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INDIA'S TRADE NEWS AND VIEWS

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Not many may know, but one of the two Ms in the $14.4-billion M&M or Mahindra Group once stood for 'Mohammed'. In 1945, the Mahindra brothers (JC and KC) and Lahore-born Malik Ghulam Mohammed jointly set up a steel company in Mumbai called Mahindra & Mohammed…

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New Delhi, Brussels Expect Autumn Trade Deal, Barroso Says
Bridges Weekly Trade Digest

15 February: India and the EU hope to finalise negotiations for a free trade pact serving 1.7 billion people by this autumn, European Commission President José Manuel Barroso said last week after a bilateral summit.

The India-EU summit, held on 10 February in New Delhi, had previously been set as the deadline for concluding the trade talks, after officials from both sides confirmed that the discussions were moving at "full steam ahead."

However, reports later emerged that, despite progress having been made, the two sides were unlikely to meet their self-imposed February deadline. Negotiations toward an India-EU trade pact have been underway since 2007, with differences over services and automobile tariffs among the key issues preventing the two sides from reaching an agreement.

Barroso, speaking on 13 February at an event in Mumbai, noted that some stumbling blocks still remain in the areas of procurement and services. However, in the area of tariffs - a long-standing issue between Brussels and New Delhi, particularly with regards to automobiles and wine - "basically the work is done," he continued.

"The negotiations have progressed steadily and I am happy to report that we have made a significant step forward," Barroso said in a statement following Friday's summit.

"Our positions are now closer in all areas and the contours of the final agreement are emerging. We have therefore committed to intensify these negotiations. I expect the finalisation of these negotiations in autumn."

EU-India trade has more than doubled, from €28.6 billion in 2003 to over €67.9 billion in 2010, according to European Trade Commission official data. Trade in commercial services has tripled from €5.2 billion in 2002 to €17.9 billion in 2010.

European Trade Commission estimates indicate that India would gain €5 billion and the EU over €4 billion in the short run alone, should the pact be finalised.

Earlier this year, at the annual World Economic Forum in Davos, Switzerland, British Prime Minister David Cameron made a strong call for finalising the New Delhi-Brussels talks by the end of this year, as part of a broader push for the EU to focus on bilateral deals in the absence of a multilateral Doha agreement at the WTO .

Officials from New Delhi and Brussels also inked declarations on areas such as energy, research, and innovation co-operation. In the energy declaration, the EU and India agreed to work together "to improve energy security, safety, sustainability, access and energy technologies," with efforts focusing on areas such as the development of low carbon sources and increased energy efficiency.

Access to medicines

The subject of access to medicines drew particular notice in the days preceding the forum, with some non-governmental organisations - including Oxfam and Médecins sans Frontières (MSF) - making public calls for negotiators to avoid including intellectual property provisions in the pact that go beyond those in the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

"We have watched too many people die in places where we work because the medicines they need are too expensive," Unni Karunakara, International President of MSF said. "We cannot allow this trade deal to shut down the pharmacy of the developing world."

India currently supplies over 80 percent of HIV and AIDS medicine currently used in developing countries. Critics fear that including strict IP provisions in the pact could hinder India's ability to provide affordable, high-quality generics to developing country consumers.

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Drugs may get costlier, HIV+ patients protest
TNN

Feb 11, 2012, NEW DELHI: Hundreds of HIV positive people staged a march in the city on Friday to protest against the free trade agreement between the European Union and India. They were demanding a white paper on the pact and wide consultation with stakeholders before implementation. The rally with protesters carrying giant inflated medicine pills was held from Mandi House to Parliament Street around 10 am.

The support group for people with HIV AIDS, including the Delhi Network of Positive People and Medecins Sans Frontieres - an international, independent organization for medical humanitarian aid - claimed that certain clauses in the deal like 'intellectual property enhancements' and 'data exclusivity' could effectively block the production of generic drugs by Indian companies.

"Millions of patients in poor countries, many in Africa, are unable to pay sky-high Western prices to treat illnesses that include HIV, malaria, asthma and cancer. For HIV alone, India makes more than 80% of the world's medicines," said Leena Menghaney from MSF.

