INDIA'S TRADE NEWS AND VIEWS

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Statement by H.E. Shri Anand Sharma at the Eight WTO Ministerial Conference
Minister of Commerce and Industry to the Plenary Session of MC8

15 December, Geneva: It gives me great pleasure to be in the midst of this distinguished gathering along with my Ministerial colleagues for the Eighth Ministerial Conference of the WTO.

When we had last assembled in Geneva for MC7 there was a ray of hope that the global economy had finally emerged from the shadow of a grim recessionary period. Yet, the events of the last two years have brought out the stark reality that the fundamental fault lines in the global financial architecture still remain. We have been concerned by the fragile nature of recovery and the prevailing uncertainty especially in the Euro Zone. We have a peculiar situation where the harbingers of free trade have themselves started looking inwards. In the challenging backdrop of global economic downturn, all countries must eschew protectionism which can only be counterproductive as it will deepen the recession and delay recovery. The need of the hour is enhanced economic engagement and free flow of trade.

In a global economy almost relentlessly under siege, the WTO has an important role to play. We welcome the accession of Montenegro, the Russian Federation, Samoa and Vanuatu. Their inclusion is a welcome affirmation of faith in the multilateral trading system.

India welcomes the LDC related decisions for adoption at this Ministerial. While this is less than what we have strived for over the last several months, these decisions will send out a positive signal about WTO's commitment to the Development Agenda.

India has always accorded high priority to the Services Waiver for LDCs and we welcome the decision in this regard. We support the proposed streamlining of accession process for LDCs which is a step forward on the LDC accession guidelines adopted in 2002. The LDC request for an extension of their transition period under Article 66.1 of the TRIPS Agreement has our support.

India is concerned at the current impasse in the DDA negotiations. While the last few years of the Round have been disappointing, we cannot cast aside the mandate that was so arduously negotiated. Nor can we abandon the processes that make the WTO a uniquely democratic institution.

The WTO negotiations have always used a combination of approaches but always within the principles of transparency, inclusiveness and multilateral consensus-based agreement. We must not deviate from these tried and tested principles.

The negotiations must take place in accordance with the mandate of the Doha Development Agenda, which means that decisions have to necessarily be based on multilateral consensus, regardless of the format in which negotiations take place.

I have heard suggestions for negotiating issues amongst a critical mass of members. This path is fraught with risk. Plurilateral agreements are a throwback to the days when decisions taken by a few determined the future of the rest. They also lack the in-built checks and balances of a multilateral forum.

The DDA mandate offers us the flexibility to implement agreements reached at an early stage on a provisional or a definitive basis. However, in practice that can be a difficult exercise as we have learnt from the efforts to put together first, an LDC-package and then an 'LDC plus' package. There are lessons to be learnt from these attempts. It is a path on which we must proceed with caution, not for a moment forgetting that this is a development round. Therefore, development issues, those particularly of interest to LDCs such as DFQF, Cotton, should be the foremost priority in any early harvest.

The decision on duty-free quota-free market access to LDCs requires full implementation. Despite our domestic sensitivities, India was the first developing country to extend duty free quota free access to all LDCs in line with the WTO's Hong Kong Ministerial mandate. India's Duty Free Tariff Preference Scheme for LDCs came into effect in August 2008 with tariff reductions spread over five years. This Scheme covers about 92.5% of global exports of all LDCs and provides duty free and preferential tariff access on 94% of India's tariff lines. We now propose to expand the coverage of the scheme further in line with the mandate.

We would urge all developed members to commit to duty-free and quota-free market access as per the Hong Kong Ministerial Declaration on priority basis, preferably within July 2012.
On the issue of Cotton, there is an urgent need to fully implement the Hong Kong Ministerial Decision for the developing world, especially the Cotton 4 countries of Africa.

What we have on the table today reflects years and years of hard work and a delicate balance of trade-offs. We must build on the progress already achieved and persevere in our efforts to reach a fair, balanced and equitable outcome to the Round.

While we continue these efforts, let us not forget that the WTO is much more than the Doha Round. The work that goes on from day to day in its regular committees and bodies is the grease that keeps the wheels of the multilateral system turning smoothly. It is important to ensure that this work goes on smoothly and in as efficient a manner as possible.

It is easy to put good ideas on the table but difficult to convert them into solutions for the benefit of the poor and needy. This is a development round and the poor countries have the most at stake. I appeal to you to ensure that we secure what has been settled and to continue in our common endeavour to reach an understanding in the larger interests of the multilateral trading system. If we fail today, we are unlikely to get the same opportunity for a long time to come; if on the other hand, we are able to fulfil the promise held out by the DDA, the WTO will not only endure but grow stronger. Thank you.

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No freezing of Customs duty at current level, says Sharma
Hindu Business Line

New Delhi, Dec 15: India has ruled out any freezing of Custom duties at current level. It has also deflated the pressure for any dilution of the flexibilities available under the World Trade Organisation (WTO) regime for imposing export restrictions and taxes in case of the agricultural produces.

Addressing a group of 20 countries ahead of the 8th Ministerial Conference of the WTO in Geneva, the Commerce and Industry Minister, Mr Anand Sharma, said, "Tariff standstill (freezing of the custom duties at the current levels) will amount to the developing countries ceding their policy space and being denied any recognition for their autonomous liberalisation."

Besides unhinging the negotiated formula on tariff reductions, it would force the developing countries to take on commitments going much beyond what was envisaged for at the end of the Doha Round, he added. Mr Sharma desired that WTO, while taking up all manner of the new challenges, does not forget the traditional challenge of development.

He called for continued solidarity and reinvigorated engagement so that the current impasse in the Doha negotiations is broken and the attempts to replace the development centric agenda are thwarted.

He cautioned against the possibility of losing the progress and the balance achieved so painstakingly over the last decade, particularly on the reforms of the agricultural trading system. He urged the global community not to allow this opportunity to slip away or allow a dilution of the Doha mandate. Earlier, speaking at the meeting of the G33 countries (a coalition of agricultural economies, coordinated by Indonesia) he called for ushering in much delayed changes in the current agricultural trading regime which negatively impact the livelihood concerns of billions of subsistence farmers in the developing world.

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Exports held out despite slowdown but outlook cloudy
IANS

25 Dec, 2011, NEW DELHI: Despite the global downturn and major fluctuation in the value of the rupee, India's merchandise exports logged a robust rise during 2011 with experts attributing this to the government's focus on product and market diversification.

The year also saw Pakistan extend "most-favoured nation" status to India, even as two comprehensive economic partnership agreements (CEPA) were signed with Malaysia and Japan, bringing the number of such pacts with countries or regional fora to 11.

Merchandise exports that account for 22 percent of the country's gross domestic product, rose by an impressive 33.2-percent at $192.7 billion during the first eight months of this fiscal, exceeding the official target.

Now the government and industry hope that the fiscal year will end in March with the country logging at least 20 percent annual growth to top $300 billion, against $246 billion in the previous year.

"So far the overall growth in our exports has been quite impressive given the global economic situation. Market diversification has helped keep the growth momentum," said Ramu S. Deora, president, Federation of Indian Export Organisations (FIEO).

"The third quarter is not going to be good. Exports growth will fall to a single digit. But things are likely to improve in the fourth quarter," Deora told IANS, hoping the overall situation for the fiscal year as a whole will be satisfactory.

His concern emanated from growth in exports slumping to just four percent in November, the slowest in almost two years. The growth was 10.8 percent in October and 36.3 percent in the previous month.

Minister of State for Commerce Jyotiraditya Scindia said the government's strategy of product and market diversification will minimise the impact of uncertainties in Europe, the US and Japan which traditionally accounted for over 60 percent of exports.

As part of the market diversification programme, the government promoted exports to some non-traditional markets like Africa and Latin America. On the other hand, petroleum and engineering goods led the exports growth in terms of products, along with jewellery.

Yet, widening trade deficit remained a matter of concern. India's imports rose to $309.5 billion during the April-November period due mainly to crude, gold and silver, leading to a trade deficit of $116.8 billion in eight months.

Considering the current trend, total trade deficit in 2011-12 is likely to surpass the $150 billion mark, experts maintain. In 2010-11, trade deficit had declined to $94.6 billion from $109.6 billion in the previous year.

The recent weakness in the rupee, which depreciated almost 20 percent against the US dollar since July, also pushed up the import bill, especially of petroleum products, gold and silver.

Deora said volatility of the rupee which pushes import costs was a matter for concern.

"Most of our exports are dependent on imports of some items. Like gems and jewellery is dependent on imported gold, silver and stones. Similarly, export of petroleum, chemical and engineering goods are also heavily dependent on imports of raw materials."

Following are the highlights of India's foreign trade in 2011:

- Export target set at $300 billion for 2011-12 against $246 billion logged last fiscal

- Target to boost exports to $500 billion by 2013-14

- April-November exports rose 33.2 percent to $192.7 billion

- Trade deficit widened to $116.8 billion and may cross $150 billion

- Imports also surged to $309.5 billion April-November

- Asia, Africa and Latin America named focus markets for exports

- Focus products cover pharma, electronics, auto, engineering, electronics and aerospace industries

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Import of sensitive items up 40 per cent in April-September
PTI

27 Dec, 2011, NEW DELHI: Led by edible oils, import of sensitive items shot up 39.9 per cent to Rs 48,274 crore in the April-September period of this fiscal.

