INDIA'S TRADE NEWS AND VIEWS

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Trade deficit narrows to $12.2 billion in June
The Hindu

New Delhi, 13 July 2013: A sharp dip in import of gold and silver in June brought down the trade deficit $12.2 billion even as exports registered a decline of 4.56 per cent during the month.

Gold and silver imports dipped to $2.45 billion in June from $8.4 billion in the previous month. However, when compared to the same month in last fiscal, imports grew by 22.8 per cent.

In May, the trade deficit had widened to a record seven-month high of $20.1 billion. "The decline in gold and silver imports can be attributable to the steps taken by the government, especially by the Reserve Bank of India, in May and June. It is mainly due to that impact that lower imports of gold took place in June,'' Director-General of Foreign Trade (DGFT) Anup Pujari told reporters here.

In fact, imports declined marginally by 0.37 per cent to $36 billion during the month. Exports stood at $23.79 billion against $24.9 billion in June, 2012.

Oil imports during the month grew by 13.74 per cent to $12.76 billion ($11.22 billion). Non-oil imports declined by 6.7 per cent to $23.2 billion.

Petroleum exports too grew by 4.42 per cent to $4.34 billion from $4.15 billion in June, 2012.

During April-June, exports were down by 1.41 per cent at $72.45 billion. However, imports during the same period were up by 5.99 per cent at $122.6 billion. The trade deficit touched $50.18 billion during the quarter.

Federation of Indian Export Organisations President Rafeeque Ahmed said there was need to make manufacturing competitive to support exports, and address the rising trade deficit.

"Augmenting manufacturing is the need of the hour to address rising trade deficit,'' he added.

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India eases foreign investment rules in new reform push
Agence France Presse

16 July 2013: A group of Indian cabinet ministers late on Tuesday cleared plans to remove the foreign investment cap in telecoms and relax overseas ownership rules in a host of sectors in a new economic reforms push.

The moves are aimed wooing investors and kickstarting the struggling economy before the scandal-tainted Congress government faces voters in general elections due by May 2014.

"We expect more foreign direct investment to flow in with these decisions," commerce minister Anand Sharma told an evening news conference.

The government is seeking to rebuild confidence in the economy which grew at its slowest pace in a decade at five percent and boost the ailing rupee which has hit a string of lifetime lows in recent weeks.

Among the steps, the ministers at a meeting chaired by Congress Premier Manmohan Singh approved raising the ceiling on foreign direct investment (FDI) in telecommunications to 100 percent from 74

percent.

They also decided to abolish the need for government approval for certain levels of foreign investment in single-brand retail and petroleum refining. In insurance, it approved raising the FDI cap from 26 percent to 49 percent.

But in the contentious area of defence, the FDI cap will remain at 26 percent with proposals beyond that considered on a case-by-case basis.

The ministers' decisions will still require the approval of the full cabinet -- likely to come at a meeting next week -- and the move to hike the insurance cap requires parliamentary clearance, Sharma said.

The announcement came after Finance Minister P. Chidambaram visited the United States for a second time in three months last week to reassure foreign companies that India remained a hospitable place to invest.

"We welcome the move and it indicates that reforms are underway," said Federation of Chambers of Commerce and Industry president Naina Lal Kidwai.

FDI in India -- seen as vital to improving its shabby infrastructure and boost manufacturing to employ its burgeoning youth population plunged to $22.4 billion last year from $36.5 billion the previous year, government figures show.

Underscoring foreign investor unhappiness with India, South Korean steel giant Posco scrapped a $5.3 billion deal to build a steel plant in the southern state of Karnataka due to land acquisition delays and local opposition.

Economists say India needs foreign investment to spur growth and also to close its wide current account deficit -- the broadest measure of international trade -- that has alarmed global credit ratings agencies.

To improve India's investment attractiveness, economists say the government must reduce the country's burdensome red tape, speed up slow project approvals and lessen widespread corruption.

The government has been dogged by a string of graft scandals during its second term in office, which has derailed many of its efforts to push through promised pro-market reforms.

Last year, the government opened up the supermarket, civil aviation and broadcasting sectors to wider foreign investment in a burst of reforms after being accused of policy paralysis.

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Chidambaram, Sharma woo investors in US
Chidanand Rajghatta, The Times of India

Washington DC, 13 July 2013: Two senior Indian cabinet ministers double-teamed in New York and Washington to talk up India to American business, allaying their apprehensions about rulings they feel discriminate against them, while assuring them that New Delhi remains open for business and profit-taking.

In moves aimed at arresting the slide in foreign investment in India and reversing the perception that India is resorting to protectionist measures, finance minister P Chidambaram and commerce and industries minister Anand Sharma met American investors and other interested parties in Washington and New

York respectively on Wednesday to put out a conciliatory message that New Delhi will offer a level playing field.

"The finance Minister mentioned that while some concerns have been expressed about the current business environment in India, the policies adopted by the Government of India are pro-growth and WTO compliant," the Indian Embassy said in a statement about his meetings with Senator Max Baucus, chairman of the Senate Finance Committee, among others on first day of his four-day visit. Chidambaram, it said, stressed that the Government of India is committed to ensure a "transparent, fair and non-discriminatory investment environment for foreign investors seeking to do business in India."

Officials said Chidambaram also met CEOs and top management officials of a number of American companies with substantial investments in India, including Microsoft, Lockheed Martin, Boeing and International Lease Finance Corporation (ILFC). While there were broad discussions on the current business and investment environment in India, the finance minister took up US gripes about transfer pricing and taxation issues, explaining recent government rollbacks that suggested a more reasonable approach than what was seen by Americans as a confrontational line that had riled foreign investors.

Indian officials said the US companies were "appreciative of the measures taken to address concerns relating to Transfer Pricing," even as the US-India Business Council welcomed the slew of concessions from New Delhi ahead of the twin ministerial visits. Chidambaram also apprised the companies of the recommendations of the Arvind Mayaram committee on enhancing FDI caps in many sectors, and the steps being taken to implement the recommendations, although there is plenty of internal political debate within India about the wisdom of fully opening up the markets to predatory western companies, particularly in sensitive sectors.