She said that two broad provisions in the agreement - one on intellectual property rights and the other on investor lawsuits - would make it much easier for international pharmaceutical giants to sue the Indian government, drug manufacturers and distributors. It will curtail production of many lifesaving drugs, or cause prices to increase to levels many cannot afford, said Menghaney.

Kavaljit Singh, director, Madhyam said due to competition among generics producers in India, the price of first-line HIV medicines has dropped by more than 99%, from US$10,000 per person per year in 2000 to roughly $150 presently. "This significant price decrease has supported the massive expansion of HIV treatment worldwide: more than 80% of the HIV medicines used to

treat 6.6 million people in developing countries come from Indian producers, and 90% of pediatric HIV medicines are Indian-produced. MSF and other treatment providers also use Indian generic medicines to treat other diseases and conditions," he said. The activists demanded that the government make the details of the agreement being discussed public and hold wide consultations before giving any final approval to the same. "Public view must be considered," said Biraj Patnaik, principal adviser to the commissioners of the Supreme Court on the Right to Food.

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Countries may slap counter measures

Tarun Shukla, Livemint

23 February, New Delhi: Countries opposed to a proposal by the European Union (EU) to levy a tax on their airlines for carbon emissions have lined up tough counter-measures, signalling a potential trade war in the coming months.

India, China, the US, Russia and 23 other countries discussed in Moscow possible reprisals against the EU for the airline tax that will come into force on 1 January, 2013 under the European Union Emissions Trading Scheme, or ETS. A document listing likely counter-measures figured at the talks. A copy of the document was reviewed by*Mint.*

The two-day conference in Moscow, which ended on Wednesday, was a follow-up to a meeting led by India in September when a Delhi Declaration was signed by two dozen governments on how to tackle the proposed EU scheme. Under the ETS, airlines using EU airspace will have to pay a fee for carbon emissions that exceed a set limit. They will also need to pay for the part of the journey covered by non-EU airspace.

According to the draft prepared by the countries opposed to the move, the “basket of counter measures” include “issuing appropriate state regulation to prohibit national airlines to participate in EU ETS, enacting appropriate state legislation to prohibit national airlines to participate in the EU ETS, mandating the EU carriers to submit similar flight details to the respective states as required by EU in their scheme.”

Countries should assess the specific violations of WTO agreements by the scheme, consider a review of bilateral air service agreements, a possible freeze (restrictions, suspensions, embargo) on current and future discussions and/or negotiations as part of bilateral agreements.

They could also consider imposition of additional levies on European carriers using the airspace of non-EU states like Brazil, Russia, India and China. Existing trade agreements in other sectors may be reopened for exerting pressure on EU industries; ongoing negotiations on trade agreements may be halted.

Indian carriers that fly to Europe, including Air India Ltd, Jet Airways (India) Ltd and Kingfisher Airlines Ltd, will have to bear the burden of the proposed levy.

In Moscow, a Russian minister said each country will decide on the measures it would take. “Every state will chose the most effective and reliable measures that will help to cancel or postpone the implementation of the EU ETS,” said Valery Okulov, Russia’s deputy transport minister.

Okulov said Saudi Arabia would organise the next meeting of the so-called “coalition of the unwilling” in the summer.

Connie Hedegaard, the EU’s climate action commissioner, said the Moscow meeting did not answer Europe’s concerns.

“Unfortunately, our question for Moscow meeting participants remains unanswered: what’s your concrete, constructive alternative?,” she said in a posting on the social networking site Twitter

The document listing punitive counter-measures by countries opposing the EU proposal warned of ensuing “trade wars” if countries start coming up with their own versions of the ETS.

“Any attempts to create other regional ETS in order to compensate EU ETS without worldwide agreement under ICAO (International Civil Aviation Organization) auspice will lead to a deeper distortion of the international aviation market and as consequence to a series of trade wars, the document said.

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Exports rise 10% to $25.4 bn in Jan; imports up 20%
Business Standard

Balance of trade for 2011-12 could be minus $160-165 bn, says commerce secretary

New Delhi, Feb 10: Exports in January rose 10.1 per cent to $25.4 billion after dismal, single-digit growth in November and December. The growth in January was primarily due to depreciation in the rate of the rupee during October and November, the impact coming with a lag.

Imports rose 20.3 per cent to $40.1 billion, leaving a trade deficit of $14.7 billion.