India's imports of sensitive items stood at Rs 34,516 crore in the year-ago period. In particular, edible oil, fruits and vegetables registered a huge jump in imports.

Imports of edible oils rose by 63.5 per cent to Rs 21,852.77 crore in April-September 2011, from Rs 13,367.32 crore in the year-ago period. India is the world's largest importer of edible oils and one of the largest consumers, a senior Commerce Ministry official said.

"The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions," the official added.

The sensitive items are those which impact farmers and small-scale industries and increase in their imports can hurt these sectors.

Import of fruits and vegetables went up 85.5 per cent to Rs 5,075.71 crore, from Rs 2,736.79 crore in April-September 2010.

Food inflation stood at 10.60 per cent for the week ending October 8 on the back of costlier vegetables, fruits, milk and protein-based items. The rate of price rise of food items has, however, fallen sharply since then.

Vegetables had become 17.59 per cent more expensive year-on-year during the week ended October 8. Fruits grew dearer by 12.39 per cent on an annual basis.

During the first half of the current fiscal, imports of items such as alcoholic beverages and spices also increased by 40.7 per cent and 66.5 per cent, respectively.

Imports of products of small-scale industries such as umbrellas, locks, toys and glassware too went up by 46.3 per cent to Rs 1,058.31 crore, compared to the year-ago period.

Automobile imports jumped by 92 per cent in April- September, to Rs 1,926.46 crore from Rs 1,003.62 crore in the same period last year.

However, imports of foodgrain, milk and milk products, and pulses contracted by 94.3 per cent, 22.1 per cent, and 0.8 per cent, respectively. India is a net importer of pulses.

Milk and dairy product imports declined to Rs 354.74 crore during the period under review.

The official did not comment on the reason behind the contraction.

Import of sensitive items accounted for 4.6 per cent of the country's total imports during the period.

Gross imports of all commodities in April-September 2011, stood at Rs 10,55,339 crore from Rs 8,11,773 crore in the same period last year.

Sensitive-items import from Indonesia, China, Malaysia, Germany, the US, Canada, Japan, Thailand and the UK have gone up, while those from Myanmar and Australia have fallen.

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Copper inflated by $6.3 billion in unending exports mystery
Rishi Shah & John Samuel Raja D, ET Bureau

Dec 26, 2011, NEW DELHI: Earlier this month, the government admitted to overstating export numbers for the first seven months of 2011-12 by $9 billion because of computation errors and said it would review the data. While it is rechecking, it may want to review the 2010-11 export numbers too. ET probed deeper into the astonishing 80% increase in engineering exports for that year, and found no explanation for the highest increase by category - 350% - in copper.

In value terms, that is $6.3 billion - increase to $8.1 billion, from $1.8 billion - of unexplained copper exports. Higher copper prices don't fully explain it as that increase in 2010-11 was only 33%. So, ET went top-down and knocked on each of the four links in the copper chain, but neither data nor officials could justify this sharp rise. Not copper manufacturers, not makers of an essential input, not traders, not even the government.

When we showed data on copper exports to Shakeel Ahmed, chairman and MD of Hindustan Copper, he said: "There has been some mis-reporting in data, knowingly or unknowingly."
As per the commerce ministry website, 781,000 tonnes of refined copper was exported in 2010-11. But, asks Ahmed: "How could so much be exported when India's entire production that fiscal was an estimated 650,000 tonnes?"

Emails and calls to Anup Pujari, the director-general of foreign trade, who heads the body that looks after trade policy formulation, went unanswered. An October 10 report by Kotak Institutional Equities that analysed overall export data alludes to the possibility of money laundering.

Its authors, Sanjeev Prasad, Sunita Baldawa and Amit Kumar, write: "Given limited available data, we are cautious about drawing definitive conclusions...(but) some reports have alleged that some individuals may have been compelled to bring back funds through the 'official' route by over-invoicing exports or even resorting to fraudulent exports."

STOP 1: ENGINEERING EXPORTS BODY

To make sense of the copper export numbers, our first stop was the Engineering Exports Promotion Council (EEPC), a body set up by the ministry of commerce and industry to drive engineering exports.

Suranjan Gupta, senior joint director, attributes the spike in copper exports to a policy change. In February 2010, the government increased the incentive for Indian copper refiners to import scrap copper, process it and export it.

Value-addition norms eased

The government reduced the minimum value-addition requirement for copper cathodes (essentially sheets) and wires made from scrap copper to 8%, from 15% earlier. So, if an Indian refiner imported $100 of scrap copper, the earlier policy mandated a minimum finished-product price of $115 for it to be exported. This was now reduced to $108. Gupta says "it is likely" that Indian companies imported scrap copper in large quantities, converted it into sheet and wire, and exported those to China in a big way. China consumes about one-third of the world's copper production. According to Gupta, in 2010-11, China faced a 40% deficit in copper products.

The same year, he adds, India's scrap copper imports increased by 161% and its exports of copper sheets to China rose 917%. Ruling out suggestions of over-invoicing, Gupta says: "We should be celebrating the role of our exporters rather than blaming them for over-invoicing." However, the ministry of commerce trade data for that period does not support Gupta's assertion. That data shows a 77% increase in imports of copper waste and scrap - to $625 million, from $352 million. Even at a minimum of 15% value addition, the older norm, $8 billion of exports seems far out.

STOP 2: SCRAP COPPER IMPORTERS

ET asked four active traders, based in Mumbai and Punjab, if there was a spike in scrap copper imports. "There is no surge in demand for scrap copper," says Suresh Mehta, director in Mumbai-based Asha Mercantile Private Limited. "In fact, it's only declining. I have stopped importing scrap copper, and others too are either importing at the same level or trying to opt out of copper."

Traders, say Mehta, are struggling to cope with the spike in copper prices, which means they need more money to buy the same amount of copper. In the past five years, he says, the price of scrap copper has jumped from $2,200 per tonne to $7,300 per tonne. According to Mehta, in 2010-11, the rise in price of scrap copper was relatively muted - from 370 per kg in March 2010 to 450 per kg in March 2011.

STOP 3: INPUT PROVIDERS

Another way to ascertain whether copper smelting in large numbers has occurred or not is to check the demand for borax, or boric acid. There are many ways in which copper can be smelted and using borax is one such. If the volume of copper smelting increased by more than 300%, the demand for borax should have increased too. There are two listed companies that sell boron products in India: Borax Moraji Limited and Indo-Borax & Chemicals Limited. There's no estimate in India for the market size of boron products, but two industry officials said these two were the largest.

According to the annual report of Indo-Borax & Chemicals, "boron materials are not found in India. The basic inputs have to be essentially imported". Indo-Borax's revenues increased by 15% in 2010-11, while Borax Moraji posted a 6% rise. The annual reports of both the companies attribute the growth primarily to higher prices. Borax Moraji, which is the bigger of the two, registered a volume growth of 0.3%. Officials of both companies could not be reached for comments.

STOP 4: COPPER MANUFACTURERS

Lastly, we asked producers if they produced more. Public sector undertaking Hindustan Copper has a monopoly in copper mining. However, its annual production of 3.6 million tonnes of iron ore meets about 4% of domestic requirement. With 1% copper content, it takes 100 tonnes of ore to make 1 tonne of finished copper.

In other words, Hindustan Copper's 3.6 million tonnes of ore can produce 36,000 tonnes of finished metal - about 5% of 2010-11 production. Thus, copper refiners such as Sterlite Industries (India) and Hindalco - the two biggest - rely on copper imports to meet demand. It's not known how much ore or scrap copper they imported. However, numbers on their copper sales are available. Let alone a spike, these show a fall in production in 2010-11. Sterlite, India's largest producer, posted a 9% drop in production of copper cathode and a 5% fall in copper rods.

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Central Statistics Office to create database for services exports
Economic Times

NEW DELHI, 27 December: The government plans to create a database to monitor exports of services, which account for almost 60% of the country's gross domestic product and a large chunk of foreign exchange inflows.

The Central Statistics Office under the Ministry of Statistics and Programme Implementation has formed an expert group to create a mechanism for regular collection and compilation of data on internationally traded services, a ministry official said.

Currently, the government completely relies on the Reserve Bank's estimates for service sector exports.

The expert group is chaired by Anwarul Hoda, Chair Professor of trade policy and WTO research programme at Indian Council for Research on International Economic Relations (ICRIER).

The Central Statistics Office (CSO) along with ICRIER is already conducting pilot surveys on exports of health and education.

"The emphasis is on evolving the methodology for collecting data on services that are exported and plug the gaps in the current system," Hoda said.

The RBI gets its data from banks and foreign exchange dealers and holds surveys to find the extent of the trade, he said. This data often includes whole figures and does not include sectoral specifics such as the break up between shipping and insurance charges on traded commodities and thus may not reflect the actual value of exports.

The RBI releases provisional aggregate monthly data on India's international trade in services, with a lag of 45 days. The data is revised once the Balance of Payments (BoP) data is compiled, with three months' lag.

So, the provisional services exports data for April this year was released on June 15 and the BoP numbers for April-June quarter were released on September 30.

The CSO is expected to finalise a mechanism with data on exports of health and education within 3-4 months. Then the government will bring other services into the fray.

Economists welcome the move. "This exercise would help in better classification and identification of services being exported," said Madan Sabnavis, chief economist of rating agency CARE.

