1990 to less than 0.4 per cent in 2011. And there was little change in the relatively insignificant shares of the other countries.

As far as the aggregate balance of trade in merchandise and services of these countries is concerned (Note that this is not the same as the current account balance, which also includes various invisibles payments such as factor incomes and remittances.) once again, China is the significant outlier in terms of massive trade surpluses particularly after 2003, which have been followed by almost equally sharp declines from 2009 onwards as the economy rebalances to some extent.

The only other country that showed some improvement in the total trade balance is Indonesia, but this can largely be explained by the increase in oil prices which benefited this petroleum exporter. (Another side story worth noting is how Indonesia, which had moved away from primary exports towards manufactured goods in the 1980s and 1990s, reverted to primary exports dominating the trade account in the 2000s.)

Brazil and South Africa have moved from approximate balance in trade of goods and services to deficits, and the most substantial movement in this regard happened after 2004.

Meanwhile, two countries show sharp and even alarming deterioration in total trade balances: India and Mexico, and once again the major change occurred from 2004 onwards.

In general, it is clear that 2004 marks a definite break in trade patterns with the tendencies towards surpluses or deficits of these countries becoming much more marked.

Remarkably, this was also the period when there occurred a global surge in the cross-border flows of capital, and many of these countries were recipients of large net capital flows that both financed their larger deficits as well as allowed them to accumulate additional foreign exchange reserves.

How much of this trend in net exports in these six countries was due to goods trade, and how much to services?

There are two outliers here: China with its enormous total trade surplus (which is still much smaller than earlier) and India with its enormous trade deficit.

China's merchandise trade surplus is reduced by its services deficit. India is the only country among these six to have a services trade surplus, but the average for 2009-11 is a relatively small $11 billion or so, scarcely enough to make much of a dent on the very large average merchandise trade deficit of more $125 billion.

The picture that emerges from an examination of recent trade patterns suggests that it is problematic, if not downright misleading, to club the other five countries into the same group as China, as if all of them had experienced similar recent trajectories.

In fact it is really China that has exploded onto the world trade scene and become one of the major economies, for a combination of complex factors that cannot be adequately dealt with here.

For the other countries, shares of the global market are still relatively small for both goods and services trade.

Further, there are very evident fragilities expressed in the large and growing deficits of some countries, especially India.

There is no doubt that the world economy is changing and older power imbalances are shifting to newer and more complex scenarios.

But a premature celebration of this tendency in most “emerging” economies, without careful recognition of the realities and limitations inherent in the process, is not only unjustified but can even be described as hubris.

In recent times there has been much discussion of how world trade is changing dramatically because of the “rise” of some large developing countries, including China and India. C.P. Chandrasekhar and Jayati Ghosh examine recent trends in trade of six important emerging nations to assess the actual extent of this shift, as well as India’s position within this group.

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The bilateral threat to free trade

Peter D. Sutherland, Livemint

31 December 2012: The Doha Round of global trade talks appears to have died this year, almost without a whimper. While a small portion of the project may be saved, the essential reality is that this is a unique failure in the history of multilateral trade negotiations, which have transformed the global economy since World War II.

Many of the seven previous rounds of negotiations—including the Uruguay Round, which resulted in the establishment of the World Trade Organization (WTO) in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT)—took years to complete, but none died of neglect or disinterest.

Today's indifference is particularly, though not exclusively, evident in the US. President Barack Obama was silent on the issue in his re-election campaign, and breathed scarcely a word about it in his first campaign, too. One wonders whether what is at stake is even fully understood in some capitals.

Successful multilateral trade negotiations have significantly shaped the world in which we live and have dramatically enhanced the lives of millions of people. Between 1960 and 1990, only one person in five lived in an economically open society; today, nine in 10 do.

The rule-based trading system developed by GATT and WTO has been embraced by virtually the entire global community. It has provided an effective road map for the former planned and import-substituting economies, facilitating their integration into the global market.

Initially, "globalization" was a dirty word to some. But even among its opponents, its value for poorer countries came to be recognized as it helped to lift more than a billion people in Asia out of abject poverty. While much more needs to be done for Africa and parts of Latin America, the Doha Round was intended to assist in providing market access (and, therefore, opportunity) to many more in the developing world.

The essence of the multilateral system consists in two principles: non-discrimination and national treatment. The former is described in the trade negotiators' lexicon as the "most favoured nation" principle, which essentially seeks to ensure that trade benefits provided to one country are provided to all. The latter requires member states to provide the same treatment to trading partners within national borders as that provided to nationals.