Taking the January numbers into account, total exports during the first 10 months of the current financial year stood at $242.8 billion, up 23.5 per cent over the corresponding period of the previous financial year. Imports also surged 29.4 per cent to $391.5 billion in the April-January period, resulting in a trade deficit of $148.7 billion.

“In January, we can see imports are slowly coming down as the exchange rate kicks in, and imports are likely to decline further. I think this deceleration of imports in February will be more pronounced in February. At this rate, I am hopeful we might reach the target of $300 billion in exports and imports at $460 billion for the entire financial year, while the balance of trade could reach $160-165 billion,” commerce secretary Rahul Khullar said, while releasing the initial trade numbers for January. The official data would be out on March 1.

He said the current account deficit (CAD) — the trade deficit excluding the deficit in trade in services and a few other items — for this financial year would stand at 3.5 per cent of the gross domestic product (GDP), the highest since the 1991 balance of payment crisis. During the first half of this financial year, the CAD stood at $32.7 billion, 3.6 per cent of the GDP.

Khullar also ruled out any incentive package for exporters in the coming Budget in the wake of the demand slowdown in the traditional markets of Europe and the US, which has severely hit Indian exports.

"We have a tight fiscal and inflationary situation at the moment. The situation in 2012-13 is going to be worse," he said, adding imports might remain buoyant due to the high prices of crude oil, fertilisers and vegetable oil. Machinery and electronic imports would come down further in the coming months, as the bulk of it goes to the European markets, he said. However, the import of crude oil and fertilisers would continue to grow.

Exporters have urged the government to reduce the cost of credit for all export sectors. They have also demanded a provision of interest subvention of more than three per cent to bring down the export credit to seven per cent. According to M Rafeeque Ahmed, president, Federation of Indian Export Organisations, the trade deficit might balloon to $170 billion, as crude prices are moving northward and imports of gold and silver rise.

"Indian exports have always been demand-driven. The situation is only going to worsen now, as the world economy continues to remain unhealthy and the government here is now focused on fiscal consolidation. The subsidy bill has already overshot. So, all these factors do not spell well for exports, as far as giving any incentive is concerned," said Rupa R Nitsure, chief economist, Bank of Baroda.

During the April-January period, the export of engineering products rose 21 per cent to $49.7 billion, petroleum products $48.9 billion, gems and jewellery $37 billion and ready-made garments $10.9 billion. In the imports segment, petroleum products reached a whopping $117.9 billion, gold and silver $50 billion, machinery 28.8 billion and electronic goods $27.8 billion.

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India topped Thailand in rice exports last year

Rituraj Tiwari, ET Bureau

21 Feb, 2012, NEW DELHI: India and Thailand are caught in a race for the top slot in farm exports from Southeast Asia. India has pipped Thailand to become the top rice exporter but the latter has won the day in sugar exports.

For the first time in four years, India has overtaken Thailand in rice exports. According to industry estimates, India exported 2.3 million tonne of rice including basmati between October 2011 and January 2012 while Thailand could export around 2 million tonne during the period.

But Thailand, the second largest exporter after Brazil, shipped 6.68 million tonne sugar in 2011 while Indian sugar exporters have been allowed to export only 2 million tonne till now.

India has always had a price advantage over Thailand, which sells at a premium in the world market. Last year, the export price of Thai rice ranged between $525 and $575 per tonne. But this year, the price swelled to $660 tonne on the back of the Thai government's high support price to farmers. The government paid farmers 15,000 baht a tonne for 100% white paddy and 20,000 baht for fragrant paddy to fulfill its election promise. This raised the export price of Thai rice, making it non-competitive in global markets. India recently raised its export quota of non-basmati rice from 2 million tonne to 4 million tonne to boost exports further.

"Rice-importing countries got a good alternative in India to expensive Thai varieties. While Indian rice costs $500-$530 per tonne, Thai rice costs $660 per tonne. This has led a surge in demand from countries like Indonesia and other African countries," said Om Prakash Arora, president Punjab-Haryana Rice Broker Association.

The rise in exports is supported by the expected bumper production of rice this year. The estimated record output of 102 million tonne allows the government to shed worries on food security. Besides, high inventories of more than 30 million tonne paves the way for smooth exports. The economical Indian rice is making inroads into major Thai markets such as Africa, Indonesia, Malaysia, Bangladesh and Nepal.