In New York meantime, Sharma spoke about the slew of measures the government was rolling out to address the complaints of foreign investors: National Investment and Manufacturing Zones (NIMZ) being set up across India; the single window approval mechanism for investments; the fast-tracking of critical infrastructure projects; use of technology to minimize paperwork for investment proposals; the efforts to tackle the emotive issue of land; and the establishment of a Cabinet Committee on Investments chaired by the Prime Minister, were cited as some of the steps the government has taken to spur business and investments in the country. But on one issue both ministers pushed back: The adverse impact in India of the Comprehensive Immigration Bill recently passed by the US Senate which will essentially hinder free movement of India's biggest asset — skilled professionals.

Times View

Cabinet ministers going on road shows abroad to try and attract investments to India should realise that hard sell alone cannot do the job. No amount of impassioned appeals is likely to yield any results if potential investors do not see the prospects of attractive returns. On the other hand, if India becomes an investment destination that promises ease of doing business and reasonable returns, investors will make a beeline for the country without anybody having to exhort them to do so. What our ministers really should be focusing on, therefore, is getting the government's act together. The rest will follow more or less automatically.

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India ready for investment treaty talks with US: Anand Sharma
Reuters

Washington, 13 July 2013: Government is ready to begin talks with the United States on a bilateral investment treaty as part of its effort to reinvigorate ties with a valued trade partner, the

commerce and industry minister of India said on Friday.

"We have said that 'yes, we are ready for it. We are in favor,'" Anand Sharma told reporters after meetings with US Trade Representative Michael Froman and other US officials.

Sharma said there was no date for the first round of talks on the pact, which would set terms and condition for US and Indian investment in each other's country.

"No, it was discussed today, and we have signaled our acceptance," Sharma said.

The United States and China agreed this week to restart talks on a bilateral investment treaty, a move welcomed by the US business community as a sign of new Chinese President Xi Jinping's commitment to economic reform.

US business groups have been anxious for a similar commitment from India and were disappointed when a date for talks was not announced after Secretary of State John Kerry visited the country in late June.

Although the United States runs a far larger trade deficit with China than with India, India has in some ways replaced China this year as the No 1 target of complaints from the US business community and members of Congress.

In recent months, there has been a stream of letters from business groups and lawmakers complaining about Indian policies they say discriminate against American firms or undermine US intellectual property rights, especially for pharmaceuticals.

Sharma told reporters that India was far more welcoming of American business than the current perception, but admitted it must do more to get that message across.

He also said there was no reason the United States and India could not meet the US-India Business Council's goal of boosting bilateral trade in goods and services to $500 billion annually by 2020 "if we make a real effort."

Current two-way trade of about $106 billion annually is much below the potential, Sharma said.

On other issues, Sharma said the United States and India had agreed to work together to ensure that the December meeting of the World Trade Organization in Bali was a success.

"We have agreed to put together a work program. Our chief negotiators, senior officials and our ambassadors in Geneva will meet to discuss so there is a broad consensus around the key issues of trade facilitation and food security," he said.

"We will work very closely with all our partners ... with the United States of America, other principle stakeholders, the key countries, to ensure the outcome is a positive one."

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SEZ units hit tax hurdles for domestic supplies
Manoj Mishra & Abhisekh Sethi, Business Line (The Hindu)

14 July 2013: The first thing that comes to mind about Special Economic Zones is a tax haven for exporters, and that is not without reason.

The Central and State governments have incentivised SEZ units exporting goods/ services by providing indirect tax exemption/ refund for customs, excise, service tax and Valued Added Tax payable on imported/ indigenous procurements.

However, this harmonious tax environment vanishes when it comes to domestic clearances by SEZ units, which are inevitable from a business/ commercial perspective and have increased in recent times due to global recession.

The Central Government treats such domestic supplies as imports into India and applicable customs duties are levied. However, in contrast, State governments treat such domestic supplies as domestic sales liable to VAT/ CST (Central Sales Tax).

VAT on domestic supplies makes SEZ units uncompetitive in the domestic market, so this levy has always been disputed by trade. The Central Government, recognising this anomaly and in order to provide some relief to SEZ units, had exempted payment of SAD (Special Additional Duty) on domestic supplies, provided such goods were further sold by domestic units on payment of VAT. However, this exemption created a new set of litigation as SEZ provisions were silent on the treatment of domestic supplies other than through sale, such as stock transfer.

Dispute Over VAT

Further, the dispute over VAT on domestic supplies was decided in favour of the State Government by the Allahabad High Court in the matter of India Exports. The court upheld the levy of VAT/ CST on such supplies by holding that none of the provisions of SEZ Act, 2005 or CST Act, 1956 support the trade's assertion.

Under these circumstances, the recent advance ruling in the matter of GE India Industrial Pvt Ltd has provided the trade a great respite by holding that SAD exemption is available to domestic supplies in the nature of stock transfers.

The ruling is favourable to trade and opens new avenues for SEZ units with significant domestic supplies. If the ratio of the ruling is applied along with the fact that stock transfer does not attract VAT, as there is no transfer of property in goods, the impact of duties in the case of SEZ imports and actual imports would become equal.

FTA Worries

SEZ units also face a stiff challenge to compete in the domestic market due to the Free Trade Agreements entered by India with various countries, allowing domestic importers to import goods from these countries at concessional duties vis-à-vis the standard duties applicable on procurements from SEZ. It is time the Central Government frames a policy to provide a level playing field for SEZs, which face stiff competition from foreign suppliers.

Manoj Mishra is Associate Director and Abhisekh Sethi is Manager, Indirect Taxation, Grant Thornton India LLP

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Major constraints to trade and investment between India and Africa
The Hindu

New Delhi, 9 July 2013: Lack of proper financing mechanism and poor infrastructure facilities are the major constraints to trade and investment between India and Africa, according to a report jointly released by the Confederation of Indian Industry (CII) and the World Trade Organization (WTO) here on Tuesday. The trade between India and Africa has grown to around $50 billion in 2011-12 from $1 billion in 2001. Both together account for a huge market of 2.2 billion people with a combined GDP of more than $3 trillion. There has also been a surge in Indian private investment in Africa with big ticket investments in the telecommunications, IT, energy and automobiles sectors, the joint report states.

