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Lead Article

Distribution of Gains in Global Value Chains

A Preliminary Exploration

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A. INTRODUCTION

Manufacturing and international trade have witnessed a fundamental change over the past few decades. Sharp reduction in transportation costs, advancements in information and communication technology, and trade and investment liberalization have facilitated fragmentation of the production process across multiple countries. Countries no longer manufacture and export exclusively finished products. Instead, they tend to specialize in specific stages of the production process that can be dispersed geographically. These related tasks combine to create a global value chain. Thus, a global value chain (GVC) is a chain of separate but inter-linked and coordinated activities, which can be undertaken within a single firm or be divided among multiple firms in different geographical locations. Using a recent OECD-WTO database on trade in value-added, this study seeks to explore how gains are distributed among different countries that participate in GVCs.

Typically, a GVC is structured around a lead firm, frequently a transnational corporation (TNC) located in a developed country, and a network of suppliers. The suppliers can either be foreign affiliates of the lead firm or subcontractors. Lead firms in GVCs benefit from labour cost arbitrage based on geographic variation; efficient infrastructure; and capabilities in manufacturing, marketing and logistics. Lead firms seek to reduce the cost of organising the chain, coordinate with dispersed and varied suppliers, decide what is to be produced and by whom and monitor performance. This may involve a trade-off between gains derived from lower manufacturing costs at distant geographical locations and costs incurred in transportation, managing risks and coordination

Faculty Movements

The Centre for WTO Studies (CWS) bids a fond farewell to Professors Shashank Priya and Madhukar Sinha who both return to their parent cadres in June-July 2013. Their contributions at the Centre will be missed.

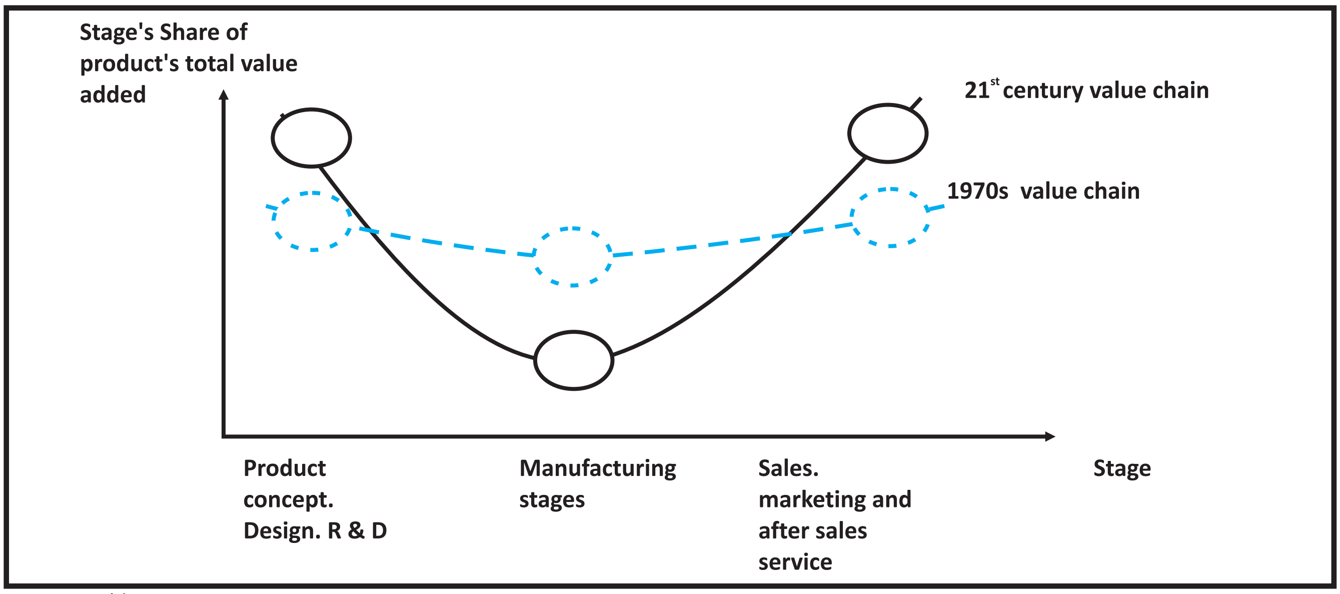
The Centre is also very pleased to welcome Mr. Mukesh Bhatnagar who is joining the CWS as a Professor in July 2013. Mukesh Bhatnagar brings with him over thirty years of experience in international trade issues, including of handling trade remedies and WTO Dispute Settlement for the Government of India.

Prior to joining the CWS, Mr. Bhatnagar was with the Indian Trade Service and has worked in various capacities in the Directorate General of Anti-dumping and Allied Duties (DGAD), Directorate General of Foreign Trade (DGFT) and the Trade Policy Division of the Ministry of Commerce and Industry, Government of India. Mr. Bhatnagar has done his MBA from University of Hull, UK and B.Com (Hons) from Delhi University.

In this issue

across different locations.

It has generally been recognised in literature that activities which generate most of the incomes are those that precede and succeed the manufacturing stage of GVCs. In other words, most of the income in a GVC is concentrated in activities performed mainly in developed countries such as research and development, product design, logistics, sales, advertising, branding, after-sales activities etc. On the other hand, labour-intensive manufacturing, which is undertaken mainly in developing countries, accounts for a relatively lower share of value-addition in the entire GVC. Tasks based on knowledge-intensive activities are responsible for creating the largest share of a final product's value and provide firms with the largest profit margins. Mudambi (2008) has built on this fact to highlight that value creation in GVCs generally takes on a smiley shape, with value primarily created at the extremes of the smile (see figure 1).



Source: Baldwin 2012

According to Baldwin (2012), the smile has deepened over time, suggesting that the gap between incomes generated by non-manufacturing and manufacturing activities has widened over time. Thus, relative gains of firms involved in manufacturing have declined as compared to firms involved in non-manufacturing activities in a GVC. As most of the firms from developing countries that participate in GVCs are involved in manufacturing activities, these are the players which have gained the least from integration into GVCs. Similarly, in GVCs based on agricultural products, the gains are concentrated in non-farming activities.

B. CASE STUDIES EXAMINING DISTRIBUTION OF GAINS IN GVCS

While GVCs potentially offer opportunities for achieving welfare gains in developing countries, it is relevant to discuss how incomes are distributed among different activities comprising a GVC. A few case studies are available on distribution of gains in GVCs, some of which are discussed in the next section. These cover a wide range of products (IT products, textiles, agricultural products etc.) and generally suggest that most of the gains in GVCs arise from activities at the non-manufacturing segment.

Using the iPod as an example of global manufacturing, Linden, Dedrick and Kraemer (2009) estimate that in this product only $4 out of the total retail price of $299 can be attributed to producers located in China while most of the value accrues to US, Japan and Korea. The tasks that create high gains include product design, software development, product management, marketing and other high value functions in the US. Decomposing the total retail price of Nokia N95, Ali-Yrkko et al (2011) show that although the phone is mostly 'made' in Asia, most of the value added accrues in Europe. In the case of an N95 assembled in China and sold in the US, almost 68 per cent of the value-added is in Europe. A teardown analysis of iPad tablet computer by the consulting firm iSuppli estimated Apple's gross margin for the product to be 54 per cent (Hesseldahl

2010).

Another interesting case study of distribution of gains in GVCs is provided by Kawakami, who studies the personal computer value chain. Her analysis shows that IBM accounted for more than 50 per cent of profit in sale of Dell computers, followed by 20 per cent made by the lead firm (Dell) and extremely low profit of below 5 per cent made by the Taiwan based contract manufacturer Quanta. Her analysis underscores the important point that the manufacturing segment of a GVC usually generates the lowest gains.

In a study of the textile and apparel industry, Tiwary (2005) recounts the experience of an Indian producer focusing predominantly on home furnishing of silk for high-end export market. The company imported quality inputs from China and focused on design and rapid delivery of small batches of highly customised home furnishing fabric. Despite producing a high-end exclusive home furnishing product, the producer's unit value was on average about US $20 per metre. However, these products are retailed on almost 5 to 6 times the unit value of the producer by its clients in the US and EU. This example illustrates how most of the value of the retail textile product was captured in EU and the US and not by the Indian manufacturer.

Agriculture value chains typically comprise primary producers, processors, international traders and global retailers. Most of the gains in agriculture-based GVCs are concentrated in international trading. Examples of high concentration of gains are found in many agribusiness value chains. In the coffee industry, for example, international trading companies and roasters have a share in gains of 40% (for the largest four players in trading) and 45% respectively. In the cocoa market, share in gains of trading companies, cocoa grinders and confectionary manufacturers range from 40% to 50% (World Bank, 2007). Liberalisation of world cocoa markets has resulted in a strong concentration in downstream part of the value chain where a few TNCs form an oligopsony. Hence, despite Cote d'Ivoire accounting for 40 per cent of world cocoa supplies, it is not in a position to exercise its selling power (Dorin, 2008).

Dolan et al (1999) show how the lion's share of income in exports of fresh vegetables from Kenya accrues to the marketing end of the GVC. According to their estimate, income to the producers account for about 14 per cent of the final price. In contrast, more than thrice of this income (around 45 per cent) accrued to supermarkets. In the case of canned deciduous fruit, incomes accruing to growers (12.4 per cent) are less than half of the incomes of retailers in developed countries (26.7 per cent) (Kaplan and Kaplinsky, 1999).

C. ESTIMATING THE DISTRIBUTION OF GAINS IN GVCs USING OECD-WTO DATABASE

While the examples mentioned in the previous section suggest that most of the gains of GVCs accrue to firms in the non-manufacturing segment, these few case studies may not constitute persuasive evidence on this issue. However, more conclusive evidence is now emerging from the OECD-WTO Database on Trade in Value Added (TiVA). Although the database is a work in progress, some research is already available which suggests that most of the gains from GVCs are concentrated in developed countries. We use the May 2013 version of TiVA for our analysis. The indicators of trade in value-added are derived from global input-output tables, developed by the OECD, which describe inter-industry flow of goods and services for 58 economies, reflecting 95% of global output.

Conceptual framework

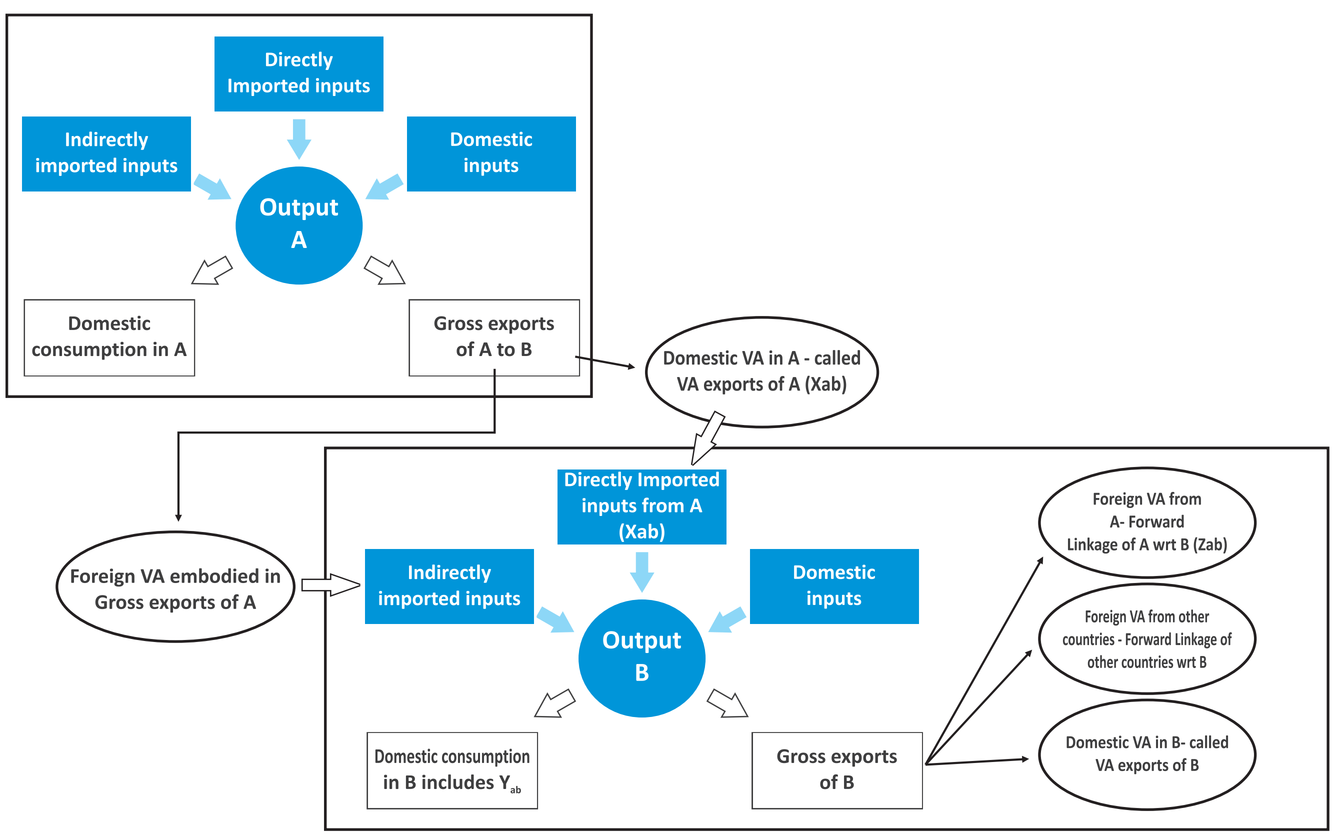
A simplified version of the conceptual framework for analysing trade in GVCs has been diagrammatically shown in Figure 2. Gross exports of a country 'A' consist of domestic value-added and foreign value-added. Foreign value-added embodied in gross exports includes inputs imported directly from the trading partner, as well as inputs of a third country contained in imports from the trading partner. Thus, foreign value-added includes both, direct and indirect foreign inputs. Domestic value-added component of gross exports of a country is generally referred to as the value-added exports of the country concerned.