The non-discrimination principle ensured that global trade did not become a "spaghetti bowl" of preferential bilateral trade agreements. Moreover, a multilateral framework for trade negotiations gave weaker states far more balanced conditions than they would face were they forced to negotiate bilaterally with the likes of China, the US, or the European Union (EU).

In fact, what we have seen in recent years is an increasing rush to bilateral agreements by the major trading countries and blocs. This has apparently consumed virtually all of their attention. WTO has been marginalized, and even what has already been achieved in the incomplete Doha Round appears unlikely to be delivered in a final agreement in the foreseeable future.

The damage to the credibility of WTO—once lauded as the greatest advance in global governance since the inspired institution-building of the immediate post-war period—may yet prove lasting. Worse, it could have a serious impact not merely on trade, but on political relationships more generally.

One of WTO's great achievements has been the adjudication system that it provides—the so-called Dispute Settlement Mechanism. This independent body has been a resounding success, giving the world an effective quasi-judicial system to resolve disputes between trading partners. But its continued success depends ultimately on the credibility of WTO itself; it will inevitably suffer collateral damage from a failure of multilateral negotiations.

Indeed, the current rush to bilateral trade agreements has been accompanied by a rise in protectionism. For example, there have been 424 new measures of this kind in the EU since 2008. Furthermore, the EU's non-discriminatory tariffs are fully applicable to only nine trading partners. Everyone else has "exceptional" treatment.

Next, no doubt, we will have the prospect of a bilateral free-trade agreement between the EU and the US. An EU-Japan treaty is already in the wind, as is a "Trans-Pacific Partnership" to liberalize trade among the US and major Asian and Latin American economies. If either ever comes to pass, which I doubt, a huge share of world trade would be conducted within a discriminatory framework.

Some recognize the risks. In May 2011, Jagdish Bhagwati of Columbia University and I co-chaired a high-level group convened by the prime ministers of the UK, Germany, Turkey and Indonesia to attempt to move the multilateral process ahead. Our sponsors welcomed our recommendations, but that and similar efforts have gained little traction, leaving all countries rushing headlong towards a world full of uncertainty and risk.

It is not too late to reverse the apparently inexorable tide of bilateralism. But the only way to do so is by proceeding with WTO negotiations. Even if the Doha Round cannot be concluded, there may be other routes, such as implementing what has already been agreed.

Another alternative might be to advance multilateral negotiations among willing countries in specific areas, such as services, with other WTO members joining later.

But if we are to move forward rather than revert to earlier, more dangerous times, the US, in particular, must reassert a constructive role in multilateralism. The US must lead again, as it did in the past. And now it must do so with China at its side.

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Renewed hopes in 2013

T S Vishwanath, Business Standard

3 January 2013: The next 12 months can become an action-packed calendar for India in the area of trade agreements if the various comprehensive trade deals, which are at an advanced state of negotiations, are concluded, and the Ministerial Meeting of the World Trade Organisation (WTO) delivers some meaningful results.

The calendar for concluding comprehensive free trade agreements (FTAs) can be substantial if bilateral deals with important trade partners, including the European Union, Australia, New Zealand and Canada, move towards a conclusion. The deal with the European Union, for instance, has been in the works for several years now, and in all probability will reach a conclusion this year.

If general elections in the country stay on course, and are held in 2014, negotiators will have at least the first seven or eight months of 2013 to conclude a deal with important trade partners. What will, however, be important is to ensure that any deal, which would have taken several years to conclude, should provide some real market access for industry.

This is important because the earlier two deals with Japan and South Korea – though substantial – failed to deliver the expected results from an industry perspective. One did not see the kind of enthusiasm from industry about the deals, expected with markets as large as South Korea and Japan. The government understood the need for greater dissemination of information regarding these agreements, and it undertook a familiarisation drive in 2012 to help the industry capitalise on benefits now available with both these countries.

The agreement with the Association of Southeast Asian Nations (Asean) provides a new opportunity in 2013. The services agreement has been finalised, and companies in the service sector will soon be able to take advantage of a growing market, despite the gloom across the globe. The Asean will remain a significant destination for Indian services export in the coming years and, therefore, Indian industry, especially the information technology sector, will need to take steps to identify emerging trends and capitalise on benefits that the agreement will provide.