"Lack of financing and poor infrastructure facilities are the two key constraints in India-Africa trade and investment. African traders' concerns include poor access to Indian buyers and trade finance. On the other hand, transport and logistics costs and poor business environments are cited as major difficulties by Indian traders,'' the report states.

Suggesting a number of steps to be taken to boost trade and investment between India and Africa, the report says that to sustain trade growth, there is an urgent need to broaden the trade basket and increase cooperation between small and medium enterprises. "The commercial wings of Indian embassies in Africa can play a facilitating role by providing in-country research on market expansion opportunities available to Indian exporters,'' the report adds.

The report is of the view that India's investment-led trade approach could help sustain the dynamic trade growth between India and Africa, and help extend trade in terms of the number of partners involved and also the range of goods and services traded. Investments for joint ventures between India and African countries would best open up the route for enhancing goods trade. In addition, it says, greater cooperation in agriculture and agro-processing would have a great bearing on the food security situation in India and African continent.

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Anand Sharma calls for more trade within Indian Ocean Rim countries
Richa Mishra, Business Line (The Hindu)

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

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

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

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

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

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

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

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

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

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

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India, Vietnam trade set to cross $7 bn by 2015: Khurshid
Business Line (The Hindu)

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

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

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

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

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

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Safta members propose to reduce sensitive list
Asit Ranjan Mishra, Mint

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

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

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

The official said while Sri Lanka is yet to respond to the proposal, Bangladesh has said that the timeline may be a little ambitious for the LDCs. “We have told them they can suggest any new timeline if they wish. We want the sensitive list to be reduced at one go, instead of a phased approach,” the official added. Even if a consensus is not reached among all the countries in the region, India should go ahead and unilaterally reduce the sensitive list to 100, said Nisha Taneja, professor at the Indian Council for Research on International Economic Relations.

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

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

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

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

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

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

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

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India plans massive duty cut on Pakistan textile imports
Nayanima Basu, Business Standard

New Delhi, 16 July 2013: In an unprecedented move, India is planning to drastically slash tariff on import of textiles from Pakistan in an effort to normalise trading relations between both countries.

Currently, India imposes 30-45 per cent duty on textile products from Pakistan. The government is planning to bring it down to five per cent and has not ruled out the option of allowing duty-free access too.

This would be done by reducing the sensitive list of items India maintains for Pakistan, under which certain items are not allowed from there. This list is maintained under the South Asian Free Trade Agreement (Safta).

“Once the reduced sensitive list under Safta is notified, most of the textile lines would be out, for the benefit of Pakistan. We might bring it almost to the level of Bangladesh,” said a senior commerce department official involved in the process.

In 2011, India allowed duty-free access to Bangladeshi garments and apparel products.

This, however, would be done only when Pakistan grants most favoured nation (MFN) status, or non-discriminatory market access, to India, the official added.

Pakistan’s global exports basket has been dominated by products from the textiles and clothing sector, which, however, is not consistent with its exporting pattern to India.

These products are found listed in India’s sensitive list, thus restricting the possibility of Pakistan being able to formally export these products. The main items of informal trade from Pakistan to India are textiles and garments.

Interestingly, the new Pakistani government under Prime Minister Nawaz Sharif has renamed the official name of their Ministry of Commerce to Ministry of Commerce and Textile Industry, probably to highlight the importance of the industry to the world. While Sharif is himself handling the commerce portfolio, Qasim M Niaz has been appointed the new commerce secretary.

Nisha Taneja of the Indian Council for Research on International Economic Relations said, “Pakistan’s textile export basket is small. It depends on what products under this category would be opened up by India, which is crucial. They are heavily banking on textiles. And, I do not see a problem in granting them easy access because if we can take on Bangladesh, then there would be no problem with Pakistan.”

Pervez Lala, chief executive officer of a Pakistani apparel brand, Lala Textiles, which recently participated in an exhibition in Surat, told Business Standard Pakistani textile importers also had to face several non-tariff barriers in India, which affected their business. This issue of granting preferential market access to textile imports from Pakistan was discussed last month during the first joint business council meeting in Islamabad.

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Garments exports jump 11% to $3.5 billion
Times of India

New Delhi, 16 July 2013: India's garments exports have climbed over 11% to $3.5 billion as local exporters cornered a bigger share of the market in Latin America and most of Asia to offset the impact of poor demand in the US and Europe.

The rise comes after garment exports fell nearly 6% to $12.9 billion in 2012-13. Buoyed by the success, the government and the Apparel Export Promotion Council are now egging exporters to target nontraditional markets such Uruguay, Columbia, Israel, Brazil, Australia, South Africa, and Japan, A Sakthivel head of the industry body said on Monday.

Although data is currently unavailable, Indian garment exporters witnessed a reversal in fortunes in April, at least in the US with the value of shipments surging over 16% to $337 million. For January-April, they continued to remain in the red with exports falling 0.8% to $1.2 billion. The story was much the same in the European Union, where exports rose almost 16% in April to $525 million, while January-April shipments are estimated to have decreased 2.6% to $2.1 billion.

According to the latest available data, among the top eight exporters to the US, India and Mexico are the only two countries that have seen the value of shipments decline, while others such as China and Bangladesh have continued to witness an increase.

With the tide turning a little, textiles minister K Sambasiva Rao on Monday asked apparel exporters to step up their overseas sales target to $20 billion in 2013-14. "You assure me that you are going to increase the exports — not from $14 billion to $17.5 billion this year, but to $20 billion," he said.

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Gems & jewellery exports plunge 41% in June
Business Standard

Mumbai, 16 July 2013**:** India's gems and jewellery exports fell 40.63 per cent in June, owing to weak demand from major destinations such as the US and the European Union. In rupee terms, overall jewellery exports fell 38.12 per cent to Rs 13,895.87 crore, against Rs 22,456.62 crore in June 2012.

Data compiled by the Gems and Jewellery Export Promotion Council showed shipments of ornaments nosedived to $2,379.44 million in June from a staggering $8,512.94 million in the corresponding month last year. However, exports of cut and polished diamonds rose 22 per cent to $1,478.81 million from $1,212.29 million in June 2012.

Restrictions on gold imports, proved a hurdle for jewellery exporters. Owing to low availability of gold (banks allowed gold imports only on a consignment basis and increased import duty), gold jewellery exports fell a staggering 73 per cent to $556.81 million from $2,062.32 million in June 2012. In rupee terms, these exports plunged 72 per cent to Rs 3,251.80 crore from Rs 11,555.17 crore in June 2012.