Value-added exports (value of $Xab) of a country 'A' to country 'B' can be used partly for domestic consumption ($Yab) in country 'B' and the remaining ($Zab) embodied in further exports of country 'B'. $Zab is called the Forward Linkage of country A with reference to country B. It represents the amount of value-added exports of a country 'A' that is embodied in further exports of country 'B'. This amount crosses customs borders on at least three occasions and, therefore, can be considered to be the exports of country 'A' in global value chains. $Zab is also called the Backward Linkage of country 'B' with reference to country 'A'. It represents the amount of value-added imports of country 'B' from country 'A' that goes into further exports of country 'B'.

Total Forward Linkage for country 'A' is arrived at by adding the amount of domestic value-added exports of country 'A' ($Zab+$Zac +....=$ZaT) that is embodied in further exports of all countries. Summing the Forward Linkage of all countries ($ZaT +$ZbT +....) gives the total amount of value-added exports of all countries ($ZTT) that goes into further exports of other countries. Share of a country in total Forward Linkage is calculated by dividing the Forward Linkage for the country concerned by the total Forward Linkage of all countries. Thus, the share of country 'A' in total Forward Linkage is (ZaT)/(ZTT). Higher the share of a country in the Forward Linkage, higher would be the value added exports of that country which are contained in further exports of all other countries. Backward Linkage, which refers to the amount of domestic value-added of other countries imported directly and indirectly by a country ('B') that goes into its exports, can be conceptualised along similar lines.

Three important points should be noted about the conceptual framework used in this study for analysing GVCs. First, only a part (in our illustration $Zab) of the value-added exports of a country ($Xab) is embodied in further exports of a downstream importing country. This part has been defined to be the Forward Linkage of the upstream exporting country. As the Forward Linkage gets embodied in further exports of a downstream importing country, this can be considered as the GVC exports of the exporting country. Thus, exports in GVCs constitute a fraction of the total value-added exports of a country. Second, while the total Backward Linkage of a country is embodied in its gross exports, only a fraction of it is contained in its GVC exports. In other words, the total Backward Linkage of a country gets distributed between its exports in GVCs and the residual exports that are consumed in the downstream importing country. Third, in this conceptual framework, the domestic value-added at the final stage of production in an GVC is not captured in the Forward Linkage of the exporting country, as the final product is consumed in the downstream importing country.

Figure 2: Conceptual framework for GVC analysis



Insights from TiVA

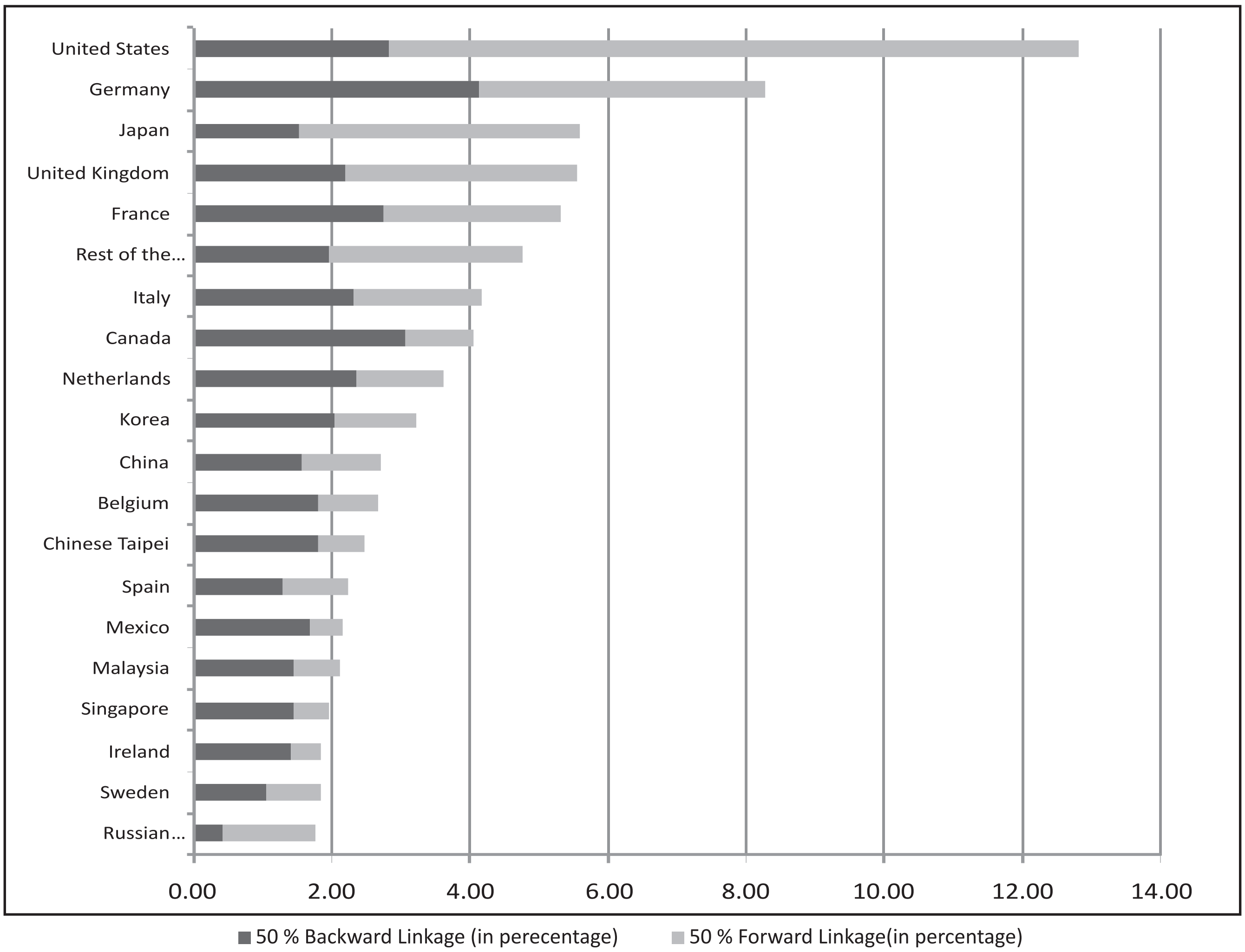
Despite the growing importance of China, overall participation in GVCs is skewed in favour of developed countries

A country's integration in GVCs can be through two channels. First, upstream foreign value-added imports contained in the country's gross exports (Backward Linkage); and second, value- added exports of the country which are embodied in further exports of other countries downstream (Forward Linkage). Extent of integration of a country in GVCs through either of the two channels can be assessed by its share in Forward Linkage or Backward Linkage. Overall participation rate of a country in GVCs can be assessed by taking the average of the shares in Forward and Backward linkages (Banga 2013). Her study finds that the share of OECD countries in participation in GVCs is 66%, share of China is 9% and that of other BRICS countries is 7%; while share of rest of the world, which includes all LDCs and developing countries (excluding BRICS), is 18%.

Adopting the methodology used in Banga (2013), we calculate the share of each country in Forward Linkage and Backward Linkage and determine the participation rate in GVCs for the top twenty countries in 2000 and 2009 across all sectors.

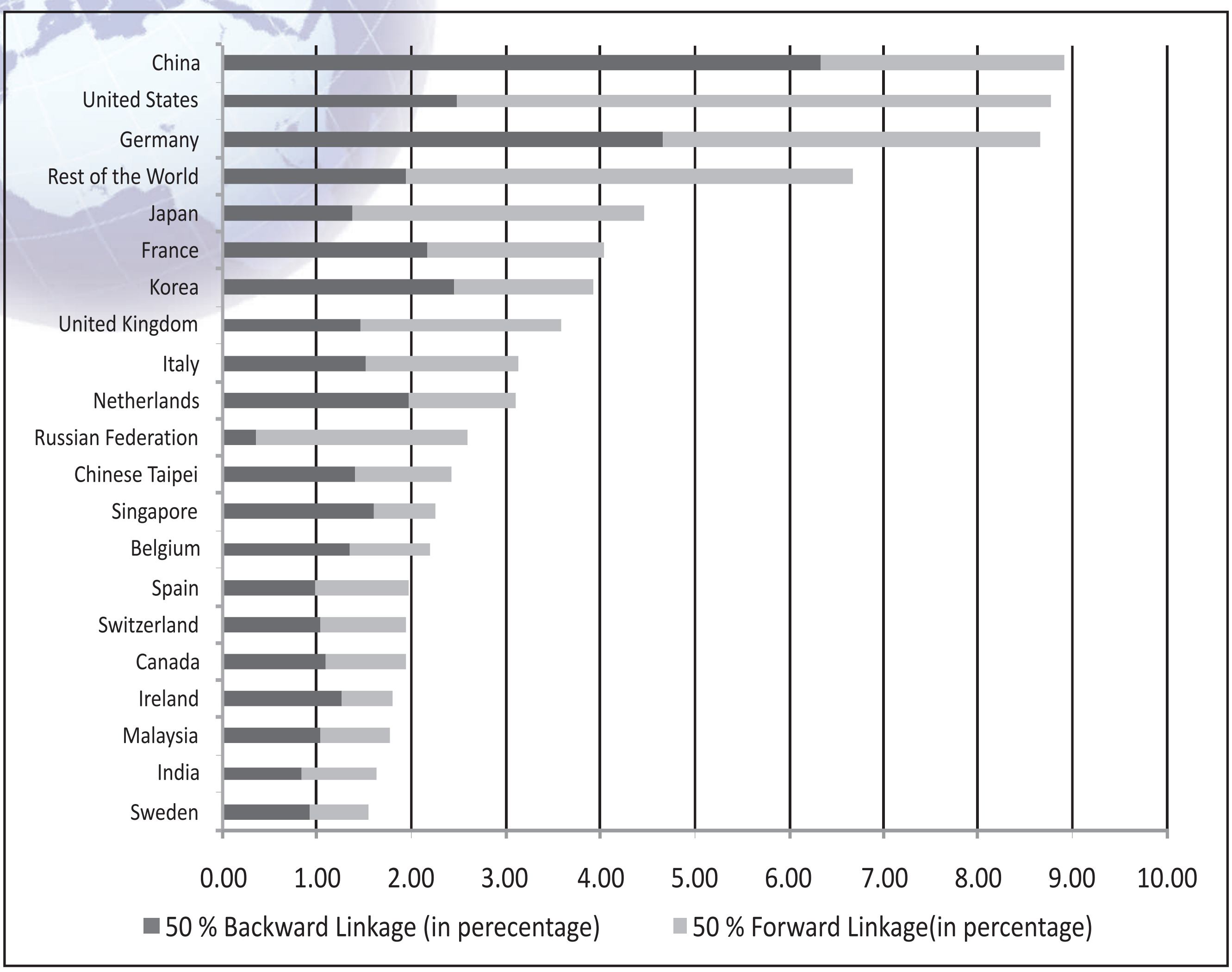
As shown in figure 3 and figure 4, high participation of US, Japan and UK in GVCs is mainly on account of their high share in total Forward Linkage. On the other hand, the high participation of China in 2009 is on account of its high share in Backward Linkage. Thus, while countries like Japan, UK and the US are significant players in GVCs on account of high share of their value-added exports getting embodied in further exports of downstream countries, China's importance in GVCs arises from the capacity of upstream countries to contribute value-added to China's further exports.