An important issue that the government may like to focus on with the countries where FTAs are already in place is the signing of mutual recognition agreements (MRAs) on food and industrial products. Without MRAs, companies on both sides will find it difficult to achieve real market access, since technical barriers can act as non-tariff barriers to exports.

Agreements with Australia and New Zealand will be vital because not only will they provide some market access, but also they will tie in well with the fact that value chains can now be developed by Indian companies across the Asia-Pacific region. Industry associations will do well in the coming year if they start positioning FTAs as opportunities for building value chains by Indian companies, which have embarked on a globalisation drive.

Significantly, it is not just large companies like the Tatas or the Aditya Birla Group that have globalised operations, but several medium-sized firms in India are now looking to source raw materials and intermediates from other markets to build competitiveness. That can help the government and industry associations to position FTAs as important platforms for creating such value chains.

Another important FTA for India will be with Canada, which is under negotiations. It will provide the industry an opportunity to engage better with the North American continent, which is an important market for nearly all sectors with a global presence. It can also trigger discussions on a possible start of negotiations with the US — the topic of discussion in academic circles in both India and the US.

The Doha Round of negotiations, which has a Ministerial Meeting at Bali in November, also provides India with the opportunity to take leadership in some important aspects of the on-going negotiations to deliver a confidence-building agreement for WTO.

With exports dwindling owing to a global slowdown, the government and the industry in India can help sectors in manufacturing and services sectors to tap new markets and build stronger presence in other countries through mutually beneficial agreements this year.

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Trade's added value; New statistics reveal glorious interdependence of countries

Financial Times

17 January 2013: Statistics is not always the bedfellow of lies and damned lies. At its best, it brings epiphanies. An initiative by the OECD and the World Trade Organisation to map the value added embodied in international trade flows should be an eye-opener for policy makers.
Conventional export and import figures are calculated as the total value or volume of goods or services traded between two countries. But in a globalised supply chain, the elements making up a final product may cross national borders many times during the production process. Simple bilateral numbers do not capture this.

The researchers have painstakingly calculated the value a country adds to the goods and services it exports, by deducting the inputs going into their production that the exporter first had to import. Locating where the value in traded products is created and who reaps the rewards gives a truer picture of trading relationships.

This does not affect countries' overall trade balances but it does alter the composition of surpluses and deficits between different trading partners. The most argued-over trade deficit in the world - the US's with China - turns out to be much smaller when accounting for the value added in Chinese exports that comes from third countries, or even the US itself. In the most popular illustration, China keeps only a fraction of the cost of an iPhone. Those making political hay from trade disputes would do well to take in these findings.

An immediate implication is that imports are not the job-killers they are made out to be. Supply chains now criss-cross the world, as highlighted by the global disruptions from local natural disasters such as the Tohoku earthquake or Thailand's floods. This means imports that displace a country's domestic products may at the same time be the lifeblood of its exporting sectors. Conversely, even low tariffs may cause more harm than they offer protection.

The new numbers also restore services to their rightful place. Too much hot air is blown about the importance of "making things". In fact, services account for one-third of value added in core "things" such as machinery and chemicals. Those who want trading success must focus more on the productivity of their service sectors.

Trade is becoming ever more gloriously interdependent. This leads to painful changes, such as the squeezing of medium-skilled workers, but also more productivity. By improving our understanding of the intricacy of world trade, the new data help us manage it better.

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India to propose railway link between Kabul and Chittagong

Elizabeth Roche&Asit Ranjan Mishra , Mint

Agra, 28 January 2013: India will propose on Monday a railway link connecting Kabul in Afghanistan and Chittagong in Bangladesh to ferry passengers and goods, despite heightened tensions with Pakistan because of recent border skirmishes.

“We need to develop wide-ranging and efficient freight and passenger railway links from Kabul to Chittagong, linking Pakistan, India, Nepal and the foothills of Bhutan, along with trunk highways, feeder road systems, and affordable air services,” commerce and industry minister Anand Sharma will say in a prepared speech. “The process of finalizing such regional transportation agreements has remained pending for far too long.”

Mint has seen a copy of the speech Sharma is expected to deliver at a partnership summit in Agra organized by lobby group Confederation of Indian Industry and the commerce ministry.
Sharma has referred to the first transcontinental railroad and the creation of a national highway system that provided the US with quantum leaps to create a vast and integrated market. “This is how it should be in our region as well,” Sharma is expected to say.