The gold medallions and coins segment was also hit by the government's curbs on gold imports. Not surprisingly, exports from this segment were completely wiped out in June, against $513.29 million (Rs 2,875.96 crore) worth of exports in June 2012.

In addition to raising import duty on gold by two per cent to eight per cent early this financial year, the

Centre also barred sales of gold coins and bars by banks to control the country's burgeoning current account deficit.

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Exim Bank to offer long-term finance to pharma companies
PTI

Mumbai, 15 July 2013: In a bid to boost export capability of Indian pharmaceutical companies, Export-Import Bank of India (Exim Bank) has decided to expand the scope of its finance to them for extended repayment periods.

Eligible export-oriented companies can avail finance from Exim Bank for a maximum repayment period of 10 years with a moratorium of upto 36 months, a statement issued here said.

Cost of compliance with USFDA norms is high as an USFDA approved API manufacturing facility can cost up to Rs 30 crore to Rs 40 crore and formulations manufacturing plant may cost about Rs 50 crore to Rs 60 crore while average gestation period for setting up these plants is about 18-24 months, the release said.

Despite having potential to increase their share in global exports, many Indian pharmaceutical companies suffer due to their inability to meet the stringent compliance norms of European countries and the USA. According to Exim Bank, the size of the Indian pharma industry was around USD 29 billion in 2011-12, but in value terms, it constituted only 1.2 per cent of the global pharmaceutical market. To increase market share, the industry needs to penetrate deeper in the regulated markets which calls for accreditation of more facilities of Indian manufacturers.

To meet the expectations of the Indian industry and to cope with longer average gestation period to meet USFDA or other similar regulatory requirements, Exim Bank has decided to provide term finance to pharmaceutical companies, with maximum repayment period of 10 years, Exim Bank said.

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Engineering exporters train focus on Africa
Express news service

New Delhi, 16 July 2013: Engineering exporters are trying to tap African countries to beat slowdown in the West Asian and European markets.

The meeting on Tuesday will be expected to provide opportunities to make up for dip in India's engineering exports to Europe that has been shaved off by five per cent.

An assessment by EEPC India (formerly Engineering Export Promotion Council) shows geo-political trouble in Sudan, Egypt, Syria, Iran and Iraq are coming in the way of finding new markets in the West Asian regions too.

The meeting with the diplomats of key African missions will also bring together senior officials of ministries of commerce, external affairs, power and steel. Engineering exports to Africa has moved up to 16 per cent in the same period, coming close to the EU figure.

EEPC India chairman Aman Chadha said exports to EU dipped to 19 per cent last fiscal. "A fall in 5 per cent is a substantial loss of market share. This is more so for engineering goods that has long gestation

periods works on long term contracts and it takes time to develop markets and credibility. The same is the case in North America, where our share is 11-13 per cent."

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Electronics sector sees setback as govt suspends 'buy India' policy
Pankaj Mishra &Leslie D'Monte, Mint

Bangalore/Mumbai, 9 July 2013: Companies that have proposed investing thousands of crores in India's electronics sector may do a rethink if the government revises its "Buy India" policy, caution industry experts and lobby bodies.

Under the policy, introduced in February, a portion of all electronics products bought by the government have to be manufactured locally. The central government alone, estimate experts, accounts for almost 25% of all buying in the Indian electronics market. State governments, government-run companies and private firms account for the rest.

According to information on the Department of Electronics and Information Technology's website, there is a pipeline of Rs.5,000 crore of investment proposals under the government's modified special incentive programme (excluding investments in semiconductor fabrication units that run into billions of dollars). Most of these depend on the projected demand for electronic goods under the government's preferential market access (PMA) and special incentive programmes.

India's electronic system design and manufacturing industry is estimated to grow from $64.6 billion in 2011 to $94.2 billion in 2015, according to the India Electronics and Semiconductor Association (IESA). Another lobby group, the Consumer Electronics and Appliances Manufacturers Association, sees demand for electronics hardware in India growing at 22% annually till 2020, which would make it a $400 billion opportunity.

These projections may go awry if the government revises the PMA policy that will encourage imports. On 8 July, the Prime Minister's Office said in a statement that the overall PMA policy for domestically manufactured electronic goods "will be recalibrated and submitted to the cabinet".

"The recent announcement from the government that certain clauses of the PMA policy are being 'put on hold' signals an unwarranted policy rethink which could hurt India's Current Account Deficit (CAD) in the short-term, since it will encourage imports and not provide any motivation for domestic manufacturing of electronics," IESA said in a statement on Monday.

In the long-term, the lobby body said, the move will affect India's ability to build competition in domestic manufacturing of electronics, and jeopardize an opportunity to create a $400 billion electronics system design and manufacturing industry in India.

Dow Jones Newswires, in a report on Monday, cited government officials as saying they wanted to address the concerns of foreign companies and governments. International companies had told the government that the policy might prompt them to set up operations elsewhere, the report said, citing Gaurav Verma, head of the New York office of the US-India Business Council.

P.V.G. Menon, IESA president, said that was not the case with the PMA policy. "The policy was also very fair in that it did not discriminate on the ownership of the company (foreign or Indian), and hence in no way violated WTO (World Trade Organization) norms, as was the apprehension expressed by some sections of the industry," he said over the phone.

Ajai Chowdhry, co-founder HCL, who is involved in the electronic policy area with the principal scientific adviser's office as co-chairman of the electronic research and development committee, had a similar view.

"In 2005, there was a zero import duty regime, which made imports very cheap. So PMA was the government's way of stirring up demand and increasing employment. Every country has a right to protect its manufacturing sector just as governments do it in the US, Australia and China," said Chowdhry.

T.R. Madan Mohan, founder of management consulting firm Browne and Mohan, which advises technology firms on corporate strategy, said changing the policy will hurt India's competitiveness globally, especially compared with rival countries such as China.

"The Indian government has abdicated its policy role and pandering to the wishes of investors," said Mohan.

The chief executive officer of an Indian company that makes hardware said he was disappointed the government had taken the easy way out by using the excuse of an absent ecosystem for hardware manufacturing to "not even make a start". The person didn't want to be named.