Figure 3: Participation Rate (in %) of top 20 countries and economies in 2000



Source: Authors' calculations based on TiVA

Figure : 4: Participation Rate (in %)of top 20 countries and economies in 2009



Source: Authors' calculations based on TiVA

Over the years Japan, UK and US are the only countries that are active participants in GVCs and also create net value-added in them

The previous sub-section analysed the participation of countries in GVCs. We now expand the analysis to identify countries that can be considered to be active participants in GVCs and also create net value-added. For the purpose of our analysis, a country can be considered to be an active participant in GVCs if its share in Forward Linkage, as well as in Backward Linkage, exceeds 1 (one) per cent. In addition to indicating whether a country is an active participant in GVCs, its shares in Forward Linkage and Backward Linkage provide another extremely crucial information - whether the country creates net value-added in GVCs. A country can be said to have created net value-added in GVCs, if it contributes a higher amount of its own value-added to other countries' exports, compared to the amount of value-added contributed by other countries to its exports.

One way of assessing creation of net value-added in GVCs is by defining net value-added creation ratio for a country as the ratio of its Forward Linkage over Backward Linkage. If the net value-added creation ratio exceeds 1, then the country would have created net value-added in GVCs. On the other hand, if this ratio is less than 1, then the country can be considered to be a net consumer of value-added in GVCs. Using these concepts and definitions, we identify countries which were active participants in GVCs and also created net value-added during three years - 1995, 2000 and 2009 (Table 1).

Two important conclusions can be drawn from Table 1. First, over time, China's net value-added creation ratio has not only dipped below 1, but has continued to decline steeply. Thus, despite the growing importance of China as a manufacturing hub for GVCs, other countries have added more value to China's exports compared to the value added by China to other countries' exports. Second, over time, only three countries – Japan, UK and US– were consistently active participants and also created net value-added in GVCs for each of the three years examined. While we do not examine the underlying reasons for this in detail, we speculate that the structure of GVCs and control on their governance by the lead firms in these three countries have ensured their continued domination over time.

Table 1: Active participants in GVCs who created net value-added

Country	Share in BL (1995)	Share in FL (1995)	Net value-added creation ratio (1995)	Share in BL (2000)	Share in FL (2000)	Net value-added creation ratio (2000)	Share in BL (2009)	Share in FL (2009)	Net value-added creation ratio (2009)
France	5.40	6.63	1.23	5.52	5.10	0.92	4.36	3.72	0.85
Germany	8.89	10.74	1.21	8.27	8.27	1.00	9.32	7.99	0.86
Italy	5.54	4.25	0.77	4.64	3.70	0.80	3.03	3.27	1.08
Japan	2.82	9.25	3.27	3.08	8.10	2.63	2.76	6.15	2.23
Spain	2.21	2.11	0.96	2.57	1.94	0.75	1.96	1.99	1.02
UK	5.71	6.01	1.05	4.37	6.69	1.53	2.92	4.24	1.45
USA	5.68	16.65	2.93	5.68	19.93	3.51	4.97	12.56	2.53
China	1.47	1.72	1.17	3.14	2.29	0.73	12.65	5.20	0.41
Russia	1.06	3.32	3.12	0.87	2.70	3.09	0.69	4.49	6.52
Rest of the World	5.05	4.37	0.87	3.93	5.60	1.43	3.87	9.48	2.45

Source: Authors' calculations based on TiVA

Not all countries gain equally from GVC participation. Japan, US and in a few cases China, gain disproportionately higher amounts from participation in GVCs compared to other countries

An important consequence of GVCs is that exports of a downstream country generate value-added in the upstream countries. However, for the same amount of GVC exports of a downstream country (i.e. its Forward Linkage), the amount of value-added generated in the upstream countries (Backward Linkage) varies significantly. As explained in the conceptual framework, only a part of the Backward Linkage of a country gets embodied in its Forward Linkage. We make suitable adjustments to account for this, by deflating the Backward Link by a factor equal to the ratio of the country's Forward Link over its value-added exports. We compare the relative amount of value-added generated in twenty countries and economies on account of their participation in GVCs. The twenty countries and economies chosen for the analysis include member countries of NAFTA and ASEAN, a few member states of the EC, countries in East Asia active in GVCs, and India.

Each row in Table 2 shows the distribution of value-added generated in various upstream countries (represented in each column) on account of $1,000 GVC exports of the downstream row country. To illustrate, $1,000 GVC exports of Canada generates $4 value-added in France, $8 in Germany, $9 in Japan, $10 in UK , $115 in US, $10 in China etc.

Table 2: Asymmetry in creation of value-added upstream on account of GVC trade ($)

<-------- Downstream Countries	Canada	France	Germany	Italy	Japan	Korea	UK	USA	Mexico	China	Ch. Taipei	Hong Kong	India	Cambodia	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Canada	0	4	8	3	9	4	10	115	6	10	2	1	2	0	1	1	0	1	1	0
France	4	0	51	24	8	3	15	41	1	13	2	1	4	0	1	2	0	2	1	0
Germany	4	26	0	23	11	4	24	37	2	14	2	1	5	0	1	2	1	2	1	0
Italy	2	19	35	0	5	2	9	18	1	9	1	1	3	0	1	1	0	1	1	0
Japan	3	3	6	2	0	7	4	26	1	20	6	1	2	0	7	4	2	2	3	1
Korea	9	11	26	8	86	0	10	77	2	80	19	5	10	0	18	15	5	14	6	3
UK	4	12	26	8	6	2	0	33	1	7	1	1	2	0	1	1	0	2	1	0
US	16	3	7	3	10	4	6	0	8	10	2	1	2	0	1	2	1	1	1	0
Mexico	13	5	19	6	36	23	6	186	0	44	10	2	2	0	2	8	3	4	4	1
China	8	9	23	7	65	43	8	54	2	0	33	7	9	0	8	16	5	9	10	2
Ch. Taipei	6	7	19	6	115	42	8	77	2	92	0	7	11	0	22	20	7	16	9	2
Hong Kong	5	11	12	6	29	13	15	58	1	80	12	0	10	0	5	8	3	15	6	1
India	2	6	14	6	10	8	7	30	2	22	3	4	0	0	6	4	1	5	4	1
Cambodia	2	37	49	3	24	14	4	82	1	87	26	28	4	0	7	9	1	12	22	32
Indonesia	3	3	6	2	17	8	2	18	1	16	4	2	4	0	0	7	1	11	5	1
Malaysia	5	13	29	8	67	27	18	122	2	53	21	3	14	0	15	0	5	31	18	5
Philippines	4	14	22	5	74	48	7	96	2	72	46	16	5	0	10	27	0	37	18	6
Singapore	9	18	40	13	77	36	46	171	4	59	30	9	33	1	23	44	10	0	16	6
Thailand	4	7	16	7	82	23	7	52	5	54	21	6	7	0	11	29	6	15	0	4
Viet Nam	4	12	20	6	61	46	5	47	2	92	35	8	14	1	14	15	3	17	22	0

Source: Authors' calculations based on TiVA

Values shaded in similar colours in Table 2 illustrate a few instances of the asymmetry in creation of value-added upstream on account of GVC trade. Table 2 suggests that there is a significant asymmetry between value-added generated in China, Japan and US on account of $1,000 GVC exports of other countries on one hand and the value-added generated in other countries on account of GVC $1,000 exports of these three countries on the other. To illustrate, while $1,000 of Canada's GVC exports generates $115 of value-added in the US, $1,000 of US GVC exports generates a disproportionately smaller amount of value-added - $16 - in Canada. The largest disparity in creation of value-added upstream from GVC participation of a downstream country arises in the context of US-Mexico interaction. While $1,000 of Mexico's GVC exports generates $186 of value-added in US, on the flip side, $1,000 of US GVC exports generates only $8 in Mexico. Similar disparities in relative value-added creation from GVC exports exist for Chinese Taipei, Cambodia, Malaysia, Philippines and Singapore on one hand and the US on the other.

Turning to Japan, it is striking to note that its interaction with Korea is marked by a significant asymmetry. $1,000 of GVC exports of Korea generates $86 of value-added in Japan. On the other hand, $1,000 of GVC exports of Japan generates only $7 of value-added in Korea. As would be seen from Table 2, the largest asymmetry in Japan's gains arises from participation of Chinese Taipei in GVCs. In addition, there is considerable asymmetry in relative value-added generated in Japan on account of GVC exports of Philippines, Singapore and Thailand on one hand and value-added generated in these countries on account of Japan's GVC exports. As far as China is concerned, three instances of asymmetry in creation of value-added from GVC participation are readily identified – in Cambodia, Hong Kong China and Vietnam.

Table 2 points to two overall trends. There is a greater symmetry in creation of value-added in upstream developing countries on account of GVC exports of a downstream developing country. On the other hand, GVC exports of a downstream developing country creates significantly higher value-added in developed countries than the value-added created in developing countries on account of GVC exports of developed countries. We speculate that the asymmetry in creation of value-added arises from the fact that IPRs and services of developed countries constitute a high share of the final value of the goods manufactured by developing countries and traded through GVCs. Further, interaction between developing countries in the GVC context is more balanced as their mutual contribution in GVCs arises mainly from activities related to manufacturing.

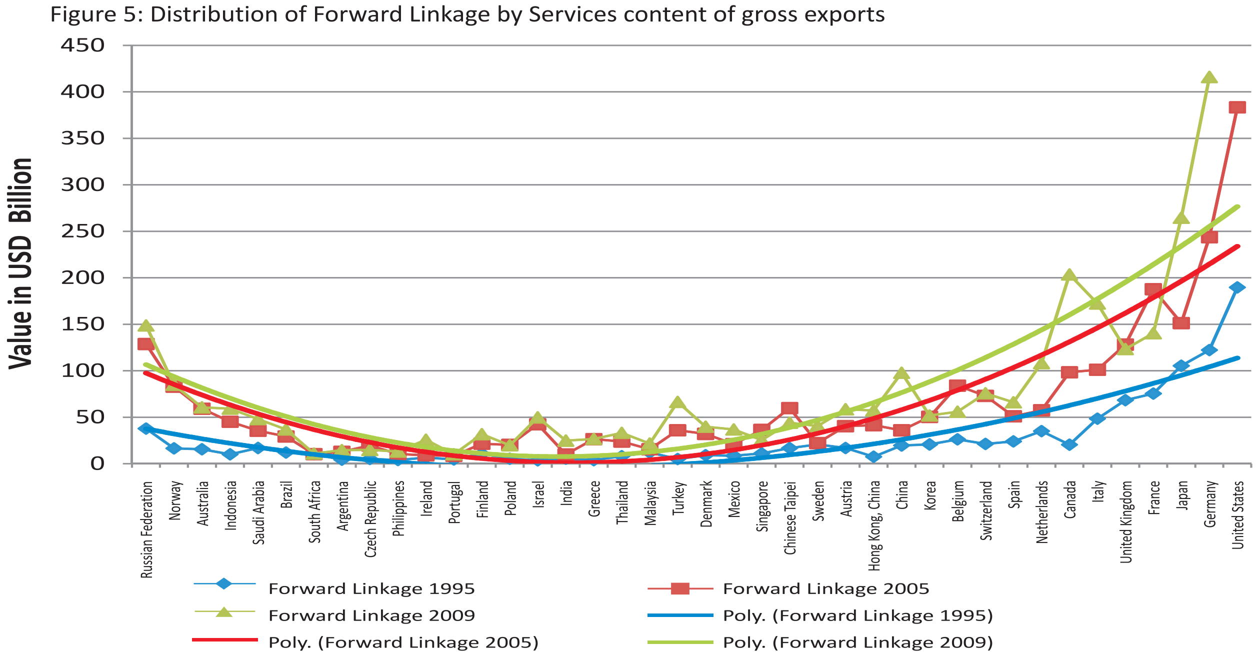
On economy-wide basis, manufacturing generates relatively the least value-added in GVCs compared to other activities

There is considerable research at the product level which suggests that activities proceeding and succeeding the manufacturing stage in a GVC capture higher gains. Most of these activities are in the nature of services, including research and development; product design; trade logistics; distribution; branding; after-sales service etc. However, to the best of our knowledge, little research is available that seeks to examine the link between services and distribution of value-added created in GVCs among different countries on economy-wide basis.