Earlier this month, tensions between India and Pakistan rose after two Indian and two Pakistan soldiers were killed along the Line of Control border separating the disputed Kashmir region. A semblance of calm has been restored following talks between military officers of both nations.

However, Pakistan’s trade minister Makhdoom Amin Fahim, who was to visit India for the partnership summit, cancelled his visit, citing domestic preoccupations. An 11-member trade delegation from Pakistan scheduled to participate in the summit is also not coming.

“We all agree that we have a shared objective of regional economic and commercial engagement in this region and trade and economic interest alone can bring enduring peace, development and prosperity for all our people,” Sharma is likely to say. “We need to find effective mechanisms for achieving these objectives.”

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Free trade pacts under review: Minister

Business Line (The Hindu)

Hyderabad, 13 May 2013: India is reviewing some of the existing Free Trade Agreements with other nations in an attempt to measure their impact on the country's trade, said Union Minister of State for Commerce and Industry D. Purandeswari.

"We have not set any time frame to complete these reviews. The basic objective is to determine if there are any hurdles and what inputs need to be introduced for further trade growth," she told press persons on the sidelines of a seminar on Export Growth in Andhra Pradesh here today.

She said the reviewing of the FTAs would also help India in the on-going negotiations for new agreements with some of the emerging markets. "We are now sharpening focus on emerging markets for exports, with the traditional markets in the US and Europe still to recover to the desired level," the Minister said.

Export target

Ajay Sahai, Director-General and CEO of Federation of Indian Export Organisations, said India's exports were expected to grow at a higher level of 10-15 per cent in the current fiscal.
Export growth was marginal last fiscal, with the turnover touching $300 billion.

State-wise studies

The organisation has initiated a move to take up detailed studies of every State regarding their export markets, potential, products and competition.

It has started with Andhra Pradesh and the study is likely to be completed by September. This will be followed up with Uttar Pradesh, Madhya Pradesh and Jharkhand next year.

"The studies will elaborately cover the export potential of the State, the types of products that can be exported, the trade and non-trade barriers and competition from other countries," Sahai said.

The Andhra Pradesh Minister for Major Industries and Export Promotion J. Geeta Reddy said the State was working on a new export policy to drive exports, especially in value-added products in the engineering, pharma and food processing sectors.

She said the State climbed to third place in exports, with a growth of 31.47 per cent in the last seven years.

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Trade Restrictions on the Rise Among G-20 Members, WTO Warns

Bridges Weekly Trade News Digest

20 June 2013: Trade restrictive measures by the Group of 20 economies are once again on the rise, according to the latest monitoring report released by the WTO this week. The news comes just months after the organisation reined in its 2013 trade growth forecasts by more than one percentage point, in light of continued global economic uncertainty.

Monday's report, which covers the period between mid-October 2012 and mid-May 2013, is part of the organisation's effort to monitor G-20 countries' adherence to their post-financial crisis pledge to avoid resorting to trade protectionism.

The document is released jointly with the UN Conference on Trade and Development (UNCTAD) and Organisation for Economic Cooperation and Development's (OECD) report on investment measures. The three organisations have issued these two reports at roughly six-month intervals since September 2009.

Over 100 new trade restrictions

Despite having reaffirmed their commitment to refrain from raising or imposing new barriers to trade and investment at last year's leaders' summit in Los Cabos, Mexico, this latest report finds that G-20 countries have continued to implement trade restrictive measures, with over 100 such measures recorded in the last seven months.

During this period, trade remedy investigations accounted for 61 percent of all trade restrictive measures, with anti-dumping investigations and temporary tariff increases being the most prevalent.

Notably, 70 trade facilitation measures have been implemented since the last monitoring report. However, in the same time period, the share of trade-facilitating measures has decreased from 55 percent of all trade measures to 40 percent.

Moreover, only 19 percent of trade restrictions imposed since October 2008 have been eliminated, as compared to 21 percent last year, fuelling concerns that such measures are accumulating rather than dissipating.

Lamy: G-20 should "unlock the potential for trade " in time for Bali

The weakness of import demand within the EU, which previously accounted for 35 percent of all world merchandise imports in 2011, has had far-reaching repercussions within the international trade system. In total, imports of developed economies fell by two percent and imports of developing countries rose by two percent, leaving a zero percent overall growth in world imports in the second half of last year, according to the report.