"We are getting good demand from overseas markets. We will cross the 3.5-million tonne mark this year. We expect to gain momentum in basmati once a formal order is issued on lowering the floor price from $900 to $700," said Vijay Setia, president, All-India Rice Exporters Association. However, India is way behind Thailand in sugar shipment. A good crop and a buoyant overseas demand keep Thai sugar steady in the global market.

According to media reports, about 33 million tonne of cane have been crushed since the season started in mid-November in Thailand, with around 2.3 million tonne of raw sugar and around 913,000 tonne of white sugar produced till now.

India is struggling to export one million tonne even as the government has further allowed the export of an additional one million tonne. Indian millers expect to produce 26 million tonne of sugar in 2011-12 while sugarcane production is likely to stand at 347.87 million tonne - higher by 5.09 million tonne over the previous year.

"We have given a release order for over 9.9 lakh tonne. But we are not sure about their physical delivery. The release orders have to be consumed within 60 days. Given the capacity of our ports, we don't think we will able to export more than 3 lakh sugar a month. This poses a big question mark over the second tranche of 1 million tonne," said a sugar directorate official.

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Iron ore exports to hit a new low in FY13
Mahesh Kulkarni, Business Standard

Bangalore, Feb 10, 2012: India's iron ore exports are likely to hit a new low during the 2012-13 financial year and settle at about 40 million tonnes (mt), a drop of close to 35 per cent over the current year's estimates. Exports are estimated to decline to about 60 mt in 2011-12 from 100 mt in 2010-11, a fall of 40 per cent.

"The decline in exports is mainly due to rise in export duty to 30 per cent and railway freight, which is highly discriminatory for exports compared to domestic freight rates. Before 2003, nobody bought low-grade ore from India. In the future, too, apart from China, nobody will buy low-grade ore," said Basant Poddar, chairman, Federation of Indian Mineral Industries, South. For example, the railways charge Rs 600 a tonne as freight for movement of ore for domestic consumption and Rs 2,800 a tonne for ore meant for exports. This has discouraged miners from exporting, he said.

Another major factor for low exports is the ban in Karnataka. In addition, the stoppage of mining in Karna-taka, following the Supreme Court order in July, added to a decline in exports during the current financial year.

Orissa's exports have come down mainly due to differential railway freight rates. Goa's exports have also declined substantially this year and may settle at about 34 mt, down from 55 mt last year, he said.

Karnataka's share in national exports was about 35 mt till 2009-10. Since August 2010, there have been no exports from the state. Next year, India's exports will touch the lowest level in the past decade.

"Demand from China is steady, but they are also getting ore from Australia and Brazil also. Australia and Brazil are together adding about 500 mt of exportable capacity in the next five years. Whereas, in India, we are closing our mines and losing our status as the third-largest exporter of ore in the world. We may drop to sixth or seventh position," Poddar said.

During the current year, India's share of exports in the world market is set to decline to about 10 per cent. In the next year, it is likely to further drop to about five per cent, at 35-40 mt.
Prices of 63 Fe grade iron ore, presently at $130-135 a tonne on a FoB basis in the international market, are likely to go up 8-10 per cent during the current quarter, as the demand from China is picking up after the beginning of the new year. At the same time, Indian miners are losing their position due to various reasons, said Praveen Kumar, chairman, Maya Iron Ores, a derivative commodity brokerage firm.

"If the Supreme Court accepts the Central Empow-ered Committee's (CEC) recommendation and puts a cap on the production of iron ore at 30 mt in Karnataka, investments in the steel sector will not only be affected, but it would also lead to loss of market share for India in the export market," he said.

The loss means future investments to the tune of about $5-10 billion in the ports and railway sectors taken up on a public-private partnership basis will be in jeopardy, Poddar noted.

“The Indian steel industry uses high grade ore and there is no market for low-grade ore, due to poor technology with steel mills. So, why stop low-grade ore exports , which has huge demand from China? If we can’t export it, there will be a problem in managing low-grade fines and it would cause environmental damage,” he added.