We arrange the top 40 countries on the basis of increasing amount of domestic value-added of services embodied in their gross exports for 2009. The sequence is slightly modified by including resource rich countries such as Russia, Norway, Australia, Indonesia, Saudi Arabia, Brazil and South Africa at the beginning of the country series. We plot the Forward Linkage, which represents the GVC trade of each country and find the best-fit polynomial for the data. Retaining the sequence of countries as determined by 2009 data, we plot GVC exports (i.e. their Forward Linkage) for the 40 countries for 1995 and 2000 (Figure 4).

Two important conclusions can be drawn from Figure 5. With the exception of resource-rich countries, higher the amount of domestic value-added of services in a country's gross exports, higher is its GVC trade. Thus, using economy-wide data we indirectly validate the theoretical assertion and case-study based conclusion that the manufacturing segment of a GVC creates the least value-added among all its constituent activities and tasks. Second, the best fit polynomial appears to be flatter in 1995 as compared to 2009, suggesting that the difference in Forward Linkage between countries at the upper end and those at the lower end has increased over time. Thus, the dynamic picture points to disparities between contributions of countries to GVC trade getting enhanced. These two conclusions underscore the need for developing country firms to attempt functional upgradation – moving from manufacturing to non-manufacturing segments of the GVC. However, as will be discussed in the next section, this is easier said than done.

Figure 5: Distribution of Forward Linkage by Services content of gross exports



Source: Authors' calculations based on TiVA

D. WHY ARE DEVELOPING COUNTRIES LOCKED AT THE LOWER END OF VALUE-ADDITION IN GVCs

As discussed in the previous section, manufacturing activities capture relatively less value compared to services-related activities that precede and succeed the manufacturing segment of GVCs. If developing country producers have to capture higher value from GVCs, then it is necessary that they move up the value chain by performing value-added activities instead of being restricted to manufacturing activities. This is generally referred to as functional upgrading. Functional upgrading can take place in intermediary functions, such as a role in collection, category management, packaging and sales of products. In this section we discuss some underlying factors that prevent developing country firms from functional upgradation.

Broadly, there are two main categories of reasons why developing country firms find it extremely difficult, if not totally impossible, to undertake functional upgradation in GVCs - first, reasons intrinsic to capabilities of developing country firms, policy, institutional and infrastructural environment in which they function; and second, extrinsic reasons mainly focusing on governance of the GVC and asymmetry in power relationship between lead firms and suppliers.

Typical constrains faced by firms in developing countries include lack of specialized skills and difficulty in accessing technology, inputs, market, information, credit and external services. In general, the more knowledge-intensive an activity, the more lead firms are dependent on specialized and reliable suppliers. This is one of the reasons why most enterprises in the developing countries are stuck at the low value-added segments of chains, and are operating in sectors where chains are shorter and less technologically intensive (i.e. the apparel and agro-food sectors).

Important barriers for developing country producers also include the lack of an enabling environment offering institutional and infrastructural support, availability of resources and efficient and effective coordination in value chains. In particular, small-scale producers are at a disadvantage because they have little capital to invest, use traditional techniques, depend on family labour and lack contact with (international) market players (De Janvry and Sadoulet 2005; Daviron and Gibbon 2002; Reardon and Barret 2000). Moreover, the enterprises often supply a single lead firm, thus making the entrepreneurship less dynamic and more vulnerable to shocks (UNCTAD 2011). Attempts by developing-country enterprises to develop own brands, and thus circumvent the value chain by eliminating intermediaries, more often than not have failed (UNCTAD World Investment Report, 2009).

Turning to reasons extrinsic to developing country firms, there is considerable literature which recognises that distribution of value added over various actors is dependent on the governance structure (organizational arrangements) in the value chain, bargaining position of actors and information asymmetry between chain stages. Overall, the evidence suggests that lead firms tend to outsource lower-value-added activities (including final assembly) while retaining control over the higher-value-added areas of their core competency, such as R&D, intellectual property, design and distribution. To illustrate, in the apparel GVC the most valuable activities are found in design, branding and marketing of these products. The high value activities are performed by the lead firms, which typically include large global retailers and brand owners. On the other hand, the manufacturing activities are outsourced to a global network of suppliers, mainly in the developing countries (Gereffi and Fredrick, 2011).

Differences in market power and dependency relationships have a clear impact on the choice of governance regime in trade relationships. A powerful party can dictate governance mechanisms and also the distribution of incomes along the value chain. In many cases the network of contract manufacturers are critically dependent on downstream parties in the chain, such as intermediaries, transporters or exporters, for input supplies and credits on the one hand and market access on the other. This severely limits the bargaining power of producers in GVCs. Giuliani et al. (2005, referring to Humphrey and Schmitz, 2002b) observe, "…firms become tight into relationships that often prevent functional upgrading and leave them dependent on a small number of powerful customers''.

In some sectors it has been observed that most of the retail buyers (which are also the lead firms in the GVC) discourage, if not obstruct, design, marketing and branding by local producers. Thus, local producers face obstacles to functional upgradation because such upgrading encroaches on their buyers' core competence (Schmitz and Knorringa, 1999).

Manufacturing has low barrier to entry, resulting in high competition. Developing countries are in constant competition with each other to attract foreign investments and contracts with global brand owners. The competitive nature of the market at the lower ends of manufacturing increases the substitution possibilities and thus reduces the bargaining power of any one firm. Consequently, in a world in which shifting competitive advantage leads to producers being forced out of the market, it is not surprising that manufacturing tasks generate the least valued added in a GVC. The lead firms benefit from the severe competition among numerous and almost identical suppliers, and select the ones that meet their short-term requirements. On the other hand, lack of competition in the non-manufacturing segment of GVCs, through instruments such as patents and trademarks, have ensured that lead firms based in developed countries continue to capture most of the incomes from GVCs.

Kaplinski has perhaps provided one of the most insightful reasons explaining why developing countries remain at the lower end of GVCs. According to him, "... in all product groups the importance of intangible activities and elements in value chains are increasing. This is represented by a shift of costs and rents from the transformation of tangible goods. Thus just as barriers to entry in manufacturing are falling, so barriers to entry in branded marketing are increasing. Similarly, while capacity to physically transform materials into outputs is diffusing (for example, sewing of clothes or manufacture of furniture); the increasingly sophisticated optimisation of inventories and logistics is providing greater power to systems-integrators (such as The Gap and IKEA)" (Kaplinski 2004).

Overall, it can be concluded that it is the bargaining strength, rather than market forces, that determines the distribution of incomes among different sections of GVCs. The competitive nature of the market at the lower ends of manufacturing increases the substitution possibilities and thus reduces the bargaining power of any one firm. This effectively reduces the possibility of developing country firms engaged in manufacturing to undertake functional upgradation for enhancing their gains from GVCs.

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Activities & Events (April - June 2013)

1. WTO National Workshop on TBT Agreement

IIFT, New Delhi

From (L) to (R): Prof. Shashank Priya, CWS/IIFT; Mr. Erik Wijkstrom, Counsellor, WTO, Geneva; Prof. Abhijit Das, Head, CWS/IIFT.

Group Photograph: Participants, resource persons and CWS/IIFT faculty at the WTO National Workshop.

A two-day National Workshop on the WTO Agreement on Technical Barriers to Trade (TBT) was held on 4 – 5 April 2013. Prof. Abhijit Das, Head, Centre for WTO Studies (CWS), Indian Institute of Foreign Trade (IIFT), Mr. Erik Wijkstrom, Counsellor, Trade and Environment Division, WTO, Geneva; and Prof. Shashank Priya, CWS spoke at the inaugural session. Mr. Erik Wijkstrom was also the key speaker at the technical sessions that followed. The panel of local resource persons included Mr. Anil Jauhri, Adviser, Quality Council of India and Mr. Rahul Kumar, Head, International Department of the Bureau of Indian Standards, who shared India's experiences with the implementation of the TBT Agreement and related issues.

The workshop covered various aspects of the WTO TBT Agreement, including a general introduction, key provisions of the Agreement in the context of disputes, functions of the TBT Committee, the TBT notification requirements, transparency, and issues specific to India. The workshop was informative and elaborated upon emerging trends in the use of TBT measures and current challenges in implementing the Agreement. There were 27 participants who attended and actively participated in the workshop. Participants were from the nodal ministries, apex industrial bodies and academic institutions.

2. Training Programme on Introduction to International Trade and WTO Issues

IIFT, New Delhi

Group Photograph: CWS/IIFT faculty and participants at the Training Programme.

A training programme was organized from 8 to 12 April 2013 for interns of the Department of Commerce. The programme introduced participants to the basic concepts and disciplines of international trade and the WTO. Sixteen interns from the Department of Commerce attended the programme. The five-day programme comprised classroom sessions which were supplemented with practical exercises and case studies.

3. State WTO Cell and Workshop for Odisha

Bhubaneswar, Odisha

Inaugural of State WTO Cell by H.E. Debi Prasad Mishra, Minister for Agriculture & Fisheries, ARD, H &UD, Government of Odisha;

On 15 April 2013, a WTO Cell was opened in Odisha. The Cell was inaugurated by H.E. Debi Prasad Mishra, Minister for Agriculture & Fisheries, ARD, H & UD, Odisha. The Cell is to spread WTO awareness among officers, farmers and other interested stakeholders of the State.

To mark the occasion, a workshop titled "Present WTO Scenario and Preparedness, Odisha Perspective" followed the inauguration of the Cell. The workshop

From (L) to (R): H.E. Debi Prasad Mishra, Minister for Agriculture & Fisheries, ARD, H &UD, Government of Odisha; Mr. R.S. Gopalan, Director, Directorate of Agriculture, Government of Odisha; Mr. Rangalal Jamuda, Principal Secretary, Department of Agriculture, Government of Odisha; Prof. Sajal Mathur, CWS/IIFT; Prof. Shashank Priya, CWS/IIFT.

was attended by over 100 participants from various government departments such as Agriculture, Fisheries and Animal Resources, Industries, Finance, as well as participants from export houses, academicians, research scholars and senior officers associated with export promotion in the State. Prof. Sajal Mathur and Prof. Shashank Priya from CWS/IIFT facilitated the workshop as resource persons. The workshop provided an opportunity for the participants to be sensitized on various WTO and international trade related issues of relevance to Odisha.

4. TradeSift Workshop for the States

IIFT, New Delhi

Group Photograph: Participants, resource persons and CWS/IIFT faculty at the TradeSift Workshop.

A TradeSift Workshop for Research & Data Analysis on WTO & International Trade in the States was organized by the CWS and the University of Sussex, UK on 22–27 April 2013. Twenty four participants comprising state government officials from the departments of trade, commerce, commercial taxes, State Administrative Training Institutes, WTO focal points, nodal agencies and WTO cells attended the workshop.

Prof. Abhijit Das, Head, CWS, IIFT; Prof. Jim Rollo, University of Sussex, UK; Prof. Michael Gasiorek, University of Sussex, UK and Prof. Sajal Mathur, CWS, IIFT addressed the inaugural session. Dr. Murali Kallumal, Dr. Sachin K. Sharma and Dr. Pralok Gupta from CWS, IIFT were also in attendance for the inaugural and technical sessions that followed. With the objective of enhancing trade data analysis and research capacity on international trade issues in the States, the workshop focused on the data sources on tariffs & trade and analysis using TradeSift software. To give hands on experience to the participants, exercises were conducted as part of the workshop. The participants made presentations at the end of the workshop.

5. Introductory Course on WTO Agreements for ITS Officers

IIFT, New Delhi

Group Photograph: Participants and CWS/IIFT faculty at the Introductory Course on WTO Agreements for ITS Officers.

The CWS organized a tailor-made training programme for 20 probationers of the Indian Trade Service (ITS) from 13 to 17 May 2013. The five-day course comprised classroom sessions providing an overview of the WTO Agreements; trends in India's international trade; basic principles and obligations of the GATT; India's RTAs; trade remedy instruments; subsidies; WTO's dispute settlement mechanism; WTO Agreements on Agriculture, GATS; TRIPS; SPS & TBT; non-tariff barriers; Harmonised System (HS) nomenclature; sources of trade data; and the Doha Negotiations and other developments. The classroom sessions were supplemented by practical exercises and case studies on: MS-Excel; WITS data; exercises on standing requirement; 80:20 Test and on dumping margins; RTAs - identifying products of export interest and for the negative list with RCA and unit value analysis; calculation of dumping margins and subsidies; India's tariffs and NAMA negotiations. The feedback received was positive and the officers were appreciative of the course content covering all significant areas of the WTO.