Despite the worrying increase in G-20 restrictions, the report notes that the trade impact of import measures is only approximately 0.2 percent, indicating that countries have overall been successful in resisting widespread protectionism.

However, given the uncertain prospects for the global economy, WTO Director-General Pascal Lamy reiterated previous calls to G-20 governments to avoid "making matters worse" by adopting isolationist and trade-restrictive policies.

Instead, he said, governments should focus on "unlock[ing] the potential for trade to grow stronger" by ensuring a successful WTO ministerial conference in Bali this December, such as by clinching a deal on trade facilitation (for more on the Bali preparations, see related article, this issue).

"Trade can once again be an engine of growth and a source of strength for the global economy rather than as a source of instability and tension," Lamy said. "At this stage, the world economy needs all the help it can get, and trade is an important and viable option."

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Anand Sharma calls for more trade within Indian Ocean Rim countries

Richa Mishra, Business Line (The Hindu)

Port Louis (Mauritius), 4 July 2013: The Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) is yet to exploit full potential of intra-region trade and investment, said Minister for Commerce and Industry Anand Sharma.

This was mainly because of lack of a formal platform for doing business, insufficient infrastructure, scant information sharing, and lack of proper logistics.

A similar view was voiced by other member countries as well at the IOR-ARC Economic and Business Conference in Port Louis, Mauritius on Thursday.

“Despite the establishment of a Working Group on Trade and Investment, not much progress has been made for achieving substantial outcomes based on the promise that this region holds out and the potential that has largely remained unharnessed,” the Minister said while addressing the session on ‘Enhancing Trade and Investment in the IOR-ARC Region’.

The fact that this region as a whole managed to maintain a trade surplus in most years of the last decade even when the economies elsewhere were hit by subdued global demand and contracting growth in the West is an indication of growth prospects, he said.

“We have identified the key areas and our business leaders are keen to take it forward,” Sharma stated.
The Minister pushed for exploring institutionalised mechanisms for building regional cooperation for trade and investment, as in other regional groupings like the ASEAN, SAARC, COMESA, GCC and SACU.

“It is important to take forward the momentum of our pan-Indian ocean regional cooperation to the next logical level by creating an institutionalised mechanism for an interaction of our businesses by defining areas of cooperation,” he added.

The two-day conference proposes to bring together the Ministers of Commerce and Industry of the 20 IOR-ARC Member States – Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates and Yemen – and the six Dialogue Partner States (China, Egypt, France, Japan, the UK and the US).

Some of the issues raised by the industry and other member countries included peak tariffs, trade concentration, close coordination between the Exim Banks of the region, and absence of clearance mechanism for conducting trade in local currencies.

On tariff rates, Naina Lal Kidwai, President of FICCI, said, “We see that while average tariffs have come down over time, businesses still have to deal with peak tariffs and diverse trade policy regimes within member states.”

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India's trade needs strategic regionalism

Jayanta Roy, Business Standard

6 July 2013: The failure of the Doha trade talks led to the acceleration of regional trade ties and economic integration as countries chose to aggressively seek alternatives to multilateral trade liberalisation. Several other factors have also led to the development of ever-closer trade and investment relations between regional partners. Manufacturing supply chains have sought to leverage regional specialisations. Firms have sought to take advantage of the economies of scale and market size offered by the larger region in which they operate. Particular natural resource and skill endowments have led to the development of cross-border exchanges of natural and human resources. But in several cases it was strategic considerations that initiated the process of regional integration and paved the way by creating institutions and incentives that led the way to regional economic integration.

The EU, Asean, North American Free Trade Agreement (Nafta), and Mercosur were all part of a larger political commitment to regionalism. Trade policy that facilitated regionalism was the product of such strategic decisions, and regional trade and investment agreements were designed to ensure that the overall competitive strengths of the region were maximised. The depth and quality of institutions and incentives coming out of the design of such trade agreements played an important role in the relative success of such regional integration. More recent new mega-regional initiatives such as the US-led Trans-Pacific Partnership (TPP)1 and the Asean+India, China, Japan, Korea, Australia and New Zealand Regional Comprehensive Economic Partnership (RCEP) show that countries are seeking to create clusters of economic relations across the traditional regional lines. A global economy defined by such clusters of economic relationships along the Pacific and Atlantic rims essentially puts forward a challenge to Indian policy-makers as to where they are as a part of this larger process of economic integration along regional clusters.