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Doubling exports by 2014 possible: Khullar
Asit Ranjan Mishra, Livemint

Dec 23, 2011: Despite the slowdown in exports growth and an adverse external environment, the Union commerce ministry still believes it can achieve its target of doubling India's exports to $450 billion by the end of fiscal 2013-14.

"With a bit of luck we can achieve the $300 billion export target this year," commerce secretary Rahul Khullar said on Thursday, while speaking at a seminar organised by the Associated Chambers of Commerce and Industry of India. "From there to achieve $450 billion export target by 2013-14, exports have to grow at around 25%. This is still within the realm of possibility."
The commerce ministry in a strategy paper earlier this year aimed at doubling India's exports in the next three years.

There is no reason to believe that the target cannot be achieved, Khullar said, adding that both the government and the exporters will need to have to put in more effort to make it happen.

"Exporters need to diversify to new virgin markets such as Latin America and Africa and government needs to reduce cost of doing business."

Achieving the export targets under the current circumstances is a "difficult task", said Indranil Pan, chief economist at Kotak Mahindra Bank. "Europe is likely to enter into a recessionary phase. The upward bias in growth in the US may fade out when the stimulus is withdrawn," Pan said. "In such a scenario, achieving the export targets looks difficult even with a depreciating rupee."

The $300 billion export target for this fiscal is "still achievable even if exports slow down in the last four months," Madan Sabnavis, chief economist at CARE Ratings. However, projecting beyond the current year could be a "tricky task" as it would depend on the economic situation in our primary export markets, the euro zone and the US, he said.

India's exports growth plummeted 4.2% to $22.3 billion in November in the wake of a difficult global environment, even as imports were up 29.1% to $35.9 billion. In the April to November period, cumulative exports grew 33.2% to $192.7 billion, while imports rose 30.2% to $309.5 billion, leaving a trade deficit of $116.8 billion.

"External demand conditions are not going to be conducive for exports," Khullar said. "If you want your exports to grow, you have to figure out what you are doing wrong domestically because you cannot fix global problems. Things like reducing cost of doing business in India will help in gaining competitiveness by exporters," he said.

With imports outstripping exports, India is confronted with a "serious" balance of trade position, the commerce minister said. "Should such a situation of balance of trade arise, the easiest thing to ask would be to put curbs on imports. But that would be the most unfortunate thing. That's why we want exports to double quickly," he said.

The depreciating rupee will provide necessary incentive to exporters, he said ruling out any government sops given the stretched fiscal situation. The rupee has depreciated by about 17% against the US dollar in the last four years.

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SEZs losing appeal for companies? Policy filp-flops speed up the pace of withdrawals
Bhanu Pande & Amiti Sen, ET Bureau

27 Dec, 2011: Companies queued up for SEZs. Today, one-third have changed their minds and the rest are unhappy campers. Even as SEZs lose appeal, the department of commerce is bracing for one last push.

Three years is a long time in business. This affirmation came to Rajesh Sonthalia when his company commissioned its new solar panel unit in Falta Special Economic Zone, in Kolkata, this September. Sonthalia's choice of location, made in 2008, was based on economics made favourable by all manner of tax giveaways.

But this February, finance minister Pranab Mukherjee pruned some of those benefits to SEZs, leaving entrepreneurs like Sonthalia fretting. "Having already made a significant investment of Rs 200 crore, we couldn't have pulled out," says Sonthalia, vice-chairman & managing director, Sonthalia Group of Companies. Sonthalia represents India Inc's growing disenchantment with SEZs -- the previous government's big idea to drive exports and, in turn, employment and growth.

China was reaping the benefits of such a policy crafted in the eighties and UPA-I felt SEZs could redefine India's status as an exporter. It rolled out a 15-year SEZ plan in 2006. Land on a platter. Speedy approvals. No income tax for five years and concessions for another 10 years. No tax on inputs.

Except after two years, the promises started coming unstuck, like the one on income tax. "We don't know what the government might do next," says Sonthalia. Faced with a harsher business climate and a government that is wavering on SEZ laws, companies are unsure whether they can plan for 15 years. About one-third of companies that held the rights to build an SEZ -- 202 of 583 -- have raised their hands and walked away.

The pace of withdrawals is increasing, with 60 leaving in the past two years alone. These include companies that were looking to set up SEZs for captive purposes (Bata, Dr Reddy's and Essar) or to lease it out (DLF, Omaxe and Unitech). It's no different for tenants. "Most units are evaluating their tax arbitrage before deciding whether to go to an SEZ," says Anshuman Magazine, managing director, CB Richard Ellis, a real estate consultancy.

About one-third of India's exports come from SEZs. Impressive as that headline number is, it is boosted by some migrating exporters -- for example, IT companies moved from software technology parks to SEZs. Further, it hides the skew of just five states and five sectors account for 90% of exports from SEZs. It hides the fact that SEZs are anything but nonurban and manufacturing conclaves, as they were conceived to be.

It also hides the indecision running through SEZ developers and exporters. Of the 583 SEZs the government had approved till October 2011, only 143 were operational. "Most of the operational SEZs don't have full occupancy," adds Hitender Mehta, a legal expert on SEZs and a senior member of the SEZ Council of Assocham.

Mehta blames it on the government. The department of commerce shaped the SEZ policy, but the finance ministry governs taxation, the policy's cornerstone. The tussle is between a long-term plan (commerce) and short-term imperatives (finance).

"There's a clear disconnect between the department of commerce and the finance ministry, which are at loggerheads," says BK Subbaiah, chief operating officer of Mahindra World City, which operates three SEZs. "One issues a policy and the other fails to honour." Commerce secretary Rahul Khullar has no say in taxation, but he plans to tweak areas where his department has a say.

"We are now focused on making SEZ policy investor-friendly in areas within our control," he says. "We hope to change the rules of the game." It could well be the last chance for an idea that was made for industry, but is now coming apart.

CENTRE FLIP-FLOPS

Four blows changed SEZ dynamics. They might not have made SEZs unviable, the noise of developers and exporters notwithstanding, but it has pared the incentive for them. Blow number one was land acquisition, in 2008, about the time that developers started setting up SEZs.

"Demand was good and abundant capital available. So, we saw a rush to set up SEZs as most developers hoped to attract sufficient clients," says Magazine of Richard Ellis. "That turned out to be an over-estimation." Singur and Nandigram erupted and reframed the debate on land acquisition. Till then, the government had been buying land for industry, often on the pretext of 'public purpose' and at sub-market prices, lending credence to the charge of SEZs being a 'land play'.

Amid mounting public backlash, the government stopped. Industry had to now negotiate with landowners and also pay market prices. Blow number two came around the same time, when cash evaporated from the world economy, including India. Real estate prices tumbled and developers fell into a debt trap. They had no money to build, and with the apparent land arbitrage in SEZs gone, they had less reason to build one.

"We would have been ruined had we gone ahead with our SEZ," says Rohtas Goel, CMD, Omaxe, a real estate company that gave up its proposed SEZ in Alwar in late-2009. Blow number three was the draft of the direct tax code (DTC), which was released in late-2009. Compiled by the ministry of finance, the code recommended shifting from a system where incentives were linked to profits to one where they were given on investments.

"Once the DTC is enacted, SEZs won't be an attractive option," admits Khullar. This has especially peeved IT SEZs, who make up 60% of approved units and 55% of commissioned ones. IT companies, typically, work on low investments, but generate high profit margins.

"This will be a major setback to the IT industry and a matter of concern for all," says Ramdas Kamath, senior vice-president & head of infrastructure, commercial facilities, at Infosys Technologies, which operates seven SEZs and has another three in the pipeline. Blow number four came in Budget 2011, in another instance of the commerce and finance ministries pulling in different directions. No income tax for SEZs became history.

Finance minister Mukherjee, citing "equal sharing of the corporate tax liability and foregone revenues of Rs 8,614 crore", slapped a 18.5% minimum alternate tax (MAT) on SEZs; he also levied a 15% tax on dividends declared. "This has affected our cash flows," says Sonthalia.

"Our net margin has fallen to 4-4.5%, from 7-8%." Even when the original policy was being drafted, the two ministries, then led by P Chidambaram in finance and Kamal Nath in commerce, clashed repeatedly over giveaways --for example, duration of tax holidays and number of SEZs. If commerce gave, finance pulled back.

NO STATE SUPPORT

The latest pull back by finance has not gone down well with industry, which has dragged the government to court on MAT. "Citing duty foregone in budget speeches is not the way to build a scheme aimed at national development," says Hitender Mehta, a legal expert on SEZs and a senior member of the SEZ Council of Assocham. Likewise, GK Pillai, former commerce secretary under whose tenure the SEZ Act was enforced, calls the finance ministry's argument of revenue loss from SEZ incentives as "notional".

"This is more than compensated in other ways," he adds. "For one, SEZs have created huge employment. Two, this employment has spurred consumption, and the government receives duties on the products people buy and consume." The department of commerce estimates that for every job created in an SEZ, two jobs are created outside for activities outsourced.

By that extrapolation, SEZs have created 2.1 million jobs -- 0.7 million directly and 1.4 million indirectly. If the finance ministry feels so strongly about duties foregone, says Pillai, it should scrap all future SEZs and let the existing ones function. For the idea it was meant to be, adds Mehta, SEZs have not received the support of either the Centre or the states. "Governments at both levels may have followed the policy in letter, but not in spirit," he says. "The government is seen as changing its policies far too often."