HCL Infosystems Ltd and Tejas Networks are among a handful of home-grown hardware firms that have the capability to manufacture computer hardware and telecom equipment in India.

There are dissenting voices, though, against the policy.

"PMA makes sense for government purchases, but it's not sensible to extend it to private telecom operators since the telecom sector is capital-intensive and many telcos are under stress. It won't help that industry," said Benoy C.S., director, information and communications technology practice, at Frost and Sullivan.

"It is early days to comment on the issue. We had voiced our concern that the PMA was difficult to implement since there is no electronic ecosystem in the country," said Anwar Shirpurwala, executive director, Manufacturers' Association for Information Technology.

"Now that the government proposes to revise the policy, we would like our suggestions to be heard."

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Anti-dumping duty on rubber chemicals extended
K. R. Srivats, Business Line (The Hindu)

New Delhi, 8 July 2013: The Finance Ministry has extended the validity of existing anti-dumping duty on certain rubber chemicals from China and South Korea by one year.

The anti-dumping duty on rubber chemicals MBT, CBS, TDQ, PVI, and TMT imported from China will remain in force till May 4 next year, the Revenue Department has said.

For PX-13 (6PPD) imports from South Korea, the existing anti-dumping duty will also be continued till May 4, 2014.

These chemicals are used in treating natural rubber and synthetic rubber-based compounds.

The Revenue Department move follows the initiation of sunset review investigation on these rubber chemicals by the designated authority in the Commerce Ministry.

National Organic Chemical Industries Ltd (NOCIL), Mumbai had filed the petition seeking sunset review, it is learnt.

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EU to impose anti-dumping duties on Indian steel
Priyadarshi Siddhanta, The Indian Express

New Delhi, 11July 2013: Just when the India-European Union free trade agreement was narrowing down to duty on wine and opening up of the insurance sector, the Indian steel industry has asked the government to protest against anti-dumping duties on their exports to Europe.

They have been supported by Steel Ministry's Economic Research Unit (ERU). The unit has cautioned that the European Commission will release an "action plan" to revive the European steel industry. "It may include subsidies and strong trade actions to reduce or eliminate competition from imports, especially from the developing nations," its advisory notes. This will be a piquant situation as Indian companies, including Tata Steel, operates from both Europe and India.

Incidentally, on Tuesday, Prime Minister Manmohan Singh had said that steps were needed to push steel production volumes in India that is now at less than 80 million tonnes every year. The government expects to raise the volume to 280 million tonnes by 2025, a CAGR of 13.35 per cent.

Eurofer, the apex body of European steel makers is planning to initiate anti-dumping and subsidy countervailing cases against import of stainless steel long products and galvanised sheets of which India is a major exporter to the EU. The European steel companies are still in the middle of a deep slowdown and are reeling under excess capacity of 60 million tonnes. "Given the intensity of the crisis in the EU region, there are talks of nationalisation or temporary government management of major steel mills there, for example ILVA of Italy," the policy advisory body said. In response to the ArcelorMittal plan to close two key facilities in France, the country's government has warned of nationalising the facility.

The possibilities of such measures from Europe are high, it said. Since India has filed some cases against Europe-produced steel, "The EU steel industry may be looking for some retaliatory measures. It is also a matter of concern that that the EC may adopt non-tariff barriers involving environmental issues," the steel policy advisory body reasoned. It said that in the recent past trade action were taken against Indian steel products in Indonesia and Thailand and the steel ministry was unaware of it and came to know about it only after their respective trade actions were notified.

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Tougher times ahead for exporters
Sidhartha, Times of India

New Delhi, 11 July 2013: There is more bad news for Indian exporters with the preferential access to the US, known as generalized system of preferences (GSP), set to expire at the month-end.

Expiry of the benefits are expected to hit small scale and labour-intensive industries the most, prompting commerce and industry minister Anand Sharma to once again take up the issue when he meets US trade representative Mike Froman later this week. But given Froman's strong stance against imports from emerging market economies such as India and China, an extension is not going to come easily, said

officials.

Even before he was nominated for the trade negotiator's job, Froman had taken a strong anti-India stance on the WTO trade talks and blamed India for blocking negotiations on issues such as trade facilitation. In any case, Indian officials see growing signs of protectionism in the US, as manifested in the visa restrictions and attacks over the labour regime. Besides, the US is exerting pressure on India over its intellectual property regime, although New Delhi has maintained that steps such as patent waiver in public interest and checks on unwarranted patents are in line with the legal provisions and Trips. Besides, India is often blamed by the US for initiating "protectionist measures" such as local procurement for solar energy and telecom equipment.

The US is expected to use extension of GSP benefits to get India to address some of its concerns amid a growing clamour for canceling the sops that were started in 1976. On June 18, 14 US business groups launched the “Alliance for Fair Trade with India” that called upon the US government and Congress to press India on issues of concern to them. Companies such as IBM have advocated linking these issues to GSP benefits.

What is GSP?

The scheme provides preferential duty-free treatment for over 3,500 products from 127 developing & poor countries.

Goods such as textiles and apparel, watches, footwear, handbags, luggage, flat goods, work gloves and leather apparel are not entitled for GSP treatment. No sops are given for import of sensitive steel, glass and electronics.

The benefit is reviewed annually, programme lapsed in 2010. It was reauthorized in October 2011 and the current congressional authorisation expires on July 31, 2013. In 2011, India was the second largest beneficiary.

Times View

The government needs to take immediate steps to make Indian industry, including the small scale sector, more competitive so that it does not have to lobby for getting preferential access for Indian exports. The emphasis should be on supplying uninterrupted power and better road, rail and port connectivity so that Indian companies are not burdened with a high cost of operations. At the same time, transaction costs need to be reduced and industry should be freed from bureaucratic red tape. For a country which is pitching hard for a place on the global high table, nothing can be more embarrassing than finding itself in a situation in which it is lobbying for concessions meant to go to the poor and least developed countries.

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India’s farm products face US import hurdles
Sidhartha, Times of India

New Delhi, 12 July 2013: After claiming a major victory in "mango diplomacy" with the US, the government has realized that it was sold a lemon.