The initial steps towards regionalism in India were also dictated by strategic considerations. India chose to reach out to its South Asian neighbourhood to leverage economic diplomacy as a means to improve ties with its neighbours. The South Asian Free Trade Agreement (Safta) and India-Sri Lanka FTA came out of such initiatives of the mid 1990s. South Asian integration, however, was thwarted by the lack of cooperation from Pakistan. Pakistan still restricts free movement of Indian goods and services in spite of recent initiatives at bilateral rapprochement. As a result, South Asia remains one of the least integrated regions in the world.

India's regionalism efforts since then were largely un-coordinated and FTAs were put into motion with some success only with Singapore. India also invested a lot of negotiating energy in FTAs with industrialised economies like Japan and the EU where market access gains will be marginal, given that the tariffs there are already low, and agriculture and a liberalised visa regime are not included in these FTAs. India also wasted efforts in forums such as BRICS that add little value to furthering India's economic objectives.

Given the current global scenario, it would make sense for India to look to a deeper regionalism with the more dynamic economies of Southeast Asia, and simultaneously consider joining the TPP. It already has an FTA with Asean in goods and services, and India is also a member of the wider RCEP. The entire focus now should be towards a link to the regional supply chains of Asean countries. This will require policies to attract FDI that would help create these regional linkages. It would also require the Indian government supporting outward FDI by Indian entrepreneurs seeking to invest in the larger South East Asian region and beyond. Well-targetted industrial policy to help selected sectors like heavy-engineering, chemicals, industrial machinery, textiles, and electronics improve productivity, acquire technology, and develop new product lines would also help in increasing regional linkages. A more competitive and diverse manufacturing base in India would have more opportunities to find a place in the regional production network.

The critical element of this regionalism is connectivity. India has overland routes connecting it to most of South Asia and Southeast Asia. It also shares a coastline along the Bay of Bengal with the wider Southern Asian region. An ambitious long-term vision to ensure economic connectivity between India and the rest of southern Asia is critical to India's trade policy objectives in pursuing regional agreements with Asean economies. Connectivity would not only encompass road, rail, air, and sea linkages but also linkages between Indian and southern Asian energy networks (pipelines and electricity grids). It would also include institutional mechanisms to facilitate the movement of people (thus enabling services trade), customs and other regulatory harmonisation, and the liberalisation of education, health, banking and financial services.

India also needs to have some form of trade agreement with its strategic partner, the US, and also with some other countries in the Pacific region. In this regard, the TPP offers the best opportunity for India. Apart from the US, and some RCEP countries, India would also be able to link up with the growing markets of Canada, Mexico, Peru and Chile. India would benefit greatly by ultimately linking to these mega-regional supply chains. Most importantly, this would help revive the lost momentum of the decade-old US-India strategic partnership.

Membership of the TPP, however, is not automatic. India will have to fulfil the strict requirements of elimination of tariffs and other barriers to trade and investment, a WTO +IPR regime and trade in services, adherence to competition policy, trade facilitation, investment policy, and government procurement. Labour and environment policies are also on the agenda - although how far these will be enforced is not yet clear. Given the diversity of membership in TPP, the same rules obviously will not apply to all countries. Also, India does need to move swiftly on most of these policies on its own to fulfil its objective of becoming a major global player. It is high time that India develops a bold and well-focused 21st century regionalism strategy.

Recommendations

The main reason behind India's ad hoc approach to regionalism has been the total lack of a vision and an overall strategy on the part of the ministry of external affairs (MEA), and the ministry of commerce and industry (MOCI). Given that economic policy, especially trade policy, is now an integral part of foreign policy and diplomacy, it is most surprising to find that no thought was ever seriously given to having a strong economic cell within the MEA headed by a well-qualified economic adviser. There also appears to be no strong collaboration between the MEA and MOCI in formulating multilateral and regional strategies. The trade policy department (TPD) in MOCI mostly focuses on WTO policies, leaving the task of bilateral and regional agreements to individual regional division heads. It is not clear whether regionalism strategy is designed and implemented in MEA or in MOCI. There is an urgent need to have a body such as the Office of the United States Trade Representative (USTR) in India, or a fully revamped TPD which can effectively be in charge of inter-ministerial coordination in unilateral trade policy, multilateral and regional matters. The TPD must have a renowned trade economist as its chief economist, fully armed with state-of-the-art modelling techniques and the best available global trade data. MOCI should scrap its obsolete Annual Foreign Trade Policy and replace it with a periodically updated strategic trade policy paper that India requires to not only overcome its present current-account deficit problem, but to help put India on a truly outward-oriented high and inclusive growth trajectory.