According to Kamath of Infosys, most states have failed to facilitate SEZ development and, even today, it is a long-drawn process that can take up to two years. "Singlewindow facilitation is useless if you still have to go through a series of regular approval application processes," he says.

Haryana, for instance, has added another layer in approvals. It sponsors an SEZ developer's application to the department of commerce; once the department clears it, the state asks the developer to apply for permission with it again. Only 3 of the 35 SEZs notified in Haryana have become operational. A large number of states, mostly in the North, do not even have an SEZ policy.

Bihar for instance, neither has a policy nor an SEZ. "We didn't try and push states after the initial introduction and encouragement," says Pillai. "The idea was that, over time, they will learn from the experiences of other states." The disparity suggests they either haven't or they don't want to.

The four southern states do, accounting for 93 of the 143 operational SEZs and 39% of all SEZ exports.

"Most states have failed to recognise the social and economic benefits of SEZs," says Khullar. "They should visit the South and see the difference SEZs have made to the lives of the poor, especially women."

ONE LAST PUSH

Under Khullar, the department of commerce has commissioned a discussion paper, which might well be its blueprint to reform SEZ policy.

The paper essentially aims to explore how it can fix the issues facing SEZ developers -- excluding taxation, which remains the finance ministry's domain. The paper suggests what the department may do to make SEZs more attractive to industry.

Take land requirement norms. The paper acknowledges that acquisition of land -- contiguous, vacant and non-double crop in nature -- is going to become more challenging under the proposed law, which requires developers to provide houses, jobs, salaries and a share of profits to landowners. "At a conservative rate, the cost of land for a SEZ will increase from 5% of the project cost to 15%," says Subbaiah of Mahindra World City.

"The government should think of smaller enclaves." It's what the department paper suggests. It proposes to reduce the minimum land requirement for multi-product SEZs from 1,000 hectares to 250 hectares, and for multiservice and sector-specific SEZs from 100 hectares to 40 hectares.

The high land requirement was one of the reasons why only 17 of the 143 operational SEZs are multi-product -- the kind that are a true reflection of a country's export capabilities. Another change Khullar has been pushing for is an exit window for SEZ developers, that too a clearly defined one.

At present, a developer can decide not to be an SEZ, after repaying to the government all the tax benefits claimed by it. However, it cannot sell an SEZ project, as it would amount to a sale of land. A small window of change might be visible. In its board of approval meeting in September, the department has allowed SEZ promoters to sell part of their equity to a partner, domestic or foreign.

Meanwhile, there are still patches of demand for new SEZs. "IT companies are still interested," says Magazine, adding this is because their minimum land norm is just 10 hectares.

"The SEZs in the South are seeing 90-100% occupancy," says Subbaiah. But there's also the other side that is expressed by commerce secretary Khullar when he says that there's been no investment in SEZs for a good part of 2011. It's up to the government.

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Domestic preferences in public procurement
Sandeep Verma, Business Standard

December 26, 2011: As India gets on way to make significant changes to her government contracting frameworks, it may be worthwhile to survey international practices on two important aspects of domestic preferences in public procurement, namely: (a) the participation of foreign bidders in domestic public procurement markets; and (b) the treatment of non-government actors such as state-owned enterprises (SOEs) - or PSUs as we know them in India - under national government procurement laws.

With regard to the first aspect, the general principle, internationally, is to allow foreign bidder participation only to the extent obligated under a country's treaty or bilateral trade pacts, or to progress global procurements only to the extent that domestic capacities are unavailable. France, for instance, has a law requiring public contracts to be split, and global procurements can be pursued only if contract splitting is not possible for the benefit of domestic suppliers. Canada - a founding member-state of the WTO's plurilateral Agreement on Government Procurement (GPA)—saw an interesting ruling by its Supreme Court in 2009, when foreign bidders were denied the right to challenge public procurement decisions, even as Canada's procurement system allowed them limited participation under its multilateral/ bilateral trade obligations. The US Federal procurement system similarly creates a "walled garden", allowing foreign bidder participation only from countries which have bilateral/ multilateral trade pacts with the US on government procurement, and such participation is further limited only to certain contract-types and above specified value-thresholds agreed under international commitments of the United States.

Other than de jure methods of limiting foreign bidders' participation, most GPA Member-States also employ a host of de facto mechanisms to discourage such participation. The US, for instance, has had a long-standing "Buy American" Act, imposing minimum domestic content requirements, as also mandatory "set-asides" and "unbundling" policy requirements that have the side-effect of limiting foreign participants, while enhancing the involvement of small businesses. Faced with the recent economic recession, the EU had reduced the minimum mandatory time limits for notification of public tenders and increased the maximum thresholds for restricted (limited) tendering, with the result that foreign bidders effectively had less time and opportunities within which to file meaningful bids. Adopting a different strategy, the US mandated, as an essential component of Federal stimulus funding projects, that all steel and cement to be used in public works would have to be manufactured within the United States. While some practitioners see these international movements as "protectionist", it could be a rather simplistic phrase to describe the philosophy underlying such domestic preferences in public procurement; and the rationale underlying such preferences is deeply embedded in sound economic logic: unlike free choices expressed by consumers in commercial marketplaces, public funds spent on government contracts do not amount to "voluntary" expenditures by a country's citizens. As a result, almost every country steers its public spending on procurement contracts towards domestic manufacturers and suppliers of services.

The logic in strictly regulating access of foreign bidders is particularly compelling for countries that are yet to become members of the GPA. If such a country, say Country "X", were to enact a law that unconditionally provides for national treatment of foreign bidders, it could end up jeopardising its own domestic industry for the simple reason that while bidders from Country “X” would have little/ no access to procurement markets in other countries, bidders from all other countries would have complete access to the procurement marketplace in Country “X” as a result of the enactment. The incentive for GPA member-states, or for any other country for that matter, to negotiate international agreements with Country “X” for granting its bidders reciprocal market access would be virtually eliminated in the process.

On the second aspect, namely, the imposition of non-commercial public policy objectives on procurement decisions of SOEs, most countries follow two broad sets of strategies. Some countries, such as China, keep most of their state enterprises as far away as possible from the normal legal requirements of transparency and competition. Others, such as Mexico and Brazil, recognising the important roles played by their public sector in fostering national economic growth, usually formulate separate procurement regulations for important PSUs. Important examples of this second approach are the Petroleos Mexicanos (Pemex) law of Mexico and the Pertobras law of Brazil for their oil PSUs, and the Utilities Directive of the EU that covers entities such as electricity and water supply providers.

The core policy objective in exempting PSUs from the application of normal procurement laws is to provide them with a level-playing field with other actors in commercial marketplaces; and the importance of this concept becomes even more significant in the context of a developing country SOE, operating within limited budgets, when competing with foreign bidders whose R&D costs may be covered by large developmental, cost-reimbursement contracts awarded by their respective national governments.

In summary, formulating smart policies on public procurement requires a careful consideration of both the tactical and strategic aspects of public procurement in the context of prevailing international practices; and the achievement of important socio-economic objectives of the Government may therefore necessarily require the adoption of a reciprocal approach while implementing the reforms process.

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India to review subsidy list to pacify US
Amiti Sen,ET Bureau

27 Dec, 2011 NEW DELHI: India will review all the subsidies that Washington claims New Delhi has "hidden" from the World Trade Organization (WTO) in a bid to counter the US accusations.

The US has listed about 50 subsidies that India provides as being against the WTO rules.

Some of these do not exist anymore, but the commerce department will see if there are any that need to be notified at the WTO, a government official told ET.

US trade representative Ron Kirk had in October accused India of hiding about 50 central and state government subsidy programmes from the world trade body in violation of WTO's free trade rules. He had said the situation was intolerable.

The WTO requires member countries to notify specific subsidies that are directed towards items from a certain geographic location or given to a particular industry or sector. The requirement is aimed at ensuring transparency in subsidy regime of the countries.

"We are very sure that most subsidies out of the 50 identified do not need to be listed. If there are a handful that we think should be notified, we will go ahead and do so," the official said.

The subsidies agreement of the WTO prohibits subsidies for import substitution and exports. It allows all other subsidies which become actionable if they are specific i.e. limited to a firm, industry or group of industries and found to cause adverse trade effects, such as material injury to a domestic industry.

Non-specific subsides that are not directed towards a special group, like the duty drawback scheme for input tax reimbursement, are non-actionable.

Merely notifying a subsidy does not make a difference to legal characterisation of a subsidy in terms of whether it is actionable or non-actionable, points out Abhijit Das, head, Centre for WTO Studies, Indian Institute of Foreign Trade. "The US has in the past imposed countervailing duties on subsidies such as DEPB despite the fact that it was not notified," Das said. So, there is no question of India trying to hide its subsidies by not notifying them at the WTO, he added.

Many of the subsidies on the US list do not exist anymore such as the DEPB or the tax incentives to software technology parks of India. Some are subsidies to neutralise input taxes that is allowed by the WTO and need not be listed. Subsidies for providing infrastructure are also not notifiable.

"Even if there are some subsidies that India ought to notify to the WTO, these are very small in amount, and nothing compared to the bailout packages that the US is giving to its industry," a trade expert from a Delhi-based research body told ET.

The US has also complained against India's solar energy generation programme, the Jawaharlal Nehru National Solar Mission, stating that its 30% local sourcing requirement violated multilateral trade rules.

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US call centre bill: Indian BPOs not too worried
John & Pranav Nambiar, TNN

The general feeling in the Indian BPO industry is that the proposed new bill tabled in the US House of Representatives to discourage movement of call centres overseas will not become law.