6. South Asia Regional Forum on Trade Facilitation, 28-30 May 2013.

IIFT, New Delhi

Group Photograph: Participants, resource persons and CWS/IIFT faculty at the South Asia Regional Forum on Trade Facilitation.

The CWS in collaboration with the United Nations Conference on Trade and Development (UNCTAD), Geneva organized a South Asia Regional Forum on Trade Facilitation from 28 to 30 May 2013. The objective of the forum was to strengthen capacities of developing countries to support their effective participation in negotiating bilateral, regional and multilateral trade facilitation arrangements.

The inaugural ceremony of the programme was addressed by Mr. Sandeep M. Bhatnagar, Joint Secretary (Customs), CBEC, Mr. Sumanta Chaudhuri, Joint Secretary, Department of Commerce, Government of India, Ms. Arantzazu Sanchez, UNCTAD, Prof. Abhijit Das, Head, CWS and Prof. Shashank Priya, CWS.

From (L) to (R): Mr. Sumanta Chaudhuri, Joint Secretary, Department of Commerce, Government of India, Mr. Sandeep M. Bhatnagar, Joint Secretary (Customs), CBEC, GoI, Prof. Abhijit Das, Head, CWS/IIFT; Ms. Arantzazu Sanchez, UNCTAD.

Participants from Bangladesh, Bhutan, Nepal and India attended the forum. Mr. Maxence Orthileb and Ms. Arantzazu Sanchez from UNCTAD; Mr. Tengfei Wang and Mr. Dayaratna Silva from UNESCAP were resource persons at the forum. The areas discussed were recent improvements and future projects on trade facilitation in India; comparing trade facilitation needs and priorities; improving transparency and facilitating trade; and risk management and expediting shipments.

A visit to Integrated Customs Depot (ICD) Tughlakabad was especially organized for the participants of the course. Customs officials made a presentation on ICD Tughlakabad and on trade facilitation initiatives of Indian Customs. A visit to Import and Export Shed was also organized to make the participants aware of the practical procedures taking place in this unit.

Overall, the South Asia Regional Forum was well received by the participants and they found the deliberations relevant to their areas of functioning.

7. Interactive Meeting on FTAs for Officers from Mongolia

IIFT, New Delhi

The CWS hosted a thirteen member delegation from Mongolia and organized an interactive meeting with them on key issues in international trade on 10 and 11 June 2013. The two day interactive sessions focused on the entire gamut of issues related to international trade – goods, services and intellectual property rights. Resource persons included government officers and faculty from the CWS.

WTO's RTPC Successfully Concluded

The Centre for WTO Studies, in partnership with the WTO Geneva, successfully hosted the second edition of the WTO Regional Trade Policy Course (RTPC) for the Asia Pacific region to be held at the IIFT, New Delhi. Twenty five participants drawn from 19 countries or economies from the Asia-Pacific region: Bangladesh, Bhutan, Cambodia, China, Chinese Taipei, India, Indonesia, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Samoa, Singapore, Sri Lanka, and Vietnam attended this flagship 8-week WTO training programme held from 24 September to 16 November 2012. The course was inaugurated by Mr. S. R. Rao, India's Commerce Secretary in the presence of a host of dignitaries including the RTPC Patron and India's former Cabinet Secretary, Mr. K. M. Chandrasekhar and Mr. Jorge Vigano, Head, Technical Assistance Monitoring and Evaluation,

Institute for Training and Technical Co-operation, WTO, Geneva.

The course covered all disciplines of the WTO covering trade in goods, services and intellectual property rights. The course was divided into various theme-based sessions. A user friendly virtual classroom was created for the course and all presentations as well as training materials were put online in advance of the sessions. To provide practical exposure to the participants, trade negotiation simulation exercises were also conducted as part of the course.

The participants benefitted greatly from the high quality of WTO and regional resource persons. The address by the RTPC Patron Mr. K. M. Chandrasekhar and Dr. Harsha Vardhan Singh, Deputy Director-General, WTO on 30 October 2012 was another highlight of the programme. During the RTPC, several cultural visits were organized which were appreciated. At the end of the course all 25 participants were awarded diplomas by Mr. Rajeev Kher, Additional Secretary, Department of Commerce & Industry, Government of India and Ms. Dolores Halloran, RTPC Officer, WTO, Geneva.

Faculty Participation in Outreach Programmes (April – June 2013)

	Participating Faculty	Outreach Activity/Topic	Date	Location
1.	**Prof. Abhijit Das**	Speaker on "Pharmaceutical Patents, the WTO & Access to Medicines" organized by the National Law University, New Delhi.	13 April	New Delhi
		Discussant on "Agricultural Trade Policy & Sustainable Development: Experience from India and other countries" organized by ICTSD and ICRIER.	17 April	New Delhi
		Speaker on the "Nexus of Employment and Multilateral Trade" organized by the Just Job Network.	20 April	New Delhi
		Speaker at session on "WTO and Developing Countries: Future Challenges" organized by South Asian University, New Delhi.	1 May	New Delhi
		Speaker at session on "Creating Effective Institutional Mechanisms for Government- Industry Interface to Realize FTA Objectives" organized by ASSOCHAM.	4 June	New Delhi
2.	**Prof. Madhukar Sinha**	Speaker on "Towards Professionalised Economies" at the 2nd CSIA International Conference hosted by The Institute of Company Affairs, New Delhi.	6 April	New Delhi
		Speaker on "IPR Copyrights in the context of the Virtual World - Issues & Challenges" organized by ISACA, New Delhi.	13 April	New Delhi
		Moderator on "Towards Building Strong IP Ecosystem in the States" at the National IPR Summit & Awards organised by CII, DIPP, Ministry of Commerce & Industry and IP India, New Delhi.	26 April	New Delhi
		Resource person and speaker on TRIPS at the training programme for Indian Revenue Service Probationers at the National Academy of Custom, Excise and Narcotics (NACEN), Faridabad.	1 May	Faridabad
3.	**Prof. Sajal Mathur**	Panelist on "South Asian Regional Integration and Connectivity" at the Consultation organized by CUTS International.	12 April	New Delhi
		Resource person and speaker on the "Development Dimension of the WTO" at the training programme for Indian Revenue Service Probationers at the National Academy of Custom, Excise and Narcotics (NACEN), Faridabad.	29 April	Faridabad
		Speaker at the Seminar on Export Growth in Andhra Pradesh – Potential, Opportunities and Challenges organized by APTPC & FIEO.	13 May	Hyderabad
4.	**Dr. Pralok Gupta**	Panelist on "Promoting Trade in Services under FTAs: Issues and Challenges" at the International Conference on "Benefits and Challenges arising out of India's FTAs" organized by ASSOCHAM and the Government of India.	4 June	New Delhi

TRADE FIGURES

1. Trade data for the period March-May 2013

March 2013

Exports continued to post growth for the third consecutive month, rising by 6.97% in March. Exports in March stood at $30.8 billion compared to $28.8 billion in the same month of the previous year. Imports dipped by 2.87% to $41.16 billion in March, leaving a narrowed trade deficit of $10.31 billion from $13.5 billion in March last year.

Crude oil imports in March 2013 declined by 16.56% to $13.32 billion. Non-oil imports in March increased by 5.41% to $27.83 billion, but during 2012-13, it dipped 3.62% to $322.23 billion.

Hindu (18 April 2013)

April 2013

India's goods exports grew for the fourth straight month in April at 1.68% to $24.16 billion, but gold imports more than doubled during the month widening the trade deficit. Gold imports during the month rose 138% to $7.5 billion from $3.1 billion in April 2012.

With an improvement in the US economy and rise in exports to new markets such as Latin America, Africa and CIS, the Commerce Department has set an export target of $325 billion for 2013-14 which will be about 8%higher than $300.6 billion in 2012-13.

Exports last year had declined 1.6% as a slowdown in the European economy had shrunk demand. Imports increased by a marginal 0.44% to $491.48 billion creating a trade deficit of $190.91 billion. While exports bounced back into positive territory in January this year, the growth decelerated a bit in April. Items that contributed to rise in exports in April, albeit marginal, include gems & jewellery, rice, readymade garments, cotton and marine products. Engineering goods, which are one of the top export items, posted a decline of 8.6%.

Imports during April increased 10.96% to $41.95 billion, while trade deficit increased 21% to $17.78 billion. Increase in imports was posted in metals & scrap, organic & inorganic chemicals, wood & wood products and non-ferrous metal.

Business Line (13 May 2013)

May 2013

After posting growth for the last four months in a row, India's exports declined 1.1% to $24.51 billion in May from a year earlier, on persistent weakness in the European markets. Gold exports declined due to restrictions on its trading from special economic zones (SEZ). Gold imports, however, continued to surge, witnessing almost 90 % growth year-on-year, though slower than the 138% surge recorded in April. Overall imports during the month rose 7% to $44.65 billion, widening the trade deficit to a seven-month high of $20.1 billion during the month as against $16.9 billion in May 2012.

The commerce ministry had issued a notification on April 26, restricting gold trading in special economic zones (SEZs). The notification, which was effective May 1, has impacted overall export growth. Due to the restrictions, gold exports from SEZs declined by $800 million during the month. Import of gold and silver, however, stood at $8.3 billion as against $4.4 billion during the same month last fiscal. During April-May, it grew by 109% to $15.88 billion as against $7.56 billion during the corresponding year-ago period.

Gold imports have been a cause of grave concern for the government as it has been putting pressure on the current account deficit, which hit an all-time high of 6.7% of GDP in the December quarter last fiscal. To rein in the demand for gold, the government recently hiked the import duty on gold to 8%, doubling it in a span of six months. The RBI has also taken steps to curb the demand for gold. The widening current account deficit has been pressurizing the rupee, which depreciated sharply to about 6% in the current quarter, sliding to an all-time low of Rs 58.98/$ on June 11.

Indian Express (18 June 2013)

2. India's net services exports recover in second half of FY13

India's net services exports recovered in the second half of the year ended 31 March from a contraction in the first six months to grow by 20.4% in 2012-13, easing the pressure on the country's record current account deficit. In the months between April and September, net services exports contracted 1.1% to $28 billion, with slower growth in exports and rise in imports. Net services exports, however, jumped by 45.4% to $34.9 billion in the second half between

October and March.

A surplus on account of India's services exports has been a cushioning factor for financing a large part of the merchandise trade deficit in recent years. During 2006-07 to 2011-12, surplus in services exports on average financed around 38% of merchandise trade deficit. However, with a record $191 billion merchandise trade deficit in 2012-13, net services exports of $63 billion will be able to finance 33.8% of the trade deficit. In 2011-12, net services exports financed only 30.1% of the $183.3 billion trade deficit.

India's services exports expanded at 4.7% to $143.5 billion in 2012-13 compared to a contraction of 1.76% in merchandise exports to $300.6 billion. Services imports contracted 1.7% to $80.5 billion in the financial year ended 31 March, while merchandise imports marginally increased by 0.44% to $491.5 billion.

Merchandise trade data released by the commerce ministry showed export growth slowed to 1.68% in April after growing 6.97% in March while imports grew 10.96%, the highest in more than a year. The ministry has set an export target of $325 billion for the current fiscal year against $300.6 billion achieved in the previous year. The commerce ministry announced a series of fiscal measures in the annual supplement to the trade policy released in April to boost exports, which is expected to have a positive impact starting May.

Mint (16 May 2013)

FOREIGN TRADE POLICY/STRATEGY

3. Foreign Trade Policy 2013-14:

Faced with declining exports, the government on 18 April announced a slew of measures including extension of the popular EPCG scheme to all sectors and sops for Special Economic Zones (SEZs) to boost shipments. The initiatives announced by Commerce and Industry Minister Anand Sharma as part of the annual supplement to the Foreign Trade Policy (FTP) are aimed at pushing exports which declined by 1.76% to US $300.6 billion during 2012-13 and pushed up the trade deficit to US $190.91 billion.

The Export Promotion Capital Goods (EPCG) scheme, which allows exporters to import capital goods at zero duty, would be extended beyond March 2013 and would be applicable to all sectors, Sharma said."We have decided not only to extend the zero duty EPCG scheme beyond March 2013, but also merge it with 3 % EPCG scheme. Now, the zero duty EPCG benefit will be available to all sectors," the Minister said.

As regards the SEZ scheme, Sharma said, the minimum land area requirement for setting up such zones has been reduced to half and there would be no ceiling for IT and ITeS SEZs."We have taken note of the fact that there are acute difficulties in aggregating large tracks of uncultivable land which is vacant and contiguous and we have decided to reduce the minimum land area requirement by half for different categories of SEZs....there would be no minimum land requirement for setting up IT/ITeS SEZs and only minimum built up area criteria would be needed to be met by SEZ developer," the Minister said. On demands of an exit policy for the SEZs, Sharma said it has been decided to allow transfer of ownership and sale of SEZs units.