1Members are Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, USA, Japan, Canada, and Mexico. Other countries showing interests are the Philippines, Laos, Colombia, Taiwan, Korea and Costa Rica.

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India, Vietnam trade set to cross $7 bn by 2015: Khurshid

Business Line (The Hindu)

New Delhi, 12 July 2013: Economic ties between India and Vietnam are on track and may cross $7 billion by 2015, External Affairs Minister Salman Khurshid said on Thursday.

Speaking to the media after the 15th meeting of the India-Vietnam Joint Commission, the Minister said investments by Indian companies total about $936 million in 86 projects in sectors such as oil and gas exploration, mineral exploration and processing, sugar manufacturing, agro-chemicals, IT, and agricultural processing.

Khurshid said Vietnam had recently chosen Tata Power as the developer for a $1.8-billion 2X660 MW Long Phu 2 Thermal Power Project in Soc Trang province in southern Vietnam, despite strong competition from Korean and Russian companies.

“It will be the single largest Indian investment in Vietnam when it comes through and will enhance our economic co-operation and strategic partnership. The MoU between the two central banks – Reserve Bank of India and the State Bank of Vietnam – signed in 2012, will enable Bank of India and Indian Overseas Bank to upgrade their representative offices that they opened in Ho Chi Minh City in February 2003 and March 2008, respectively, into full-fledged branches in the near future,” Khurshid said.
India has extended 17 letters of credit (LoCs) totalling $164.5 million, including a $19.5-million LoC for setting up Nam Trai-IV hydropower project and Binh Bo Pumping station, which was signed on Thursday.

India has also agreed to consider earmarking $100 million under buyer’s credit under the National Export Insurance Account for use by Vietnam.

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Government likely to review bilateral trade pacts, FTAs to reassess gains

Deepshikha Sikarwar, The Economic Times

New Delhi, 16 July 2013: The government may review India's bilateral trade pacts including free trade agreements (FTAs) amid increasing clamour from the industry against conceding foreign trading partners more access to the country's market without extracting significant gains in return.

The finance ministry wants a review of the FTAs to ensure an optimum deal for the country, a senior official told ET, adding that India cannot run a high current account deficit for long.

Even as the ministry has started reviewing the bilateral investment treaties, it is likely to soon ask the department of commerce to examine whether the country has got what it expected from the FTAs, most importantly with Thailand and the ten-member ASEAN.

"We are at the moment looking at bilateral investment promotion agreements. But FTAs need to be looked at," said the official, who did not wish to be named.

The domestic industry has been mounting pressure on the government, saying it has not gained much from the FTAs.

"India needs to have a fresh look at its FTA strategy in view of the continued slowdown in exports and not much gains being realised from services exports either," a spokesperson of the industry body CII told ET.

Indian industry's biggest concern is the India-Thailand agreement, which has kicked off in a limited way with an early harvest scheme that has eliminated tariffs on 82 items.

India's imports from Thailand rose to $5.6 billion in 2012-13 from $2.7 billion in 2008-09 while exports grew to $3.7 billion from $1.94 billion over the same period. The country's trade deficit with ASEAN, with which it signed a trade agreement in August 2009, has widened to $18 billion from $14.9 billion in 2009-10.

India has had a bitter experience with imports of gold from Thailand at a concessional duty under the trade early harvest scheme. Imports of gold items from Thailand shot up after India increased duty on the yellow metal to discourage its import and consumption.

Heavy bullion imports were one of the main reasons for the rise in the country's trade deficit to an all-time high of 4.8% of GDP in 2012-13.

Gold jewellery imports from Thailand have been suspended since and the finance ministry has sought removal of gold jewellery from tradeable item under the trade agreement with Thailand.

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Safta members propose to reduce sensitive list

Asit Ranjan Mishra, Mint

New Delhi, 17 July 2013: In a move that could boost trade within South Asia, India, Bhutan, Pakistan and Maldives have proposed to drastically reduce the sensitive list, that defines products which will not be eligible for lower import tariffs, in the South Asian Free Trade Area (Safta) to 100 items by 2020 from around 900 now.