Dec 22, 2011, BANGALORE: There's a tinge of anxiety, but the general feeling in the Indian BPO industry is that the proposed new bill tabled in the US House of Representatives to discourage movement of call centres overseas will not become law.

If it indeed becomes law, it could negatively impact the BPO sector, but not necessarily the bigger players. The bill seeks to stop federal grants and contracts to US companies that offshore call centres. It will mandate a 120-day advance notification before moving a call centre overseas. Such measures could hold back at least some who might otherwise consider offshoring. Sameer Dhamrajani, country head, Fidelity National Financial India, said the move would be detrimental both to the BPO industry and US corporates.

For US corporates, offshoring brings significant savings, and those who depend on government grants and contracts will have to consider if the savings from offshoring will offset the negative impact of any federal withdrawals.
S Nagarajan, co-founder of BPO firm 24/7 Customer, does not foresee any serious pull back on account of the bill. "It will only increase cost for US consumers, and US corporations wouldn't want to do that" D Swaminathan, MD of Infosys BPO, said BPOs were innovating, and improving cost competitiveness, which would make it even more difficult for US corporates to ignore them.

The bill would mandate that customer service representatives working abroad for US corporations have to disclose locations upon request, and they should have option of being transferred to call centres back in US. For bigger players, this would be less of an issue as some have established and others are in the process of establishing centres in the US.

A spokesperson of BPO firm Aegis said the bill would have no implication on its operations. Aegis has over 5,000 people spread across 9 centres in the US. Over 90% of employees there are local US citizens. Keshav Murugesh, group CEO of BPO company WNS, said the company has been ramping up and opening delivery centres around the world to mitigate risks from legislation that could affect location of clients/delivery centres in a single country. "We have also been evaluating opening of a delivery centre in the US to cater to the onshore outsourcing requirements of our clients," he said. Infosys BPO is also ramping up its US operation.

Everybody slammed movers of the bill for their "protectionist" move. "It restricts free trade, it's discriminatory. Protectionism is always answered by protectionism," Nasscom president Som Mittal said.

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Government to investigate on carbon black import from China
PTI

18 Dec, 2011,NEW DELHI: The government has decided to investigate whether the increased import of carbon black, used by the tyre and the rubber industries, from China was hurting the local manufacturers who are seeking imposition of a safeguard duty on inbound shipments.

A country imposes safeguard duty to give temporary relief to domestic producers while they adjust to the pricing tactics of competitive foreign players.

The domestic industry has requested the Directorate General of Safeguards (DGS) for immediate imposition of safeguard duty on imports of carbon black originating from China for a period of four years.

"The application has been examined and it has been found that prima facie increased imports of carbon black have caused and are threatening to cause market disruption to the domestic producers of carbon black and as such it has been decided to initiate an investigation...," the DGS said.

The application has been filed by the Association of Carbon Black Manufactures on behalf of two of its member companies Phillips Carbon Black Limited (Kolkata) and Hi-Tech Carbon (Sonebhadra). The companies account for more than 80 per cent of the total production of carbon black in India.

The imports from China have increased phenomenally from 13,944 MT in 2008-09 to 70,193 MT in 2011-12, an increase of 429 per cent. Besides, the import from China with respect to domestic production was 3 per cent in 2008-09, which has increased now to 11 per cent in 2011-12.

The profitability of the domestic industry has steeply deteriorated due to the increased imports and the domestic industry is now suffering financial losses, the application said.

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Highest anti-dumping cases against China: Govt
PTI

New Delhi, December 21, 2011-- India has initiated 149 anti-dumping cases against China, which accounted for over half of such actions taken by the country against foreign nations, Parliament was informed today.

The Directorate General of Anti-Dumping and Allied Duties (DGAD) under the Commerce Ministry investigates complaints made by the domestic industry about alleged dumping of goods in the country that has caused injury to indigenous manufacturers.

"The DGAD has so far initiated anti-dumping investigations in 272 cases, involving various countries since 1992. Out of these, 149 cases involve China... At present, 77 anti-dumping measures are in force against China," Minister of State for Commerce and Industry Jyotiraditya Scindia said in a written reply to the Rajya Sabha.

Anti-dumping duty is imposed on imports check predatory pricing of products.
Countries initiate anti-dumping probes to assess whether domestic industry has been hurt because of a surge in cheap imports. As a counter-measure, they impose duties, as permitted under the multilateral WTO regime.

The duty also ensures fair trading practices and creates a level-playing field for domestic producers vis-a-vis foreign producers and exporters resorting to dumping.

Unlike safeguard duty, which is levied in a uniform way, anti-dumping duty varies from product-to-product and country-to-country.

In a separate reply, Scindia said between 1991 and October, 2011, 3,418 industrial units were closed, with 2,35,856 workers affected as a result.

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India extends ban on milk imports from Chinese
PTI

26 Dec, 2011, NEW DELHI: India has extended ban on import of milk and its products from China for another six months, according to the foreign trade office.

The ban was in effect till December 24. "Prohibition on import of milk and milk products (including chocolates and chocolate products and candies/ confectionery/ food preparations with milk or milk solids as an ingredient) from China is further extended till 24.6.2012 or until further orders, whichever is earlier," Directorate General of Foreign Trade (DGFT) said in a notification.

Imports of milk and milk products from China have been prohibited since September 2008.

Though the DGFT has not cited any reason for the ban, it is understood it was over fears of Chinese milk containing melamine, a deadly chemical, a source said.

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Tyre dealers seek removal of anti-dumping duty
Dilip Kumar Jha, Business standard

Mumbai December 26, 2011: Squeezed between falling demand from local auto sector and depreciating rupee making imports costlier, domestic tyre dealers have urged the government to immediately notify the removal of anti-dumping duty.

On August 2, the Customs, Excise and Service Tax Appellate Tribunal had set aside the anti-dumping duty levied by the government. The tribunal directed the government to immediately withdraw anti-dumping duty on tyre imports from China and Thailand.

Today, All India Tyre Dealers' Federation (AITDF) said the notification is yet to be published in the official gazette, although the government has honoured the order of the tribunal. "Hence, anti-dumping duty continues to be levied even now," according to S P Singh, AITDF convener. "We, therefore, urge the government to immediately notify the withdrawal of the duty."

The designated authority, anti-dumping and allied duties, Department of Commerce had imposed duty of $32 to $90 on import of truck or bus radials. A steep decline in the rupee by 23 per cent in last two quarters has crippled the tyre import even for passengers car radial and two and three-wheeler tyres as well.

The inordinate delay in issuance of tyre quality standard certification by Bureau of Indian Standard (BIS) to the more than two dozen foreign tyre brands according to the Quality Control Order, 2009, implemented on May 13, too has further reduced the import of tyres from Brazil, South Africa, Europe, China, Korea, Japan, Taiwan, Malaysia and Indonesia.

This has been exploited to the hilt by the domestic tyre majors causing hardships to local tyre dealers, road transporters and, in turn, high tyre prices and domestic short supply due to steep increase in tyre exports is resulting in higher transportation caused and consequently pushing up the inflation, Singh added.

Depreciating rupee at 52.84 against the US dollar with 23 per cent decline in last five months has caused a drastic drop in tyre imports, coupled with tariff and non-tariff barriers — high prices and shortage of various categories of tyres and tubes despite onset of traditionally low domestic demand winter seasons in the country.

Consequently, the domestic tyre industry is facing huge difficulty on import of various categories of tyres used for commercial vehicles, passenger cars and SUVs, mining equipment and two, three-wheeler vehicles. Since April 2011, tyre imports in the replacement market have dropped by over 70 per cent and the rupee depreciation has raised the exports 30 per cent, leading to high domestic tyre prices and shortage of various categories of tyres and tubes even during winter season in which the demand traditionally falls 5-10 per cent.

Tyre imports for replacement bus and truck markets has slumped to nearly 10,000 units in November as compared to nearly 125,000 units early this year.

The most shocking is the stubborn behaviour of oligopoly of domestic tyre majors refusing to relent voluntarily by rolling back the tyre prices to January 2011 level as natural rubber price has dropped to Rs 200 per kg now from the peak Rs 240 per kg in May this year. Instead, the tyre prices of various categories since January 2011 have gone up by 15-20 per cent.

The removal of anti-dumping duty, according to a tyre dealer, will help the trade and the users of the good. What's more, it would contain runaway inflation, which is being contributed by increasing truck freight for past two years, he added.

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Latin American markets beckon
Ritesh Kumar Singh, Hindu Business Line

15 December: The ratio of trade to world GDP has increased from 6 per cent in 1950 to over 20 per cent in 2010. This is mainly because of faster growth of world trade compared with GDP. In

2010, world GDP grew by 3.6 per cent, while volume of trade grew by 14.5 per cent. So a country aspiring for high economic growth cannot ignore international trade.

When India's traditional export markets of the European Union, Japan and the US are in trouble, it makes more sense to look for non-traditional markets. Latin America is one such market for pushing exports and sourcing edible oil, crude oil and gas, coal and copper.

Realising the importance of the region, India has entered into preferential trade agreements (PTAs) with Chile and Mercosur bloc, comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela. It would be interesting to examine the impact of these PTAs on bilateral trade flows. Under India-Chile PTA, which became operational in 2007, India provides duty concessions on 178 items while Chile on 296 items. Under India-Mercosur PTA, which became operational in June 2009, India provides preferential market access to 450 export items of Mercosur and, in return, gets duty preference on 452 items.