The announcements evoked a mixed response from the industry and the business chambers. While industry chambers like CII and FICCI hailed the initiatives as export boosting, FIEO rued that there were no big ticket announcements in the policy and its proposal to create a $2 billion export development fund was not accepted.

Moderation in demand and shaky recovery in the developed markets has forced the government to scale down the export target. The export target for 2013-14 was set at $325 billion as against $360 billion in 2012-13, Minister of State for Commerce and Industry Dr. D Purandeswari said in a written reply to the Rajya Sabha on 8 May 2013. Commerce Minister Anand Sharma had refrained from fixing a target while announcing foreign trade policy this year.

Hindu (18 April), PTI (18 April), ENS Economic Bureau (9 May 2013)

4. FDI: Mayaram committee pitches for hiking FDI caps

A report, submitted by Secretary, Department of Economic Affairs, Arvind Mayaram on 17 June 2013, has recommended hiking FDI caps in various sectors, including in defence to 49% from 26% and in telecommunications to 100% from 74%. The report, submitted to the finance minister in the form of a discussion paper, however recommends stringent security riders to allay the concerns of the defence and the home ministries. Broadly the panel has suggested that wherever the caps are at 26% they should be raised to 49%, wherever it is at 51% it be raised to 74%, and wherever 74% it should be made 100%.

The panel has further suggested hiking FDI cap in public sector banks to 49% from the current 20%. The RBI has refused to allow increasing FDI in private banks, currently capped at 74%.The panel has also advised that FDI limits in information and broadcasting be raised. The current limit is 26% for print, radio and television news media, however the extent to which this cap maybe raised was not immediately known. Though in non-news broadcasting sector 100% FDI is allowed, in segments like DTH it is capped at 74%.

The discussion paper also recommends that any FDI investment in India should be allowed through the automatic route till upto 49%, in the permitted sectors, except in defence, wherein every FDI investment proposal will have to go through the approval route, owing to security concerns. Additionally, the committee has sought clarifications from DIPP regarding FDI in brown-field investments, in which currently 100% FDI is allowed via the approval route. The panel has recommended that FDI up to 49% be allowed under the automatic route.

Financial Express (19 June 2013)

5. Government sets up committee to boost exports from MSMEs

Worried over widening trade gap, the government has set up a six-member inter-ministerial committee under the chairmanship of Finance Secretary R S Gujral that will suggest measures to boost MSME exports. Micro, Small and Medium Enterprises (MSME) sector contributes about 40% in the country's total exports and over 8% to India's Gross Domestic Product (GDP).

As per estimates, the share of MSME exports has fallen from 40% to 36% to the country's total exports. The sector accounts for around 45% of the manufacturing output and provides employment to about 60 million persons through 26 million enterprises.

PTI (28 April 2013)

BILATERALS

6. India-Argentina

Eyeing deeper economic ties, India and Argentina have agreed to tackle barriers to expand the scope of bilateral trade and investment besides working for a strategic partnership between the two countries. The decisions were taken by External Affairs Minister Salman Khurshid and his Argentine counterpart Hector Timerman on 17 June 2013 during the 4th India-Argentina Joint Commission Meeting (JCM).

Addressing a joint press conference, Khurshid said the JCM focused on several areas of bilateral relations including trade and economy, science and technology, agriculture, pharmaceuticals, market access, regulatory frameworks, high tariffs, visa and work permits, defence, energy and space. Bilateral trade at $1.83 billion falls short of the target of $3 billion set up by two sides in October 2009 during the visit of the Argentine President, he said.

PTI (17 June 2013)

7. India-Canada

Canada has joined the US in tightening the visa regime for foreign workers, a move that could be detrimental for Indian IT service companies with operations in that country. Seen by experts as a ‘knee-jerk’ reaction, the move is set to increase the time and costs associated with procuring a temporary work permit. The Accelerated Labour Market Opinion (ALMO) programme, a fast-track immigration programme to secure a temporary work permit in two weeks, has also been suspended.

Indian companies will now have to revert to the Labour Market Opinion (LMO), a time-consuming process, compared with H1B visa regime in the US. A LMO is an authorisation that a recruiter has to obtain from the Canadian state, if a job has to be offered to an Indian. Moreover, the employer has to prove that it had advertised for the position across Canada, but was unable to find a qualified Canadian to do the job.

“Earlier, with the ALMO programme, employees of IT companies with a good track record of compliance, would get work permits in two weeks time. The suspension of the programme means companies will have to go through the LMO route, thereby pushing up the permit filing time by 3-5 months,” said a NASSCOM representative.

Also, a new fee will be imposed on employers when they apply for an LMO. The Canadian Government intends to increase work permit fee from the present $150. However, the quantum of the rise has not yet been specified.

Business Line (6 May 2013)

8. India-Chile

India and Chile have finalised plans to expand the bilateral Preferential Trade Agreement (PTA). The expanded agreement, which will take effect in 2014, is expected to be inked next month when Chilean President Sebastian Pinera visits India. The trade agreement will also aim to minimise trade fees and eliminate double taxation of Indian and Chilean businesses.

The revision of the pact will cover more than 1,000 Chilean products, equivalent to 98% of items exported by the country, the only Latin American nation to have a PTA with India. Chile is keen to elevate the PTA into a Comprehensive Economic Partnership Agreement (Cepa) and discussions are also expected to commence soon.

Both sides have noted that areas such as IT, oceanography, pharmaceuticals, chemicals, science & technology, agriculture & food processing, automobiles, engineering & machinery and infrastructure among others offer considerable scope for further expansion of bilateral cooperation between the countries.

Financial Express (18 June 2013)

9. India-China

India and China, during a meeting of trade ministers on 20 May 2013, agreed to set up three joint working groups. The first one will deal with a five-year plan for trade and economic cooperation; the second will be on trade facilitation and data reconciliation; and the third on trade in services. Commerce & Industry Minister Anand Sharma said that issues related with Regional Comprehensive Economic Partnership (RCEP) and a regional trade agreement would be discussed by one of the JWGs.

Meanwhile, India's exports to China dropped a whopping 25% to $13.52 billion in 2012-13 from $18.11 billion largely due to a slowdown in the Chinese economy. The fall in imports from China was much lower at 5.59% to $54.30 billion from $57.51 billion the previous year. Bilateral trade deficit, as a result, widened to $40.8 billion from $39.4 billion, which is almost a fifth of India's total trade deficit.

While India mainly exports raw materials to China like iron ore, copper and raw cotton, the Commerce Department is of the view that there is immense scope to export pharmaceuticals, IT and more agriculture products if China drops various restrictions. India has suggested that the registration process of the Chinese State Food and Drug Administration should be simplified and registration granted sooner. Moreover, Indian companies that have received approvals and accreditation by drug regulatory authorities should be provided a green channel.

In a bid to increase IT exports, India has proposed that the Chinese government give instructions to its state-owned companies to start doing business with Indian companies and also levy the lowest applicable tax on the industry. It has also suggested that qualified technical engineers and software professionals be given business visas and work permits valid for three years to facilitate movement. India has also been lobbying to sell buffalo meat, tobacco and oilmeal to China as all these products have a big market in the neighbouring country and could play an important role in lowering the trade deficit.

Business Line (8 May), Times of India (21 May 2013)

10. India- EU

Commerce and Industry Minister Anand Sharma and EU Trade Commissioner Karel De Gucht met on the sidelines of an OECD meeting in Paris on 30 May 2013, during which they reviewed the status of the India-European Union Broad-based Trade and Investment Agreement (BTIA) negotiations.

India has again asked European Union to address its concerns on providing data secure status for the IT industry, to which the 27-member bloc has expressed willingness to set up a Joint Working Group (JWG). The JWG will look at all the technical aspects to ensure that India is able to achieve necessary compliance for data security purposes.

This is some consolation for India which has been requesting for the covetous 'data secure status' from the EU. According to Nasscom, the apex body of India's IT sector, getting India declared as a data-secured country will increase revenues from the EU to the extent of $7 billion (Rs 38,350 crore) annually by way of increased offshoring and cost savings to companies leveraging India in their business model.

India has been arguing that since US has a safe harbour pact with the EU, and that the US and India have a data adequacy agreement; therefore, the EU should give data secure status to India. According to EU law, European countries doing outsourcing business with countries not certified as data-secure have to follow stringent contractual obligations, which increase operating costs and hit competitiveness.

EU has been rigid in granting the coveted status to India, as it feels India lacked adequate data protection laws and incidences of security breach are rampant in India. India has repeatedly told EU the existing provisions of Article 43A of the IT Act were adequate to ensure EU citizens' data was secure.

During a recent interaction with Indian industry, Joao Cravinho, EU ambassador to India, had said EU wouldn't be able to provide much under the trade pact, as it was a legislative issue. He said the matter would be resolved once India signed the deal with EU.

The two sides have failed to bridge the gap on various other crucial issues also, during the talks between their Chief Negotiators held in April and May. A key demand from the Indian side is to get EU to drop the safeguard clause on services sector that will kick in when 20% of the committed number of professionals enter EU member states' territories. In addition, India wants a clause which allows temporary movement of spouses and dependents along with professionals. Other issues of market access for agricultural products, pharmaceuticals and textiles have also been highlighted during the meetings.

On the other side, EU conveyed its strong interest in financial services, automobile sector, wines and spirits and cheese. EU also sought registration of their Geographical Indications. Hiking the FDI cap to 49% in the insurance sector has been a key demand from the EU for concluding the negotiations, but India has expressed its inability to do so without approval from Parliament.

On government procurement, EU is demanding commitments based on the proposed public procurement law, which has not been placed before Parliament. While India is willing to engage on the issue once the law is enacted, it will only ensure that orders above a specified value are bid out and European bidders are not at a disadvantage.

Business Standard (9 & 17 May), PTI (18 & 30 May), Times of India (20 June 2013)

11. India-Israel

Hoping that an India-Israel Free Trade Agreement (FTA) would be signed "in the coming months", the Israeli ambassador Alon Ushpiz said the agreement would be a "strategic game changer" in trade relations between the two countries. The two countries were "inching closer" to signing an FTA, he said.

Ushpiz said an FTA could bring about a "strategic shift" in trade relation between the two countries. "I am confident the bilateral trade volume will jump from the current $5 billion to $10-15 billion in a few years' time. In fact, FTA will change the composition of trade".

IANS (13 June 2013)

12. India-Japan

India has raised concerns with Japan over the rising trade deficit with the country following implementation of the bilateral comprehensive economic partnership agreement (CEPA) about two years ago. It has sought more market access for Indian pharmaceuticals and agriculture and marine produce to help bridge the deficit. Commerce and Industry Minister Anand Sharma in a meeting held on 17 May 2013 with Japanese Foreign Minister Fumio Kishida in Tokyo, pointed out that while trade was growing satisfactorily after the implementation of the CEPA, the increasing trade deficit was an area of great concern.

India's trade deficit with Japan was at $3.6 billion in 2010-11 before the CEPA was implemented and it almost doubled in 2012-13 to $6.3 billion. Its export to Japan in 2012-13 was $6.26 billion compared with imports of $12.50 billion.

India is keen to access Japan's pharmaceuticals market, expected to touch $100 billion soon, as it holds a lot of scope for the country's generic producers. Japan, as part of the CEPA, had promised easier registration procedures for Indian drug producers, but not much has moved on the ground.

Meanwhile during the recent visit of Prime Minister Manmohan Singh to Tokyo, Dr. Singh also sought greater Japanese investment in India. "Greater investment by Japanese companies in India's large market will be in our economic as well as strategic interest," he said.

According to sources, hundreds of Japanese companies may shift factories from China to India, bringing with them big investments and thousands of jobs, and Japan is likely to emerge as an attractive source of technology for India. Japan Export Trading Oraganisation survey last year also showed India emerging as the most preferred alternative site for Japanese FDI.

Business Line (17 May), Hindustan Times (30 May 2013)

13. India-Myanmar

Commerce and Industry Minister Anand Sharma, during his visit to Myanmar on 7 June 2013, met Energy Minister U Than Htay. Both sides set a bilateral trade target of $3 billion by 2015. In 2012, trade between the countries stood at $1.87 billion.

India and Myanmar discussed ways to enhance economic cooperation in sectors such as textiles, infrastructure, oil and gas. Minister Sharma also conveyed the interest of Indian banks in setting up their branches in Myanmar. "India will also be happy to assist in strengthening the banking system in Myanmar as we inherit common banking laws," Sharma said.