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Exporters & refiners a worried lot as US-Iran standoff rages on
Sutanuka Ghosal & Rajeev Jayaswal, ET Bureau

Feb 16, KOLKATA/NEW DELHI: The US-Iran standoff over Tehran's nuclear programme flared on Wednesday, rattling Indian refiners, who fear a jump in crude prices if supplies are hit, while exporters of rice and tea are panicking as Iranian buyers have started defaulting and banking channels will dry up after a week.

Indian diplomats, oil firms and commodity traders warily watched the escalating confrontation after Iran flaunted a breakthrough in nuclear technology. Crude oil prices hit a six-month high of $120 a barrel after Iran's state TV said the country had stopped exporting oil to six European countries.

Iran subsequently said there was no immediate move to do so, but markets remained on tenterhooks after reports the US wants to block Iran's access to a clearing house called "SWIFT" that is used by Iranian banks for financial transactions, including oil exports.

TEA, RICE EXPORTS TO PLUNGE

The escalating tension is bad news for India, where state oil firms are selling transport and cooking fuels below market prices and rice traders count on Iran for half of India's total exports of the commodity.

Indian tea and rice exports to Iran through Dubai are expected to plunge as Dubai-based banks will stop working with Iranian banks from February 23, traders said. Indian exporters have been selling basmati rice invoiced in dollars to Dubai-based traders, who then supply the grain to Iran. India is the biggest supplier of rice to Iran apart from being the biggest buyer of Iranian crude as other Asian buyers scaled back purchases from Iran. India's purchases have also fallen over the years as companies such as Reliance have completely stopped buying Iranian crude, but Essar Oil and state-run MRPL buy significant quantities.

India's biggest state-run refiner Indian Oil Corp, a relatively small buyer, plans to continue importing crude oil from Iran. "We import about 1.5 mt crude oil from Iran and we intend to renew our term contract for the same quantity," IOC Chairman RS Butola said.

An oil ministry official said the US-Iran conflict was a big source of worry even for refiners that had shifted to other suppliers. "Even if India is not directly influenced by the US or EU sanctions, the Iranian crisis would certainly disrupt global crude oil supplies, which would in turn push up international crude oil prices. We may see crude oil prices soar to a new peak due to tensions in the Gulf," said the official, who did not want to be identified.

The US-Iran standoff has already added up to $15 a barrel to the price of Brent crude, and oil prices may jump to $200 if oil cargoes are interrupted, Societe Generale SA said, according to a Bloomberg report. For commodity traders in India, the situation is already alarming. Iran buys half of the rice exported from India. Sources said the UAE central bank has told lenders to stop financing trade with Iran. Western economic sanctions have devalued the rial, raised the cost of imports for Tehran and made it more difficult for Dubai-based middlemen to process payments.

"Banks in Dubai have been asked by the UAE central bank to stop issuing letters of credit to finance trade deals with Iran. Before the sanctions, the central bank used to monitor trading with Iran on regular basis," said a banker based in Dubai.

About 8,000 Iranian traders are registered in Dubai, and re-export trade between Iran and the UAE totalled 19.5 billion dirhams ($5.32 billion) in the first half of 2011, according to the latest figures from the UAE Customs Authority.

Vijay Setia, president of All India Rice Exporters Association, said: "The possibility of exporting rice through Dubai will diminish as we have been informed that Dubai banks will not be working with Iranian banks from February 23 onwards. This is a major jolt to rice trade. We supply around 1 million tonnes of basmati rice to Iran, which meets almost 70% of the country's requirement. Nearly 70 - 80% of these exports is routed through Dubai. We have to work out some other mechanism."

Iranian buyers have defaulted on payment for about 200,000 tonnes of rice that have been supplied from India. The defaults, totalling about $144 million, were for shipments under term deals in October and November free-on-board Indian ports, traders said. Most Indian rice exporters allow 90 days' credit.

Some rice exporters have already stopped sending consignments to Iran in view of the payment crisis. Rajesh Sehgal, managing director of Sky Exim Ltd, an export house, said his company had stopped transactions with Iran in view of the impending crisis. "I used to send 50 containers of rice each containing 23 tonnes to Iran directly and indirectly. I will only send consignments to Iran if the Dubai trader now provides letters of credit from European and US banks that are approved by Indian banks," he said.