Analysis of trade data shows that:

- In the period 2001-11, India's exports to the world grew by five times; its exports to Latin America grew by 10 times, except export to Venezuela, Uruguay and Mexico;
- Post-PTA, India's exports to Chile grew by 45.7 per cent while India's overall export to Latin America grew by 139.9 per cent in 2007-11;
- Post India-Mercosur PTA, India's exports to Latin America as a whole grew by 65.8 per cent as compared to its export to Argentina (13.1 per cent), Brazil (49.7 per cent), Paraguay (8.38 per cent) and Uruguay (37.8 per cent) in 2009-11. In comparison, India's export to non-PTA Latin American partners grew at faster rates, for example, Mexico (38.4 per cent), Colombia (49.8 per cent) and Costa Rica (78.3 per cent).
- As for imports, India's imports from the world grew by six times, while its imports from Latin America as a whole grew by 13 times in 2001-11. In this period, highest import growth was recorded by Venezuela (201 times), Colombia (15 times) and Brazil (10 times). In the four-year post-PTA period, imports from Chile declined by 19 per cent. In the two year post India-Mercosur PTA period, while imports from Argentina, Brazil and Paraguay posted impressive growth, Paraguay gave a lacklustre performance (8.3 per cent). The highest growth was witnessed with respect to imports from non-PTA partner Colombia (50 per cent) and Costa Rica (78.3 per cent).

Latin America India Investor Forum

At a panel discussion of the recent Latin America India Investor Forum, the role of PTAs in increasing bilateral trade was discussed. Delegates from both India and Latin America agreed that it would be too early to conclude that Preferential Trade Agreements (PTAs) had not been successful in boosting India-Latin America trade. The reasons sighted were:

- Limited nature of India's PTAs with Latin American countries covering a few hundred items with 10-20 per cent duty discounts on most items;
- Relatively narrow trade baskets with copper concentrates, crude oil and edible oil accounting for two-third of India's total imports from Latin America;

- High duties on products with trade potential (such as, textiles and clothing, transport vehicles and food products;
- Dearth of direct shipping lines between India and Latin America, thus increasing shipment time and cost by as high as 25-30 per cent;
- Poor trade infrastructure, such as port inefficiencies, poor inland connectivity, cumbersome and expensive export import formalities which add to trade transaction cost;
- Increasing cost of compliance with non-tariff trade barriers, especially TBT and sanitary and phyto-sanitary measures;
- Currency fluctuations;
- Non-coverage of trade in services and investment under PTAs.

Measures to boost trade

Given the slow progress of the WTO Doha Round, deepening of the existing PTAs into full-fledged comprehensive economic partnership agreements, covering trade in goods, services and investment will be a great boost to bilateral trade flows.

Besides, both Latin American nations and India are actively negotiating several FTAs, so there is no option but to consider expansion of preferential trading arrangements with Latin American nations, not only for acquiring duty advantage but also for protecting the existing comparative duty advantage.

Improving trade infrastructure and rationalisation of trade documentation need urgent attention. As per the latest World Bank's *Ease of Doing Business Report*, roughly 36-69 per cent of the time taken and 15--38 per cent of the cost of export formalities are incurred on documentation which reduces net realisations from export. In the case of India, 50 per cent of the time taken and 38 per cent of the total cost is incurred on export documentation. For Venezuela, these ratios are 69 per cent and 25 per cent respectively.

Trade Prospects

At present, Latin American region accounts for 4 per cent of India's trade. Given the comparable level of per capita income, similar consumer preferences and complementarities of resource endowment, a target of 10 per cent share of Latin America in India's trade can be attained, if the issues highlighted above are addressed. *(The author is an expert in international trade for a corporate house.)*

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Apparel exporters fail to gain from falling rupee on poor demand
Shramana Ganguly Mehta, Economic Times

AHMEDABAD, 20 December: Apparel exporters have failed to turn the rupee's slump into big orders largely because western retailers have cut orders for the 'Spring Summer 2012' season on fears of a slump in demand after the Christmas season.

More than 80% of India's $11-billion apparel business depends on the US and European markets where consumers are currently not spending much on clothes, thanks to the crisis in Europe.

"A falling rupee is good for exports, but poor sentiments are not helping business," said Premal Udani, chairperson of Apparel Export Promotion Council, the official body of apparel exporters. The rupee, the worst performing currency in Asia this year, has dropped more than 16% against the US dollar since July.

On Monday, the currency closed at Rs 52.88/90 to the dollar. A fall in currency normally helps exporters because they can sell more for fewer dollars to make themselves more competitive in international markets. However, Indian exporters are unable to gain because western buyers are buying less. Since October, sourcing is down 15%.

"There is lot of nervousness in the West. People are buying close to the season and retailers are going slow with their orders," said Udani. UK-based textile economist Robin Anson of Textiles Intelligence expects consumers to tighten their belts after the Christmas season. "Even the affluent consumers are feeling the pinch," he said.

US-based market research firm Consumer Edge Insight has indicated that spending inclinations of consumers are at a two-year low. The euro crisis and a looming recession outside Germany too may depress sales at clothing stores in 2012. So, instead of celebrating he fall in rupee value, many small exporters are struggling to survive due to lackluster demand, an AEPC official said.

"Chiffons and georgettes are increasingly replacing cotton, their proportion has gone almost threefold to 40% in last four months," said New Delhi-based export house Dimple Creations MD Praveen Nayyar.

Dimple Creations is working on mass production styles that have less value-addition in terms of embellishments and hence, would be economical to buyers. Frugal consumers are restraining high-fashion buys and opting for garments that cost cheap and many small exporters are unable to cater to the new requirements.

"Only big players with substantial capacities would be able to meet those needs and survive the crisis," said KH Gopal of Alok Industries, which has won several orders for home furnishing to apparel. India's apparel export basket has always been heavily tilted in favour of cotton, but now the presence of man-made fibres like polyester, viscose or lycra is on the rise.

There are more blends in export categories like women's blouses and shirts, men's shirts, scarves, mufflers, mantillas, veils and so on, said Technopak VP, Fashion, Amit Gugnani. Challenging times has made Ahmedabad-based home textiles exporter Pradeep Overseas introduce a new product category. "We have introduced cotton-viscose-cotton fabrics which are 20-45% cheaper than the former," said Kamal Garg, marketing VP of the firm.

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Rupee turns stumbling block in trade with Iran
ET Bureau

22 December, NEW DELHI: The rupee volatility has taken a toll on the rupee trade with Iran even before it could take off. Exporters to the region have been left to fend for themselves, as both governments wait for the rupee to stabilise. Indian rupee has depreciated over 19% against the dollar since July this year and is widely expected to fall more.

"Iran at the moment is not interested in trading in rupee because it does not want to be stuck with a pile of currency that is losing value by the day," a government official told ET. India's trade with Iran had almost stalled early this year when under US pressure the Reserve Bank of India (RBI) suspended settlements through the Asian Clearing Union -- a payment arrangement for Asian countries, including India.

The uncertainty has hit exports to Iran that have grown at 20% annually over April-September 2011 against 48% growth in the last fiscal. To get around the US sanctions, India and Iran had worked out a mechanism wherein it was decided that India will pay for at least half of the oil and non-oil imports from Iran by depositing the equivalent rupees in accounts opened with Indian banks that Iran would use that money to pay for its imports from India.

Iran has now put a brake on the payment mechanism because of steady devaluation of the rupee which has fallen 18% against the dollar since July. While India is continuing to pay for its oil purchases from Iran through Turkey's Halkbank, a process that began in July this year, the country's exporters have been left in the lurch. "Exporters are managing to fend for themselves and getting their payments," the official said. Exporters, however, paint a less rosy picture.

"We are exporting to Iran through front offices that Iranian companies have opened in countries such as Dubai, Jordan and Turkey. Since banks are not involved, there are no letters of credit, and we are completely at the mercy of our buyers for payments," said Vijay Setia, president, All India Rice Exporters Association.

Setia said because of internal competition, exporters sell on credit and there is just no guarantee whether payments would come or not. Exporters ship their goods directly to Iran, but send all documents to front-offices of importers in third countries. Payments are made to exporters through cheques issued by the front-offices. "If importers delay payments or don't pay up, we could file a case in the Indian courts, but there is little that could be done to harm a company in another country," Setia said.

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Stronger economic ties with Russia in future: Prime Minister Manmohan Singh
IANS

17 Dec, 2011, ON BOARD AIR INDIA ONE: With India and Russia enjoying robust strategic ties in critical sectors of defence, space and nuclear energy, Prime Minister Manmohan Singh on Saturday said the future relations with its special and privileged partner will be in the economic

sphere.

Manmohan Singh, who was returning home after a "very successful" Moscow visit for a summit meeting with Russian President Dmitry Medvedev, told reporters on board his special aircraft that he was very satisfied with the results of the annual bilateral meeting held Friday and that the "depth and range" of the relations was growing.

"The depth and range of our relationship with Russia is growing. Our strong strategic partnership in nuclear energy, defence and space will, in future, be buttressed by a stronger economic relationship," he said, reflecting on his 36-hour whirlwind trip during which he also met Russian Prime Minister Vladimir Putin.

Putin mentioned to Manmohan Singh during their meeting Friday evening that the India-Russia cooperation was in over 400 projects.