The minister also met Aung San Suu Kyi, chairperson of the National League for Democracy. Expressing keen interest in building linkages with the Indian textiles sector, Suu Kyi said its handloom sector had immense potential for Myanmar. She sought India's help in developing a full value chain for silk production in Myanmar.

Sharma conveyed India's interest in deepening cooperation in procuring energy, oil and natural gas. "Our companies are interested in securing more exploratory oil and gas blocks both onshore and offshore." India is the fourth largest trading partner of Myanmar after Thailand, Singapore and China.

PTI (7 June 2013)

14. India- Pakistan

Pakistan was supposed to extend most-favoured nation (MFN) status to India by the end of December 2012 by removing the ban on Indian products, but could not do so because of opposition from the farm, pharmaceuticals and auto lobbies. Although Pakistan now allows imports of over 6,800 items from India, up from about 2,000 items earlier, it continues to ban 1,200 items.

Some observers however say that even with MFN status considerable obstacles to normal trade relations between India and Pakistan still remain. Pakistan will continue to run a long “negative list” of products that India cannot export. The list includes 1,200 products made by key industries for employment and national security but is supposed to be phased out over time. India has a similar, though shorter, list. Last year, Pakistan’s government pledged to scrap the list by the end of 2012, another deadline that was missed.

Pakistan complains that India has granted MFN status but keeps out Pakistani products through non-tariff barriers to trade, such as complicated labeling requirements and India’s refusal to recognize Pakistan’s industrial standards and safety codes. This means that Pakistani goods get tied up in lengthy and costly quality testing on the Indian side of the border.

There are infrastructure challenges also that continue to impede cross-border trade. None of the mobile network carriers in India or Pakistan have agreements with carriers on the other side of the border. There are limited links between banks in the two countries. And there is the basic challenge of the bad roads on either side of the Wagah border, the only land entry point that goods are allowed to pass through.

Meanwhile, Pakistan Prime Minister, Nawaz Sharif, in a meeting with S.K. Lambah, Prime Minister Manmohan Singh’s Special Envoy, said that it was very much in the economic interests of Pakistan and India to take forward the co-operative relationship.

Wall Street Journal (8 April), Business Line (13 June 2013)

15. India - Russia

Chairman of the Board of the Eurasian Economic Commission, Viktor Khristenko and India’s Union Minister for Commerce, Industry and Textiles Anand Sharma agreed during their meeting on 2 April 2013 in New Delhi to launch negotiations for a Comprehensive Economic Cooperation Agreement (CECA) with the three-nation Customs Union of Russia, Belarus and Kazakhstan to maximize the bilateral trade turnover between India and Russia.

India and Russia signed an MoU in February 2006 to set up a Joint Study Group (JSG) to assess the “feasibility” of signing a CECA between the two countries. The CECA is much wider in scope than a free trade agreement (FTA) as it not only includes goods, but also services and investments.

Ever since the idea of a CECA between India and the Customs Union first came into being in December 2011 after summit-level talks between then President Dmitry Medvedev and Prime Minister Manmohan Singh in Moscow, the negotiations over it have been moving at a snail’s pace.

Economic Times Supplement - Russia and India Report (3 April 2013)

16. India-Thailand

In a major breakthrough, India and Thailand on 31 May 2013 agreed to conclude negotiations on a comprehensive free-trade agreement “soon after June-July this year”. The two countries also clinched an extradition treaty and signed a cooperation agreement on anti-money laundering.

While the joint statement issued after discussions between Prime Minister Manmohan Singh and his Thai counterpart Yingluck Shinawatra in Bangkok on 31 May 2013, did not give a timeframe by when the FTA will be signed, Ashok Kanth, Secretary - East, said it was expected as early as October this year.

The FTA has been under negotiations for nearly a decade now and it has taken 27 rounds of meetings to iron out the rough spots. Trade and investment relations between the two countries have improved significantly after the two concluded the framework agreement in 2003. An early harvest scheme of the FTA, with tariff exemption for 84 products, came into force as early as 2004.

Over the past five years, trade between the two countries has been increasing at more than 15% per annum. Last year, it crossed $9.2 billion – exactly half the volume of Indo-Japan trade volume.

The two Prime Ministers also welcomed establishment of a Thailand-India Business Forum to expand the role of the private sector in business partnerships. The two sides agreed to provide fast-track business visa service. A plan to have a physical link between Thailand and India via Myanmar is also being implemented with a trilateral highway project. The project is expected to be completed by 2016.

Business Standard (31 May 2013)

17. India- UK

India has expressed "serious concerns" over the new visa norms proposed by the United Kingdom (UK) in June 2013, which require applicants to pay a hefty cash bond of £3,000 (Rs 2.8 lakh). Commerce and Industry Minister Anand Sharma raised the issue in London on 26 June 2013 during his meeting with high level British officials. An official statement by the commerce ministry said Sharma was assured by the British government that the proposal for the pilot project had not been sanctioned by the government.

The UK is planning to pilot a scheme with effect from November for a year, targeted at visitors from at least six countries, because these are considered "high-risk". Under it, visitors will be forced to pay a cash bond of £3,000 before entering the UK. This will not be applicable for children under 18.

According to the UK, the pilot project aims at addressing concerns on misuse of visa and reducing the risk of overstaying. The Indian industry has already expressed its sharp resentment over the proposed norm and warned that the move will act as significant deterrent in India-EU bilateral relations. But Nasscom says it would only be applicable to visitors. "Besides, it is a pilot programme; so it is not going to be applicable for all." Ironically, during his visit to India in February, Cameron had promised a relaxed visa regime between both countries for businessmen.

Business Standard (26 June 2013)

18. India-US: Business and Trade Relations

India assured the visiting US Secretary of State John Kerry on 24 June 2013 that it would look into the issue of "trade barriers", and that both the sides would need to take into account each-other's concerns to reach a "win-win situation" on trade ties. Kerry visited New Delhi to continue the Strategic Dialogue process between the US and India.

Prior to his visit, US companies and lawmakers had urged Kerry to talk tough on India's trade policies, including its use of compulsory licenses to suspend patents on US drugs, barriers to US agricultural exports, restrictions on foreign investment, and local content policies.

US lawmakers have been accusing India of protectionism, especially in the case of pharma industry. "We have a lot of concerns about what's going on today in India especially their emerging market access barriers, protectionist measures," said Ohio senator Rob Portman, a former USTR in the Bush administration. "Basic intellectual property protections are being set aside. They've invalidated and broken American drug patents. These actions are in disregard of WTO rules ... They're fundamentally disruptive to innovation", he said.

The Indian Embassy in Washington DC, had refuted these charges and said in a statement issued before Kerry's visit that India was fully committed to protecting intellectual property. "India has a complete eco-system supporting a well-settled, stable and robust intellectual property regime. Its three main pillars are comprehensive laws, detailed rules to back them up, and strong enforcement mechanisms, including for dispute resolution," the Embassy said.

New USTR Michael Froman has, however, said he expected growing trade friction with India to be a major early focus of his tenure, but stopped short of saying the US should cut off benefits. He refrained from taking a position on the suggestions made by some US lawmakers of removing India from Washington's Generalized System of Preferences program, which helps developing countries export goods to the United States. Froman treaded carefully on that question, noting that many US companies also benefited from the program, since it lowered their production costs by waiving duties on imports.

Times of India (8 June), Business Standard (21 June), Reuters (21 June), Indian Express (25 June 2013)

19. India-US: Visa and Immigration Reforms

With the passage of the Comprehensive Immigration Reforms Bill by the US Senate, the Indian information technology (IT) outsourcing services industry is now pinning its hope on the House of Representatives, which has prepared its own version of the Bill. The House is expected to propose its Bill that does not have restrictions with negative impact on both US corporations and Indian companies. According to industry insiders, in case the House decides to stick to its own Bill, they would have to find out a middle path. IT industry body Nasscom said it is quite hopeful that the final contour of the Bill would be much more balanced than it is at present.

The Senate Bill, in its current form, is expected to limit the ability of global IT companies (including Indian) to send employees to the US to service clients. The Bill is expected to make it harder and costlier for Indian tech firms to use H-1B workers in their US operations. So, it is expected to affect most of the large Indian IT services companies including TCS, Infosys and Wipro. Responding to the Bill, Commerce secretary S R Rao had written to the US Trade Representative, calling these restrictive provisions of the bill protectionist in nature.

Some trade experts had also endorsed the Government's view that the Bill might violate WTO rules. Biswajit Dhar, Director-General, Research & Information System, noted that "Under the GATS, the US is obliged to issue 65,000 work visas to foreigners every year. It cannot put conditions on that".

Business Line (21 April), Hindustan Times (22 May), Business Standard (29 June 2013)

WTO DISPUTES

20. India-US: Solar Energy

WTO's recent ruling against Ontario's domestic content requirements for renewable energy projects is a setback for India, which is defending a similar case filed against it by the US. But the country has not given up hopes of a favourable verdict, as it believes that the finer details of its case are different.

In February, the US filed a complaint with the Dispute Settlement Body of WTO against domestic content requirement in the Jawaharlal Nehru National Solar Mission (JNNSM), which mandates that solar photovoltaic modules based on crystalline technology have to be sourced locally. The Mission, which seeks to promote use of solar energy and also build local capacities, made it compulsory under the first phase for all investors to use solar modules manufactured in India and source 30% of the inputs locally.

As per WTO rules, members cannot impose such conditions on investors. India has so far argued in the WTO that as the power produced under the mission will be bought by NTPC, a public sector unit; it amounted to Government procurement, which does not fall under the ambit of WTO rules. India is not a signatory to the Government Procurement Agreement of WTO, a plurilateral agreement that has just a few countries as members.

The US is hopeful that by successfully fighting its case at the WTO, it will manage to foil India's plans of extending the local content requirement to solar thin films, most of which are supplied by US companies, in the second phase of the mission beginning this year. The Indian industry is, understandably, worried that removal of domestic content requirement could lead to foreign manufacturers benefiting from it at the cost of local producers.

As a safeguard measure, the Ministry for New and Renewable Energy has proposed to have two categories of projects under the JNNSM - one with mandated domestic content and the other allowing use of imported equipment. By having two categories, the Ministry seems to have found a way to stave off US pressure not to bring in more products under the draft guidelines that mandate use of domestic equipment.

To counter the charges, India has identified many US state programs for the promotion of renewable energy that it says might be offering illegal subsidies in violation of WTO rules. In a communication circulated to WTO members on April 18, India said it was "concerned" that solar energy incentive programs in the states of Delaware, Minnesota, Massachusetts, and Connecticut "have provisions relating to local or domestic content requirements which raises issues of consistency with Article 3.2 (and) Article 3.1 (b)" of the WTO's Agreement on Subsidies and Countervailing Measures.

India also said there were "issues of consistency" with the WTO's Agreement on Trade-Related Investment Measures (TRIMs) and the General Agreement on Tariffs and Trade. In a meeting of the WTO TRIMs

Committee, India said water utilities in many US states — South Carolina, Pennsylvania, and West Virginia among others — have made domestic sourcing of pipes and fittings compulsory for use in water projects. India has asked the US to explain how these measures could be considered consistent with the TRIMs Agreement that prohibits sourcing restrictions without ample justification.

Interestingly, the US has used the same argument in its case against India for domestic sourcing under the Jawaharlal Nehru National Solar Mission.

WTO Reporter (19 April), Business Line (21 April, 2 & 19 May 2013)

21. India-US: Poultry

India and the US have finally brought the imbroglio over poultry imports to the doors of the World Trade Organization's (WTO)'s dispute settlement body (DSB), a year after the US filed a complaint accusing India of violating global trading rules. A consultation process that ended in December 2012 failed to reach a solution.

India had imposed a ban on importing chicken legs from countries that had recorded cases of avian influenza. The decision was based on a notification issued by the Department of Animal Husbandry last year. The notification stated the import of poultry products would be restricted from countries that had cases of avian influenza, even if those were under the low-pathogenic category. However, the notification was country-neutral and didn't mention the US separately.

The notification was termed unscientific by the US; it accused India of violating sanitary and phytosanitary measures. In its complaint, the US said India had imposed a non-tariff barrier on its imports. The Indian poultry industry was apprehensive of the fact that cheaper poultry products from the US might affect its business, as it would be compelled to revise prices, the US said.