Tea exporters are also worried as India ships about 15 million kg of orthodox tea to Iran, earning about $50 million. "There has been a squeeze in the Dubai banks dealing in dollar-denominated currency for the last 3-4 months. But we had continued with the trade though the volumes had trickleda It is really a matter of concern if Dubai banks stop dealing with Iranian banks as tea exporters had always used the Dubai route to export teas to Iran," said CS Bedi, chairman of Indian Tea Association and managing director of Rossell Tea Ltd.

The Iran crisis has pushed down orthodox tea prices by 14 per kg as there is hardly any buyer for it in the domestic market.

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WTO ruling to help Indian shrimp get out of US anti-dumping duty net
C. J. Punnathara, Business Line (The Hindu)

17 February 2012: Indian shrimp exporters are hoping to get out of the US anti-dumping duty net. In a notification dated February 14, the International Trade Administration coming under the US Department of Commerce said that they will be doing away with zeroing methodology on imports. This, the Seafood Exporters Association of India (SEAI) said, could be first step in getting out of the US anti-dumping duty for Indian shrimp exports.

The US Department of Commerce's move comes in the wake of several adverse rulings from the World Trade Organisation. Countries including Argentina, Brazil, Canada, Ecuador, EU, Japan, Mexico, South Korea and Thailand had taken the process of zeroing to the WTO and were relieved of the need to pay anti-dumping duty for their exports to the US. The Government of India was yet to take the issue to the WTO and Indian shrimp exporters had been paying anti-dumping duties on their shrimp consignments all this while, SEAI sources said.

Zeroing is the practice under which a very small percentage of the country's exports are sold at sub-fair value prices because of some extraneous consideration or other - often under distress conditions. Under the previous practice, the US Customs used to zero in on these consignments and charge all consignments from that exporter with anti-dumping duty. This practice was deemed unfair by the WTO and countries which had approached it earlier were granted relief.
In earlier judgments, the WTO had ruled that the US was violating global trade rules in using its controversial “zeroing” method to impose anti-dumping tariffs on shrimp from Vietnam. The decision by a three-member panel of WTO was one among several such rulings in which zeroing had been found illegal under WTO agreement. The panel said the US had acted inconsistently with provisions of the Anti-Dumping Agreement and the GATT and said the US should bring its calculation method in line with the two agreements.

Now the US Department of Commerce has recommended revocation of the practice, SEAI said. They said that India would have got relief earlier if the Government had taken the matter to the WTO. Successive administrative review of Indian shrimp imports to the US was found to carry sub-minimus status; the anti-dumping duty level would be 0.5 per cent or less. Indian shrimp exports to the US would not have carried the anti-dumping duty burden in the absence of zeroing, SEAI sources said.

But for the current move of the US Department of Commerce to abide the WTO ruling, India would have had to pay anti-dumping until March 2014 when the results of the Seventh Administrative Review would have been published, SEAI said. We are currently paying anti-dumping duty of 1.69 per cent on shrimp exports to the US.

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Anti-dumping duty on Chinese fragrance chemical
PTI

New Delhi, February 12: The Finance Ministry has imposed anti-dumping duty on Chinese import of a chemical used in preparation of fragrance compounds, with a view to protect domestic industry from the cheap shipments.

The restrictive duty of USD 14.02 per kilogram on import of Coumarin -- used in manufacture of soaps, cosmetics, incense sticks, and fine fragrances -- from the neighbouring country has been imposed for a period of five years (from March 2010), the Revenue Department said.

The Directorate General of Anti-Dumping (DGAD) in the Commerce Ministry had recommended imposition of the duty after its probe found the product was being dumped into India by Chinese producers.

The DGAD had found that "the product under consideration had been exported to India from the subject country (China) below normal values ... (and) the domestic industry had suffered material injury on account of imports...".

The probe into the dumping was carried on a complaint by Nasik-based Atlas Fine Chemicals, the sole domestic producer of Coumarin. There were two more producers but they had closed commercial production of the chemical.

Countries initiate anti-dumping probes to check if the domestic industry has been hurt because of a surge in cheap imports. As a counter-measure, they impose duties under the multilateral WTO regime.

The measures are taken to ensure fair trade and provide a level playing field to domestic players. It is not a measure to restrict imports or cause an unjustified increase in the cost of products.