The prime minister also noted that he and Medvedev met the CEOs of corporates from both countries and that "there are good prospects in pharmaceuticals, steel, diamonds and hydrocarbons" to boost their bilateral economic partnership.

With Russia formally joining the World Trade Organisation while Manmohan Singh was in Moscow, the two sides have decided that an Indian study group will explore the possibility of a comprehensive economic cooperation agreement (CECA) with a three nation grouping comprising Belarus, Kazakhstan and Russia.

Similar views on increasing the economic cooperation and ramping it up to the level of traditional ties in defence, nuclear energy and space were stressed by Manmohan Singh at the CEOs' meeting, where he also mentioned that the two sides had set a target to raise the trade volume to $20 billion by 2015.

During the daylong bilateral meetings with the two Russian leaders, the prime minister "felicitated and congratulated" them on the successful outcome of the Russian Duma elections Dec 4.

"I have just completed a very successful visit of Russia. I am very satisfied with the results of the annual summit with Russia, which we have just concluded. Our strategic partnership with Russia, which is special and privileged, is steadily forging forward," he added.

Manmohan Singh noted that the leaders of the two nations had met at "a time of turbulence" in the world economy and "uncertainty" in the international order.

"We, therefore, discussed the political and economic situation in Asia and the world. We were both convinced that this complicated situation requires improvement and democratisation of processes of global governance," he said.

President Medvedev during the bilateral meeting, described India as "a strong contender" for a permanent seat on the reformed United Nations Security Council.

"Our views on current international issues, many of which are congruent, are expressed in the joint statement" issued in Moscow, he added.

Manmohan Singh said 2011 had been "a year of active diplomacy" for India with its immediate neighbours in the subcontinent, with major powers, and with the extended neighbourhood in South East Asia and West Asia.

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Will Russia Energise the WTO?
Sajal Mathur, Economic Times

29 December: One bright spot in the World Trade Organization (WTO) would be the completion of the 18-year-long membership negotiations of the Russian Federation. Russia is by far the largest economy outside the WTO and its membership is welcome, overdue and likely to be just as significant as China's entry 10 years ago.

WTO membership offers a 'win-win' situation for Russia and the world. For Russia, membership locks in domestic reforms undertaken since the 1990s to become a rule-based market economy. With heavy dependence on oil and gas, WTO entry also offers Russia a chance to diversify its trade basket and to get non-discriminatory most-favoured nation (MFN) treatment from the rest of the world. Predictable, stable and transparent application of global trade rules by Russia would significantly improve the business and investment environment for the rest of the world.

There is also significant market access on offer: over 140 million consumers of goods and services. India is well-placed to grab this opportunity. India's merchandise exports to Russia amounted to $15.8 billion in 2010-11 and included pharmaceuticals, electrical machinery, vehicles, clothing, tobacco, coffee, tea and spices. As part of its WTO commitments, Russia's average tariff bindings would be just 10.8% for agricultural products and 7.3% for manufactured goods.

Russia has entered into a customs union with Belarus and Kazakhstan, and access to these markets will also open up significantly as a result. However, tariffs alone have never been the only stumbling block for entry into the Russian market. Non-tariff barriers (NTBs) - such as technical regulations, sanitary and phytosanitary measures, import bans, licensing requirements and the general lack of predictability or transparency in the trading environment - has in the past dissuaded traders from operating in Russia. With WTO membership, NTBs and behind-the-border measures will be subject to disciplines and global standards. Quantitative restrictions not justified under WTO rules would be eliminated.

In services, Russia has specific commitments in 11 service sectors and 116 sub-sectors, including those of interest to India such as computer, professional (legal, accounting, architectural, engineering and other business services), communication, travel and construction services. There are specific commitments on intra-corporate transfers and business visitors that should ease movement of professionals - a key issue for India.

Interestingly, as a Soviet legacy, Bollywood movies and songs are, perhaps, more popular than Hollywood in Russia and there is tremendous potential for the audio-visual services sector. More stringent intellectual property protection is also a central plank of Russia's WTO entry and will protect copyright and other IPRs.

Another key sector of benefit would be energy. Most major oil and gas producers such as Saudi Arabia, Russia, Iran and Iraq were never members of the General Agreement on Tariffs and Trade (Gatt). Mineral fuels were run as a cartel with Opec playing a leading role. The energy sector, like agriculture or textiles and clothing, was carved out of the WTO/Gatt system. The energy sector was excluded as a general exception to conserve exhaustible resources and/or for national security considerations. Since the Gatt days, the landscape has slowly changed.

Most major energy producers are now either members of the WTO or are taking steps to join the organisation. The accession of Saudi Arabia and now Russia may change the approach and treatment of the energy sector in the WTO.

The issue of dual pricing of energy products with different prices domestically and for export has generated debate in the subsidies context. Energy-related activities such as pipeline transportation, energy distribution services or services incidental to mining are service sectors covered by the Gats, or WTO's trade in services agreement.

The coverage is patchy though energy majors such as Saudi Arabia, Oman and now Russia have specific commitments in these areas. Tariffs and NTBs on energy products also affect countries like India, an importer and exporter of mineral fuels (we have spare refining capacity).

WTO rules governing transit trade and the negotiations on trade facilitation are also of relevance. For example, if India were to explore gas pipelines from the Middle East to cater to its growing energy needs, it would need reassurances that the pipelines through neighbouring countries are secure and will not be turned off (a situation that has raised concerns in other parts of the world and has led to an Energy Charter).

Securing supply of energy products is a major preoccupation and a potential source of tension across the world. Russia, with its abundant supply of oil and gas, has been a major player in the geopolitics of energy. New and often competing pipeline projects have been laid out. Disciplines on export restrictions and duties applied to raw materials have been mooted by some WTO members on the grounds of energy security.

It is possible that energy and other 21st century issues such as climate change could be brought to the negotiating table in the future. In fact, Russia's entry may change the negotiating dynamics of the WTO. Russia is one of the five permanent members of UN Security Council. In the WTO, it would have to share its veto power with over 150 other members. How Russia adjusts and contributes to decision-making in the WTO would be closely observed. Even if additional members make consensus-building a challenge, it would be fair to say that Russia's entry should be welcomed.*(The author is professor at the Centre for WTO Studies, IIFT)* [Back to Top]

WTO Ministerial Ends With Whimper as Discussions Over Doha Round Stall
Daniel Pruzin, WTO Reporter

December 20, 2011,GENEVA—Members of the World Trade Organization wrapped up a three-day Ministerial with a whimper as divisions on how to advance the stalled Doha Round of trade talks continued to mark the discussions.

The first two days ended in a celebratory atmosphere of the first two days. Russia's 18-year effort to secure WTO membership concluded and similar marathon negotiations on a revised Government Procurement Agreement (GPA) wrapped up. The finale of the conference saw a return to the cold reality that the organization's members remain sharply divided on a number of key issues, the Doha negotiations being chief among them.

The chairman of the meeting, Nigeria's Minister for Trade and Investment Olusegun Aganga, wrapped up the proceedings with a summary that highlighted the numerous differences among members on issues such as the introduction of new issues on the WTO agenda, what alternative approaches should be used to advance the Doha talks and under what conditions, and even whether the membership should commit to refraining from imposing new barriers to trade.

"During the course of this conference, the extent of our differences on the full range of WTO issues has been evident," Aganga declared at the close of the meeting.

No Grand Gesture

WTO Director-General Pascal Lamy admitted the Geneva ministerial was not a "high ambition" meeting and said that, given the current economic and political climate, now was not the time to attempt a grand gesture to break the Doha deadlock.

"The truth is that we are in an environment which is bad," the WTO chief declared. "I will sometimes be tempted to take an initiative to move the thing forward, but in times like this one I'm three times more careful on the 'do no harm' principle because, again, the overall ambiance is not good."

Aganga cited numerous divisions among the membership that marked the ministerial discussions.

"Some ministers highlighted the importance of keeping markets open and the need to resist protectionism in this challenging global economic environment," he said, while others "stressed the use of existing WTO-consistent policy space to achieve economic and developmental objectives should not be curtailed."

"Some ministers stressed that the WTO needed to address and respond to current global challenges, while others harbor reservations about introducing new issues," he added. "A number of ministers support a proposal to establish a work program on the trade-related responses to food price volatility, others note that the issue of food security was multifaceted and needed to be look at in its entirety, including the impact of export restrictions on international prices."

Divisions Over What to Do Next

The chairman also said that while all ministers "expressed deep regret at the impasse currently facing the Doha Round," the officials "were divided on what to do next."

"Some ministers suggested exploring plurilateral-type approaches for moving the round ahead," Aganga said, referring to the idea of negotiating separate agreements among interested WTO members. "Others said that any new approaches had to conform to the Doha mandate and not undermine multilateralism."

While such division and diversity of views was not necessarily a bad thing and even normal in any international organization, "at a time of mounting economic difficulties, there is clearly a need to strive for common ground and avoid a paralysis which prevents us from taking the collective action that the world expects from us," he declared.

Kirk Says Deadlock Deep Concern

U.S. Trade Representative Ron Kirk said the deadlock in the Doha negotiations was of "profound concern" to all WTO members.

"We have all acknowledged our impasse, and we confront stark questions about when, and under what circumstances, success may come," he declared. "The frank recognition that our current path is simply not leading in a fruitful direction is the only logical place to start if we are to find a better and more productive path for conducting negotiations within this institution."
Kirk stressed the need for WTO members to be "creative" in finding a solution.