Business Standard (12 April 2013)

22. India-US: Steel

India will put on record its arguments against the penal duties imposed by the US on hot-rolled steel from the country in its first submission to the Dispute Settlement Panel of the WTO. The countervailing duties, which are as high as 500% in some cases, affect all major Indian steel producers including Essar, Jindal, SAIL and Tata, who have not been able to export hot-rolled steel to the US for the last few years.

The US imposed countervailing duties – a levy to neutralize subsidised exports – on hot-rolled steel from India on the grounds that the public sector NMDC supplied iron ore to Indian steel companies at subsidised rates. India has rubbished the claims and stated that the prices charged by NMDC were purely market-driven and were comparable to the prices at which it exported iron ore to South Korea and Japan.

Business Line (1 April 2013)

ALSO IN THE PRESS

23. Pharma Patents

The Supreme Court ruling in early April dismissing Swiss drug major Novartis AG's bid for a patent for its cancer drug Glivec hinged on the interpretation of Section 3(d) of India's patent law which defines what are not "inventions" under Indian law, and therefore not patentable. India's law tries to prevent 'evergreening' - the practice of companies renewing patents on old drugs by making minor changes – under Section 3(d) of the patent law which states that inventions that are mere "discovery" of a "new form" of a "known substance" and do not result in increased efficacy of that substance are not patentable.

The Glivec case hinged on this provision, introduced by the Indian Parliament in the country's patent law in 2005 as a public interest safeguard to prevent patenting of new forms of known substances unless they exhibit enhanced efficacy. This case triggered interest across the world because it touched upon one of the central challenges of our times - how to balance incentives for innovation with interests of public health and access to medicine.

Novartis lost the case because it could not convince the Supreme Court or demonstrate with scientific evidence that it was different enough and more "therapeutically effective" than an earlier patent relating to Glivec. There is nothing to suggest that the Indian judiciary is biased against innovators, or that in the future, other multinational or local pharma companies applying for a patent in India will necessarily be disappointed.

India is not the only country with public health safeguards in its patent regime. Many other developing countries have put in place such provisions into their patent law. For example, Argentina and Philippines have something similar to India's Section 3(d) in their patent legislation. Or take compulsory licensing (CL), another public interest safeguard allowed by the WTO TRIPS Agreement. India has been slammed for using it. But Indonesia, Thailand, Brazil, Malaysia, Zambia, Cameroon, Ecuador, and now even China are joining the ranks of those using CL.

The April ruling follows another by an Indian Patents Appeal Board in March. In that case, the Board upheld a decision to let Natco, a generic drugmaker, sell copies of Bayer's patented kidney-cancer drug Nexavar. Bayer had not made the drug available to Indians at a sufficiently low price.

While health activists hailed it as a step in the right direction, multinationals like Bayer, Novartis and Merck, among others, have complained that India's intellectual property environment is not conducive for doing business. They have said such rulings weaken the international patent system and endanger pharmaceutical research.

"The MNCs are perturbed due to the sheer size of the market and the fact that India is setting an example for other developing countries," said Abhijit Das, Head of IIFT's Centre for WTO studies.

Data from various sources show that the multinationals may be making unnecessary noise as Novartis alone had received close to 150 patents in India, while Roche topped the list with over 160 pharma patents. Moreover, a study done by Columbia University has found that of 214 patents filed in India last year, only 3 patents were rejected exclusively for failing to comply with the provisions of Section 3(d).

WTO DG Pascal Lamy said, "It's a decision taken by the judiciary and it's independent." But given the high stakes, India is likely to come under intense pressure to adhere more closely to global patent practices. Pfizer has appealed to the US government to make India's failure to adequately protect intellectual property an important issue in bilateral relations.

The response of western governments has so far been muted. But India's government is considering a batch of compulsory licenses for costly cancer drugs. If those go ahead, western pharmaceutical companies will surely find a way to make their fury felt.

Daily News & Analysis (8 April), Economist (1 April), Times of India (1 &27 April), Economic Times (16 April), Financial Times (29 May 2013)

24. Telecom: Local content

The Department of Telecom (DoT) will shortly amend licence conditions of mobile phone companies under the Indian Telegraph Act to make it "legally binding" on them to buy security-sensitive telecom products from domestic gearmakers. The move comes in the run-up to India notifying the controversial "preferential market access" (PMA) policy that progressively calls for 100% local sourcing of security sensitive telecom equipment and electronics from October 2013.

The move is likely to send shockwaves throughout the telecom sector since both the Cellular Operators Association of India and the Association of Unified Service Providers of India have claimed that domestic sourcing and value-addition targets mandated by the PMA norms are "unrealistic" since there is no established telecom gear manufacturing ecosystem in India.

The DoT agreed to tweak the licence conditions on grounds that India's "telecom networks are security sensitive". Since a majority of private mobile operators have outsourced network management operations to global telecom vendors, DoT plans to bring them within the ambit of PMA. DoT also wants to extend PMA compliance to private sector telecom gear procurements to check India's telecom gear import bill, which has shot up nearly 34% to Rs 56,421 crore in 2012-13 from Rs 42,249 crore in 2009-10.

The policy was brought against the backdrop of Indian law enforcement agencies expressing concern over the widespread use of imported equipment, especially from China. The primary fear is that foreign agencies can embed spyware into the equipment which would not only allow them to snoop into conversations but also give them ability to shut down telecom networks in India. The National Security Council has backed the DoT's proposed policy to encourage local manufacturing of telecom gear against the backdrop security concerns.

According to the DoT, the law enforcing agencies will be able to screen equipment for spyware if it is made in the country. But under this policy, all foreign vendors will be forced to set up manufacturing facilities in India. The Commerce Ministry has, therefore, raised objections on grounds that the policy would not conform to international trade treaties. The Prime Minister's Office had also asked DoT to explain how it proposes to link security concerns with the go-local policy.

Business Line (14 May & 14 June), Economic Times (28 June 2013)

25. UNCTAD Secretary General

UN Secretary General Ban Ki-moon has nominated former Kenyan trade minister Mukhisa Kituyi to head the United Nations Conference on Trade and Development (UNCTAD). A statement from the UN body said on 16 May 2013 that pending confirmation of the nomination by the UN General Assembly, Kituyi will head the UN body for a term of four years beginning on September 1 2013.

Kituyi who is the chief executive of the Kenya Institute of Governance is expected to succeed Supachai Panitchpakdi of Thailand who assumed the post on September 1, 2005 and was reappointed in 2009.

Xinhua (16 May 2013)

26. WTO Ministerial Conference: Bali

The 9th WTO Ministerial Conference is scheduled to take place on December 3-6 in Bali, Indonesia. The Conference is the highest decision-making body of the 159-member strong WTO. It meets every two years. The Doha talks, launched in 2001, have missed several deadlines due to divergent views on issues like agriculture subsidies between the developed countries like the US and developing nations such as India.

The key WTO members are trying to resolve some of the major issues and reach a consensus on an early harvest package which would benefit all the members. Under that, rich nations, including the US, want India and other emerging economies to be part of the four major sectoral pacts - Trade Facilitation, IT, environmental goods and international services agreement. While developed countries are pushing for an agreement on trade facilitation to boost their exports, India and other developing countries want an agreement on food security and duty-free, quota-free market access for LDCs.

Meanwhile, trade ministers and senior officials from some two-dozen key WTO member countries wrapped up a half-day "mini-ministerial" meeting in Paris on May 30 with a commitment to step up technical discussions on a proposed agreement on trade facilitation and a handful of other issues which they hope to conclude by the organization's critical Bali ministerial conference in December.

The ministers claimed less success at the May 30 meeting in addressing ambiguities on issues proposed for Bali relating to agriculture, in particular a proposal from the Group of 33 (G-33) developing countries on food security, but they said there was a better understanding of the issues which negotiators will need to tackle.

The G-33 proposal would allow developing countries to classify purchases of food stocks at subsidized prices to be classified as "green box" subsidies exempt from WTO spending limits. Normally, such price supports must be classified as trade-distorting "amber box" support. The main proponents are India, where legislators are now considering a bill that would expand subsidized purchases of rice and wheat at an estimated cost of $24 billion annually, as well as Indonesia, Pakistan and the Philippines.

The United States, the European Union and others argue that it is not possible to agree to such fundamental changes in the WTO's agriculture subsidy rules, particularly in the short time remaining to Bali, and have proposed instead to establish a work program to address the proponent's concerns.

Many new proposals are being added to the ministerial agenda. G-20 proposal on export competition, circulated on 21 May, has sparked a range of reactions among members, with the US and EU being among those to have reportedly opposed it. On the other hand, the LDC Group also submitted its proposal for LDC-specific issues to be considered for the ministerial. It includes the implementation of the duty-free quota-free (DFQF) market access decision taken at the 2005 Hong Kong Ministerial Conference; preferential rules-of-origin; the operalisation of the services waiver agreed at the 2011 ministerial; and trade and development assistance with regards to cotton.

Though there are anxieties among members about the successful conclusion of Doha round, outgoing WTO DG Pascal Lamy is hopeful. He says, "The Round is deadlocked, not dead." In an interview with a leading Indian daily, Lamy said, "….trade facilitation is doable. LDC development is doable. I am less sure about a compromise on the G33 proposal, because in my view, positions are further away on this than the rest." He called for a change in mindset of the members to gain the "early harvest."

Indian trade minister Anand Sharma has promised that India would play a "constructive role" in ensuring a successful outcome in the Bali ministerial. In a statement issued after meetings with Lamy and incumbent WTO DG Roberto Azevedo, Sharma assured that India would remain fully engaged with all key stakeholders from the developed and developing countries to find a fair and balanced outcome in Bali.

However, while recognizing the importance of trade facilitation and upgrading infrastructure at border, ports and custom procedures for giving a boost to exports, Sharma underscored the need for addressing the concerns of food security which have been outlined in a proposal presented by G-33 countries.

Mint (9 April), Xinhua (11 April), Business Line (27 April), PTI (30 May), WTO Reporter (31 May), Bridges Weekly Trade News Digest (6 June 2013)

27. WTO Director General

Brazil's Roberto Azevedo is set to head the World Trade Organization at a time it struggles to find ways to revive stalled talks on freeing global commerce and to help develop poorer nations. He will replace Pascal Lamy at the helm of the Geneva-based body in September 2013.

The 55-year-old has been the Permanent Representative of Brazil to the WTO and other International Economic Organisations in Geneva since 2008. Azevedo said that he believes in ensuring that developing countries must secure a share of international trade commensurate with their needs, referring to the preamble of the Marrakesh Agreement that was signed in 1994, thereby establishing WTO.

Welcoming the appointment, Commerce and Industry Minister Anand Sharma said, "It is significant that this apex trade body is being headed by an able nominee from the developing world. He is assuming office at a crucial juncture as there is considerable expectations from the December Bali Ministerial Conference."

Azevedo's election as head of the World Trade Organization (WTO) is an important victory for the developing world and the BRICS that have championed their cause, coming at a time of great mistrust and divide between the rich and the poor over the stalled Doha Round trade talks. The developed world, led by the US, has pinned the blame on developing countries, calling them "obstructionist", a charge Azevedo has countered with gusto. He now faces the unenviable task of shedding years of hardened position without letting down the developing countries that have rallied together to put him in the chair occupied mostly by Europeans since the WTO was set up in 1995.

Azevedo's biggest challenge, even before he gets down to the task of tackling the issues that have stalled the Doha round since 2008, would be to refocus energy on multilateral trade talks, away from the rising preference among nations to explore bilateral or regional trade ties with each other. The years of lack of progress and seemingly irreconcilable differences among the global powers have eroded faith in multilateralism and even the WTO itself, encouraging countries to embark on bilateral free trade negotiations.

Economic Times (9 April & 9 May 2013)

Forthcoming Events (July – September 2013)

S.No.	Events	Partner Institution	Proposed Dates
1	Trade Talk on Global Value Chains: Do WTO rules require changes to address the emerging reality? by Prof. Mark Wu, Harvard Law School	--	25 July
2	Sensitization Seminar on Importance of WTO & IPR Matters in International Trade	VTPC, Karnataka	12 – 13 August
3	Training of Trainers Programme on WTO and Trade-Related Issues	UNESCAP & Govt. of Myanmar	19 – 23 13 August
4	National Conference on Trade in Services in India and Inclusive Growth Paradigm: Emerging Opportunities and Future Challenges	--	22-23 August
5	Training Programme on Trade in Services for Stakeholders in Madhya Pradesh	RCVP Noronha Academy of Administration, Bhopal	29 -31 August
6	WTO Regional Trade Policy Course	WTO, Geneva	9 September - 1 November

The Centre welcomes views and suggestions from readers at:
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