Despite the US agreeing to import Indian mangoes after irradiation to cut the risk of fruit flies and stone weevil, the quantity of the fruit shipped from India has not climbed significantly. The government blames the prohibitive cost which it has to pay according to the agreement reached with Washington.

With a little over 1,300 tonnes exported from India, the average cost per ton works out to $318, which is nearly 12% of the cost of a mango and its transportation cost, said an officer. The government has suggested that the National Plant Protection Organization (NPPO) could be asked to do the job to help reduce costs and boost exports.

Instead, the US has suggested that local inspectors be hired by the US Embassy, which will reduce the cost of pre-clearance programme by about around $25,000 a season. It isn't just mangoes — the same story is repeated across various farm products with the Indian shipments facing restrictions.

Indian basmati has been put on an import alert by the USFDA, which says that a fungicide, tricyclazole, was detected in some consignments. This can lead to detention of the rice without examination.

Similarly, in case of pomegranates, the US recently allowed imports from India but the details of the irradiation treatment are yet to be finalized. In the case of grapes, India had sought market access in March 2008 and provided information on the pest risk analysis, but the US now wants information on the economic losses caused by some pests.

For litchis, exports have not been allowed as the US Environmental Protection Agency has not cleared the maximum residue limit (MRL) of sulphur dioxide, an issue which is being discussed for two years now. Indian officials said there has been little progress in farm trade, and commerce and industry minister Anand Sharma is expected to flag the issue during his meetings with his US counterparts.

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Improve cold chain network: Pawar
Business Line (The Hindu)

New Delhi, 17 July 2013**:** Emphasising the need to reduce post-harvest losses in the horticulture sector, Agriculture Minister Sharad Pawar on Wednesday said a robust cold chain network would help domestic growers.

"We need to attach importance to cold chain infrastructure and implement the recommendations of the Saumitra Chaudhuri report so that we can effectively compete with the supply chain for imported apples, pears, grapes, kiwis and cherries, which is posing a major challenge to domestic growers," Pawar said at the inauguration of the national horticulture conference.

Pawar said that the Government needed to address concerns of growers – from planting material to post-harvest management and issues of logistics and price discovery.

Stating that increasing production without protecting farmers was of no use, Pawar said, "the only way we can have equitable and inclusive growth is when small farmers can save enough to invest in newer production technologies."

"If we do not make farming remunerative, we will not be able to retain the interest of younger generation," Pawar said.

He said the demand for fruits and vegetables is expected grow at a faster pace with rising income levels, increasing urbanisation and changing food habits.

Pawar urged the States to support the creation of farmer producer organisations (FPOs) to strengthen the horticulture sector. He also asked State Governments to take adequate measures to address the impact of climate change on horticulture crops.

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Import duty hike will arrest sugar imports: Pawar
PTI

New Delhi, 11 July 2013: The hike in sugar import duty to 15% will halt shipments and boost domestic sales, helping millers to clear the Rs 9,000 crore in outstanding payments to cane farmers, agriculture minister Sharad Pawar said Wednesday.

The minister also expressed confidence that there would not be any shortfall in production in the 2013-14 marketing year starting October. Rather, the country will have surplus sugar for exports, he said.
"The import of sugar will stop now. It (duty hike in sugar import) is a good thing because so much sugar is lying in godowns of millers and there are no takers. In such a situation, at least we can protect our farmers," Pawar said when asked about the duty hike.

The duty hike to 15% will, however, make the sweetener costlier for the common man.
Outstanding payments to cane growers stand at around Rs9,000 crore, especially in Uttar Pradesh, he added.

Asked if there is scope for a further hike in sugar import duty, he said: "Not necessary. It is not viable to import at 15%."

The country has imported nearly 6,00,000 tonne of raw sugar and another 1,00,000 tonne of refined sugar so far in the 2013-14 marketing year (October-September), according to the industry.

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India Moves on Sweeping Food Aid
Biman Mukherji & Rajesh Roy, The Wall Street Journal Asia

New Delhi, 4 July 2013: India has decided to introduce one of the most ambitious food-aid programs ever attempted, adding the right to food to others enshrined in Indian law such as free speech and equality of all citizens.

The government of Prime Minister Manmohan Singh, which pushed through the National Food Security Law by executive order on Wednesday while Parliament was in recess, will spend $4 billion or more a year under the program to distribute cheap grains to around 70% of India's 1.2 billion people.

The legislation has sparked debate in India between those who say it is a way to eradicate deep rural poverty and others who want the state to instead focus on creating jobs and better infrastructure like irrigation facilities in remote areas.

The executive order will need to be approved by the Indian President, which is expected to be a mere formality.

Parliament, which is due to come back into session at the end of July or early August, needs to pass the bill by a simple majority for it to become law. That is expected to happen as few politicians want to oppose such legislation before a number of state polls this year and national elections, which must be held

by May 2014.

Few countries have embarked on such an ambitious mission. India has about a third of the world's extreme poor, according to the World Bank. About half of children below five suffer from malnutrition and a third of women are underweight, according to the Indian government's National Family Health Survey.

"In terms of nutrition indicators, India is very far behind. The food-security bill is an opportunity to address these gaps, and to create a political momentum for further action," said Jean Dreze, a development economist and an honorary professor at the Delhi School of Economics.

Amartya Sen, an Indian Nobel Prize-winning economist who is an expert on rural poverty, has argued that India could easily make up for the revenue spent on the food-security bill by ending tax breaks given to the gem and jewelry industry.

Critics say the legislation, which will swell the total food-subsidy bill to around $20 billion, is a bid by the ruling Congress Party to win votes ahead of national polls in 2014 but that it comes at a fiscal cost.

Mr. Singh's Congress Party-led government came to power in 2004 in part due to promises to guarantee work for India's rural population. It retained power five years later partly by deepening social spending.

Such gestures widened India's budget deficit to 5.2% of gross domestic product in the last financial year through March. Ratings firms have warned that India needs to take steps to control the deficit and boost economic growth. The rupee has also come under pressure, hitting a record low of 60.75 to the dollar on June 26 and falling around 9% since the start of May.

Some observers say the food-security program could also blunt entrepreneurship and increase dependency on the state.

"The food-security bill will essentially reinforce a culture of handouts," said Gurcharan Das, an author on economic topics.