An Indian commerce ministry official said the proposal will be discussed among member countries at a meeting scheduled to be held in Kathmandu on 31 July. "If an agreement is reached, then it could be taken up at the upcoming seventh Safta ministerial to be held on 23 August at Colombo," the official added.

Preferred trade under Safta, which came into effect in 2006, is based on a so-called sensitive list of commodities. The other members of the eight-member trade grouping include Nepal, Afghanistan, Bangladesh and Sri Lanka. Except for India, Pakistan and Sri Lanka, the others in the grouping are least developed countries (LDCs). India has already reduced tariffs to zero for most of the tradable commodities with such countries.

The official said while Sri Lanka is yet to respond to the proposal, Bangladesh has said that the timeline may be a little ambitious for the LDCs. "We have told them they can suggest any new timeline if they wish. We want the sensitive list to be reduced at one go, instead of a phased approach," the official added.

Even if a consensus is not reached among all the countries in the region, India should go ahead and unilaterally reduce the sensitive list to 100, said Nisha Taneja, professor at the Indian Council for Research on International Economic Relations.

In September 2012, India and Pakistan announced the reduction of the sensitive list of items to 100 by 2017 as a part of a long-term plan to boost economic ties.

While India was scheduled to prune its sensitive list under the Safta pact for Pakistan to 100 by April 2013, its neighbour had agreed to do the same by 2017.

"Thus, before the end of 2017, both India and Pakistan would have no more than 100 tariff lines in their respective Safta sensitive lists. Before the end of year 2020, except for this small number of tariff lines under respective Safta sensitive lists, the peak tariff rate for all other tariff lines would not be more than 5%," the joint statement said.

However, India's proposal was based on the condition that Pakistan would grant the non-discriminatory most favoured nation (MFN) status to India by December 2012. Since Pakistan failed to grant the MFN status, India hasn't reduced its sensitive list for Pakistan as proposed.

Since then, there has been a change in government in Pakistan, following the election victory of Nawaz Sharif. Pakistan high commissioner to India Salman Bashir said on Tuesday that normalization of trade relations with India was a priority and said "sky is the limit" for deeper economic cooperation between the two countries.

"The present government is settling in. India track is the most important track when it comes to foreign trade policy of Pakistan," he added.

According to the Safta website, exports have been rising. As of 13 September 2012, this has crossed $2 billion, since the launch of Safta trade liberalisation in July 2006.

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Boost for Indian shrimp export from Southeast Asian malady

George Joseph, Business Standard

Kochi, 19 July 2013: The Indian shrimp export sector is likely to gain this year due to widespread damage to shrimp farms in Southeast Asia, due to a disease called Early Mortality Syndrome. Processing units in these countries will have to import to meet commitments with European and US importers.

This shift would be a big relief to the Indian sector, as it faces a serious problem in export to the European Union (EU).

Shrimp shipments from Thailand, the world's second largest exporter, could slump by half this year from the usual 350,000 tonnes because of the disease, said the Thai Shrimp Association. Supply could fall by half from the normal yearly production of 500,000 tonnes.

Thai shrimp exports to the EU in the first five months of this year were 12,548 tonnes, a drop by 38 per cent in volume and 34 per cent in value compared to the same period last year.

Anwar Hashim, a leading shrimp exporter and former president of the Seafood Exporters Association of India, told Business Standard this was a boon to our seafood export sector here. For the past two years, it has been hit by poor offtake and price reduction by EU importers.

Data from the Marine Products Export Development Authority show Southeast Asia was the largest importer of Indian seafood items in 2012-13. The region had imported 340,944 tonnes, valued at Rs 4,357 crore, which was 37 per cent of India's export and 23 per cent of the total earnings from the sector. The rise in export to this region was 24.9 per cent compared to 2011-12. Hashim forecast a sizable increase in exports to Southeast Asia this year, too. Apart from the disease referred to, demand is also rising in a number of countries in the region.

The disease has killed cultivated shrimps in several countries in Asia, where a million people depend on this type of aquaculture for their living, according to a report of the United Nations' Food & Agriculture Organization. Asia produced three million tonnes of shrimp with a value of $13.3 billion in 2011, it said.

The sector shows signs of recovery after hatcheries, farmers and governments worked to stop the disease spreading but it will take time to compensate the shortage in supply. Prominent Thai companies are considering importing of prawns and related products from Ecuador, India and Vietnam to meet local and foreign demand, according to the Thai Frozen Foods Association.

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