"What we really need is a bit of freedom and room to experiment with innovations and enable honest conversations that can help us work together more effectively as an organization."
Taiwan's economics minister, Yen-Shiang Shih, said the ministerial conference produced "some positive and some negative" outcomes.

Positives, Negatives

On the positive side, Shih cited the conclusion of accession negotiations with Russia, Montenegro, Samoa, and Vanuatu; the agreement on the revised and expanded GPA; and discussions on addressing the needs of the organization's poorest members as positive outcomes of the meeting.

On the negative side, Shih cited the lack of direction on how to jump-start the stalled Doha Round of trade talks, now entering its 11th year.

While WTO members reaffirmed their determination to successfully conclude the Doha negotiations, "there were no concrete actions or ideas on how to resolve the impasse," he said.

Officials taking part in informal ministerial discussions on the Doha Round on Dec. 17 said there was nothing new presented in the meeting and no real debate on how to get the round back on track. That was intentional, in part, with key WTO members agreeing before the ministerial conference not to engage in negotiations in order to avoid derailing the meeting.

Aganga noted WTO members were supportive of the idea of working for an "early harvest" on issues under the Doha mandate which were closer to agreement than others. Under Paragraph 47 of the 2001 Doha Declaration setting out the negotiating mandate, agreements reached at an early stage in the Doha negotiations "may be implemented on a provisional or a definitive basis." However, the discussions revealed a continued divide over what issues should be the focus of any "early harvest" discussions, with the European Union reiterating its call for talks on issues such as trade facilitation and certain industry-specific "sectoral" agreements. EU officials earlier indicated that agreements in sectors such as forestry, medical products, and gems/jewelry could garner support among both developed and developing countries.

Question of Plurilateral Talks

Another idea that has been suggested by the global services industry and which was the focus of speculation at the ministerial was possible "plurilateral" negotiations among interested countries on a separate agreement covering services.

Proponents cite Article V of the WTO's General Agreement on Trade in Services (GATS) as the possible basis for such negotiations. Article V states that the GATS Agreement "shall not prevent any of its Members from being a party to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement," provided that such an agreement has "substantial sectoral coverage" and "provides for the absence or elimination of substantially all discrimination."

Kirk told BNA the United States was supportive of plurilateral negotiations on a high-standard services agreement outside of the formal Doha framework.
"(W)e'll work in Doha but we're going to work in plurilateral forums, we'll look at services, we'll look at other areas … we'll look at every available opportunity we have," he declared.

Focus on Services Next Year

An official with one country favorable to the idea of a services plurilateral told BNA that there was no real discussion on the initiative at the ministerial conference, but said the idea was likely to be the focus of attention among interested countries next year.

Trade ministers from Brazil, Russia, India, China and South Africa—the BRICs countries—issued a joint statement Dec. 14 denouncing any breakaway negotiations outside of the Doha framework.

"(W)e will not encourage or support plurilateral approaches, or any other negotiating modality, that may compromise or weaken the multilateral nature of the negotiations," the five ministers declared after a meeting in Geneva.

Aganga noted in his summary note on the ministerial discussions that "while a number of Ministers emphasized their openness to different negotiating approaches, some expressed strong reservations about plurilateral approaches."

Lamy Downplays Plurilaterals

Lamy himself downplayed the novelty of the initiative. "I'm a bit surprised at how this theological, sometimes Byzantine debate about plurilaterals has popped up in this organization, as if it was a brand-new concept which came from Mars," Lamy declared.

The WTO chief noted that "plenty" of plurilateral trade negotiations have taken place outside of the WTO in the form of bilateral and regional trade agreements, and that these agreements are in principle compatible with WTO rules provided they do not restrict trade. Plurilaterals have also taken place within the WTO/multilateral trading system in the form of the 1973-1979 Tokyo Round, the GPA (a closed plurilateral, where benefits are restricted to the 42 signatory countries), and the WTO's 1996 Information Technology Agreement (an open plurilateral, where benefits are offered to all WTO members beyond the 47 signatories).

Lamy said he has heard nobody suggesting that a new plurilateral instrument was needed. Instead, the growing noise about plurilaterals is due to what he described as a "higher level paranoia" in the international system.

"There are suspicions that plurilaterals are bad for me, and if it's good for you, it's because you want it to be bad for me," Lamy declared. "For me, this plurilateral hype is a reflection that the degree of paranoia in the system is higher than it used to be. Why is it so? Because of the crisis."

Minor Issues Agreed To

The ministerial did end with decisions on a number of minor issues.

The trade ministers agreed to extend an existing moratorium on the collection of duties on goods transmitted digitally over the internet until the next ministerial conference in 2013 and to an existing moratorium on "nonviolation" dispute cases under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).

The trade ministers also agreed on a number of initiatives in favor of least developed countries, including endorsing the extension of the deadline for LDCs to implement WTO rules on the protection of intellectual property rights (the WTO's TRIPs Council will determine the deadline date later), continuing a waiver enabling developed countries to extend preferential treatment to services exports of LDCs, and facilitating the accession of LDCs to the WTO.

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Low expectations
The Hindu

27 December 2011: The eighth ministerial meeting of the World Trade Organisation held in

Geneva made little headway in breaking the impasse over the Doha development round. The outcome was, however, no surprise, since not much was expected from the meeting. The only realistic hope was that the political leaders would finally and formally acknowledge that after 10 years of tortuous negotiations, the Doha round was going nowhere and that, in its present form, it is unlikely to reach a closure any time soon. The communiqué issued after the meeting acknowledged as much. At the same time, it urged member countries to "more fully explore different negotiating approaches while respecting the principles of transparency and inclusiveness." The meetings of trade ministers, held normally once in two years, are meant to give political direction to trade issues. The meeting this month reached an agreement on government procurement and on streamlining the accession process for the least developed countries.

It also saw the formal admission to the WTO of Russia — the only large economy that has stayed out so far — and three smaller countries. But as the lack of progress on development-related trade issues shows, the yawning gap between precept and practice continues to bedevil the WTO and its members.

Two key issues emerge from the acknowledgment of an impasse over the Doha negotiations. First, is it still possible to fix a reasonable time frame for concluding the talks? Secondly, how does the stalling of talks affect developing countries such as India? Commerce Secretary Rahul Khullar said that he does not see a deal materialising before 2014. One main reason is that the United States is entering into an election mode and a new administration is highly unlikely to negotiate a multilateral trade treaty soon after taking office. The failure of the Doha round will lead to erosion in the standing of the WTO, and that would be a pity. The negotiations apart, it has created a fair and equitable machinery for overseeing the implementation of agreements, monitoring and surveillance, dispute settlement and capacity-building. It is widely acknowledged that its initiative in these areas has helped in checking protectionism during the recent crisis. It would be unfortunate for India if, as a result of the WTO losing its pre-eminence in trade negotiations, it becomes less effective in playing these roles. Driven by expediency, many countries, including India, have entered into other forms of preferential trade agreements, either bilateral or plurilateral, although they know only too well that these are only second-best options.

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Doha Round may be completed only by 2014: Khullar
Business Line (The Hindu)

21 December 2011: New challenges such as trade disputes, bilateral pacts may crop up The decade-old Doha Round negotiations for greater liberalisation of world trade are likely to be concluded only closer to 2014, the Commerce Secretary, Dr Rahul Khullar, said on Tuesday.

He blamed the developed countries for not taking forward the proposal for a package of duty concessions for the benefit of the Least Developed Countries (LDCs).

Speaking at a FICCI function, Dr Khullar predicted that the near future would see new challenges including many trade disputes due to the grey areas in the WTO rules and said India needs to be prepared for such disputes.

Other issues

As the Doha Round is deadlocked there would soon be a surge in bilateral trade pacts, he said, adding that other issues that would come to the forefront in the next 3 to 5 years include energy and food security as well as labour and environmental standards.

On the reasons for the delay in the completion of Doha Round talks, the Commerce Secretary said, “In 2012, the US goes into the election mode, and then (we can) look at 2013, as by the time the (new US) administration comes into office... thereafter putting people in place and getting negotiations restarted, if by the end of 2013 we have a deal you will be pretty damn lucky. My guess is you are looking closer to 2014 (for the conclusion of the Doha Round talks).”

Despite efforts to revive the Doha Round “some countries are blocking, evading and just not willing to engage,” he said.

He added, “It was pretty clear from mid-2009 that until the great recession played itself out, there was going to be no appetite in the developed world for taking on any trade agreement because they are completely overtaken by the domestic fallout of the disaster that is happening to their economies including falling growth rates and rising unemployment.” The World Trade Organisation's Ministerial Conference held last week could not break the Doha Round impasse. The Round, which had started in 2001, has already missed many deadlines due to the persisting differences between the developed and developing countries on the extent of liberalisation of world trade.

Least developed countries

On the Doha Round failing to come out with a package for LDCs, Dr Khullar said: “the developed world has a lot to answer for that and not the developing nations. When in a comity of 157 members, you cannot even agree to help those at the bottom of the pyramid, there is something really wrong.”

Pointing out that India has already extended a duty free tariff preference scheme for all LDCs, he said, “We did our bit. But ask yourself how many of you (developed countries) have done it transparently tariff line by tariff line, apart from empty words.” He also said there will soon be huge pressure on the developing nations including India to cut tariffs.

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