"The very poorest in the country do need help. But there are better ways of doing it," he said. "What you are doing is creating a huge mechanism which will promote inefficiency and corruption."

Authorities funnel about 30 million tons of subsidized food grains annually through a distribution system with myriad problems.

State agencies buy about a third of the country's food-grain production at high guaranteed minimum prices to support farmers, stacking up so much grain that state warehouses are unable to cope.

Mounds of grain rot each year, as often there are no takers for the high-cost grain in the market, except for a portion sold cheap through existing subsidy programs.

Brokers of the food-security bill say it will offer a market for much of this grain that otherwise would spoil.

Critics question the ability of the system to efficiently get the grain to India's most needy. The current system is rife with corruption, with much subsidized grain ending up being sold in markets, they say.

To ensure that handouts reach India's poorest, the government is implementing direct cash transfers to the needy to replace a range of price subsidies it currently offers on items ranging from fertilizers to diesel.

But Food Minister K.V. Thomas told The Wall Street Journal earlier that the government doesn't plan to replace food subsidies with cash transfers.

Under the program, beneficiaries will be entitled to five kilograms of subsidized grain a month. The food will cost between two and three rupees (3.4 - 5 U.S. cents) per kilogram for wheat and rice, compared with 20 rupees on the market. The law includes higher allocations for vulnerable sections of society, such as pregnant mothers and destitute children.

Madan Sabnavis, chief economist at CARE Ratings, an Indian credit-risk advisory firm, says the bill likely would mean the government will fail to contain its fiscal deficit at its target of 4.8% in the financial year that began April 1.

The fiscal burden is likely to increase as the law will keep subsidized selling prices frozen for three years, while the government usually raises the state-assured prices paid to farmers every year, Mr. Sabnavis added.

India's economy has slowed sharply over the past couple of years due to lack of economic reforms and infrastructure development. Growth last fiscal year was 5%, much lower than 9% rates of recent years.

"I just think that these kinds of interventions like the food-security law should be kept to the very minimum in the economy. It is much better to invest in infrastructure," Mr. Das said.

The government has made some moves to deepen economic reforms, agreeing last fall to allow more foreign investment in sectors such as retail, broadcast and aviation.

But it also has continued to spend huge amounts on social-welfare programs.

India launched a multibillion-dollar program in 2006 that guaranteed 100 days of work a year for unskilled laborers to build rural infrastructure like irrigation ditches and roads. Supporters say the program has raised rural incomes; critics say the projects have not added any economic value to these communities.

India raised the budgetary spending on the program by about 13% this fiscal year to about $5.5 billion.

Economists say the food-security law may also jeopardize development of the agriculture sector as it would further incentivize farmers to produce low-margin grains, rather than focusing on cash crops that could help raise rural living standards and reduce dependence on imports of some staples.

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Export controls are disastrous

Tejinder Narang, Business Line (The Hindu)

After wheat and iron ore, the Government is messing around with cotton exports.

The Textile Ministry wants to create a “Market Stabilisation Fund” (MSF) by imposing a cess/tax between Rs 1,000 and 2,000 per candy (356 kg) on cotton exporters. The new policy suggests that “surpluses only” may be permitted for exports after determining domestic demand. Some of the other ‘straight out of the 70s’ ideas are to permit exports “after the crop is ready” with farmers; and providing loan waver for weavers.

Indian cotton export has demonstrated consistent performance over the last three years — $3 to $4 billion per annum. This year, it may decline to $2 billion (one million tonnes). China's appetite for imports is tapering. The US Department of Agriculture (USDA) report of July 11 reflects higher global inventories, production almost unchanged at a high of 20 million tonnes (118 million bales) and falling prices. The need of the hour is to ensure more exports at best prices to improve foreign exchange earnings and bring down the current account deficit, especially due to the highest-ever output seen in 2013-14 owing to a good monsoon. *Ad hoc* interventionism by various arms of the Government has undermined macroeconomic fundamentals. The ban on iron ore exports has made the country suffer. Wheat export has been hit by inflexibility in pricing by the Food Ministry, while a surplus of 16 million tonnes lies hoarded. High "State Advisory Prices" (SAP) on sugarcane has priced India out of the export market, while making the country a net importer of sugar despite having abundant local supplies. The brunt is borne by the farmers as the industry is unable to make payments for the cane supplied. Now, cotton export is under threat of being destabilised.

Unfair Tax On Exporters

The proposed "export tax" for MSF is to be levied on cotton exporters. The Government is attempting "to kill the export demand" by diverting a large part of the proceeds to this fund.

Poor demand will manifest in more market availability. Such domestic surpluses will be openly exploited by the spinning/textile mills at their whims and fancies by pushing domestic prices down.

This will result in lesser realisation for farmers. Undeniably, exports contribute to demand expansion, which has been a major driver of production of cotton over the past decade. The Textile Ministry's intent is to provide freebies before elections to the industry. This is contrary to the recent directions of the Supreme Court to the Election Commission.

Act of Discrimination

Cotton "export tax" smacks of the domestic industrial lobby trying to dupe farmers, on the one hand, and mismanaging the export economy, on the other through the introduction of a new scheme proposed by the Ministry. Such a fund is also an arbitrary discrimination between exporters *vis-à-vis*spinners, textile mills, garment exporters and retailers at the cost of farmers. Legally and morally, this may be untenable.

A sugar development fund (SDF) under the Ministry of Food has been in operation since 1983 for modernisation of the sugar mills, funded by Indian consumers as part of the price of sugar paid to mills. As per the Food Ministry Web site, the status of SDF up to 2010 is — Rs 5,132 crore disbursed and Rs 2,352 recovered, indicating loss/under recoveries of 54 per cent. The disbursements of such funds (SDF or MSF) are subject to discretionary patronage by politicians and bureaucracy at the behest of lobbies. Money once disbursed cannot be monitored or accounted.

Spinners and mills suffer from logistical, labour-related, technical and performance-centric inefficiencies, apart from acute shortage of power. Had it been otherwise, Indian textiles and garments would have been cheaper than those exported by China, Vietnam, and Bangladesh. Mills cannot be compensated by taxing the farmers.

Further, the quantum of cess also indicates the ignorance of margins that the market allows internationally. It is not a cakewalk to do business in cotton export where competition is intense and market volatility ranges between 20 per cent and 50 per cent. Profits are scant, say, Rs 200-400 per candy or (0.5-1 per cent) — for an export value of Rs 40,000/candy.

The cotton crop arrives in October and goes through a variable supply/demand/speculative cycle in the next 12 months. There is no way by which the "quantum of surplus" can be predetermined after covering domestic demand. The pattern of production of *kapas*, ginning, spinning, milling and garments is a continuous process in which the trade participates on a daily basis. That is the way "marked to market prices are discovered" locally and abroad.

Stable Policies

All commodities are purchased and sold throughout the year and cannot be linked to "physical arrival" of crop. Futures are traded and hedged in exchanges and business is done by mitigating the risk. Indian cotton export market cannot be "closed" or temporarily terminated till such time each bale is counted. The fundamentals of doing any business, including export, is to have stable policies, rather than to be influenced by vote-bank politics. Domestic supplies are good and augmented by e-auction of Cotton Corporation of India's 22 lakh bales. Authorities must understand that market is a natural balancing force and globally interlinked.

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Sensible export policy would have saved the day
S. Murlidharan, Business Line (The Hindu)

Let's not pin hopes on a falling rupee to boost exports. The CAD problem calls for another approach.

There is something moronic about the utterances of economists who they see in the current rupee-dollar exchange rate crisis a silver lining. They aver it would spur the nation to export more.

If only it was so simple! China, the world's largest exporter, has about 50 per cent of its GDP coming from exports with the comparable figure for us being less than 15 per cent, which does not place us in the category of leading exporters.

Indeed, we are not. In the rough and tumble of the export market, there are no quick fixes or shortcuts. There are both endogenous and exogenous factors that operate in determining the strength of a country's currency, with exogenous factors often exerting greater influence.

All floating currencies of the world have perforce to yield to the US dollar, which was foisted as the global currency by the US in 1944 through a combination of trickery, audacity and technological and military supremacy.

Indeed, the US dollar defies all theories and truisms. A country suffering from perennial Current Account Deficit (CAD) would willy-nilly have to live with a weak domestic currency. This, however, does not apply to the US. Despite leading the pack in having the highest CAD, it has a fairly strong currency.

Policy Paralysis

It is not as if we have been done in by the external environment alone. The rot could have been stemmed through several policy initiatives, such as:

The only area we reined supreme for a while was IT and IT-related exports but somewhere down the line we allowed that advantage to slip through, though the world-wide recession admittedly was also responsible. Countries like Vietnam and Philippines were snapping at our heels through furious cost-cutting and catching up on English language skills but we buried our heads in the sand, ostrich-like. Our

IT companies, instead of preserving our advantages, set up shop in these countries in the sobering realisation that if you cannot beat them, better join them.

We were once upon a time a leading cotton garments exporter. But the Johnny-come-lately, Bangladesh, has not only stolen a march over us but has been giving the more dogged Chinese a taste of their own bitter medicine — furious under-cutting of price. What the government must do immediately, now that India grows cotton in enormous quantities, is to throw open the garment industry to the large-scale sector. Huge economies of scale and the much-needed resilience to cope up with the ever-changing fashions are attributes uniquely present only with the large companies, which have the resources to import the most modern machines. Reviving the cotton textile industry should be the government's priority that would give fillip to the downstream garments sector.

Employment opportunities would get a leg-up. This, however, does not mean the rupee would turn the tide, immediately because there would always be a lag between investments and exports. Export markets are notoriously difficult to prise open especially when faced with under-cutting of quotations and devaluation of currency, adopted by China.

Our captains of industry were itching to invest abroad. It is one thing for students to itch to study abroad but quite another for industries to invest abroad. Of course, they were not entirely to blame.

The government drove them to take this extreme step when back home investment was becoming a tough proposition — the 'economy versus ecology' dichotomy, among others, was making investments difficult. And the government played ball with them in facilitating the exodus, whereas it should have restrained them through tough norms.

The rather easy norms for outbound foreign investments have depleted our precious forex reserves; besides, Indian ended up buying a pig in a poke. Yes, many of the outbound investments have gone sour for two reasons — the recession there and winners' curse of paying an excessive price for acquisitions abroad in the anxiety to prevent competitors from stealing a march. Domestic investments, by contrast, have a multiplier effect like creation of employment opportunities, greater revenue for governments and better infrastructure.

Making External Commercial Borrowings (ECB) laughably simple through the automatic route through which a company can borrow as much as the equivalent of $700 million in a financial year was suicidal even without the benefit of hindsight. The economy is paying through its nose now that the rupee has dropped steeply from what the dollar fetched at the time of borrowings.

Huge redemption losses stare the borrowing companies in particular, and the economy, in general. Mercifully, the RBI put its foot down on borrowings from abroad for less than three years.

Revolving door mechanism extended to FIIs. FIIs bring hot money and are fair weather friends. They must be reined in. We need to take steps that would make us a manufacturing nation, so that we have an export surplus.

Right now, our exports have a huge import content, be they petroleum products or gems and diamonds. The government is now giving a pep talk to the industry, exhorting it to increase steel production. But it has to walk the talk.

(The author is a New Delhi-based chartered accountant.)

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Government likely to review bilateral trade pacts, FTAs to reassess gains
Deepshikha Sikarwar, The Economic Times

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

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

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

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

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

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

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

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

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

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

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

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India's trade needs strategic regionalism
Jayanta Roy, Business Standard

6 July 2013: The failure of the Doha trade talks led to the acceleration of regional trade ties and economic integration as countries chose to aggressively seek alternatives to multilateral trade liberalisation. Several other factors have also led to the development of ever-closer trade and investment relations between regional partners. Manufacturing supply chains have sought to leverage regional specialisations. Firms have sought to take advantage of the economies of scale and market size offered by the larger region in

which they operate. Particular natural resource and skill endowments have led to the development of cross-border exchanges of natural and human resources. But in several cases it was strategic considerations that initiated the process of regional integration and paved the way by creating institutions and incentives that led the way to regional economic integration.

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

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

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

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

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

customs and other regulatory harmonisation, and the liberalisation of education, health, banking and financial services.

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

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

Recommendations

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

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

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