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In blow to China, Govt all set to OK 19% duty on power equipment import
PranabDhalSamanta, Indian Express

19 February 2012: The government is all set to impose up to 19 per cent tariff on imported power equipment with a clear aim to benefit domestic manufacturers who have lost out to cheaper Chinese equipment in the last few years. Also, a mandatory domestic procurement provision will be inserted in all future tenders for ultra mega power plants (UMPPs).

It's learnt that the decision was firmed up on Friday at a IMG (inter-ministerial group) meeting following intervention by the Prime Minister's Office earlier this month.

The go-ahead came after the Finance Ministry, a holdout till now, gave its consent to 5 per cent custom duty, 10 per cent countervailing duty and 4 per cent additional duty. Countervailing duties are essentially anti-subsidy duties that are to be applied if the country of import has

grossly subsidised the product in question.

The IMG also decided that the Power Ministry will draw up a Cabinet note on this by next week and the matter should be brought before the Cabinet Committee of Economic Affairs by February-end. This move is bound to land a telling blow to imports from China because power equipment account for 25 per cent of these imports.

In fact, the other 25 per cent of the imports are in the telecom sector, where again the ministry is preparing a Cabinet note to insert a mandatory domestic procurement clause in all its tenders. As a result, the government is hoping for some correction in trade imbalance affecting bilateral trade at the moment.

This proposal on power equipment imports acquired momentum after Principal Secretary to PM Pulok Chatterji took up the matter at a high-level meeting of Secretaries on February 6.

It was felt that there was a case in arguments being made out by domestic power equipment manufacturers against Chinese power equipment. The Planning Commission Secretary also voiced concern about the quality of imported power plants and lack of remedial action in case an equipment is faulty or damaged.

At the end of the meeting, Chatterji felt that a way had to be found by which domestic manufaturers are encouraged while ensuring timely completion of power projects at a reasonable cost. So it was agreed, sources said, to add a condition on domestic procurement in UMPP tenders. To work this out, an official-level committee has been set up to look into WTO-linked issues and submit its report in 10 days.

The issue of imposing duties on power equipment imports has been under consideration for the past two years after the EGOM on UMPPs suggested forming a group under the Planning Commission to look into the matter. This group, led by Arun Maira, Member, Planning Commission had suggested up to 22 per cent duty which was later brought down to 14 per cent.

The Finance Ministry had, however, not agreed to imposing this duty until the PMO gave it fresh momentum.

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India launches WTO cotton complaint against Turkey

Tom Miles, Reuters

GENEVA, Feb 14: India has launched a trade complaint against Turkey's policies on imports of cotton yarn, the World Trade Organization (WTO) said on its website on Tuesday.

India is objecting to Turkey's use of "safeguard measures" to help its cotton industry, which one Indian official said could affect Indian exports worth around $600 million per year.

Safeguard measures are temporary protectionist tariffs, permitted by WTO rules, to help a

specific industry that is threatened by an unexpected surge of imports.

India launched the complaint on Monday by "requesting consultations" with Turkey at the WTO, the last step to resolve a disagreement before entering a full-fledged legal dispute.

India may ask the WTO to set up a dispute panel to adjudicate if consultations do not settle the matter within 60 days. By requesting consultations, India has also opened the door for other WTO members to join in if they are similarly unhappy with Turkey's treatment of cotton yarn imports.

Turkey brought in the safeguard measures in 2008 for three years, but when the three years expired in July 2011, Turkey imposed provisional safeguard measures while it reviewed the case for an extension, the Indian official said.

It later retroactively reimposed final safeguard measures.

India previously requested consultations with Turkey over the issue in 2009, but the dispute did not go to a dispute panel at that time.

India now argues that Turkey cannot extend the measures after they expired, nor can it impose provisional safeguard measures on a product which was already subject to final safeguard measures.

India also says Turkey may not apply safeguard measures to cotton yarn for three years after the July 2011 expiry date.

Turkey, a major producer of cotton, slapped extra import duties on imports of cotton yarn after recording a huge surge in imports of cotton yarn from 2005 onwards.

Instead of the maximum duty of 5 percent it had agreed with the WTO, it boosted import tariffs to 15-20 percent.

Cotton yarn imports had risen 63.6 percent in 2005, 46.9 percent in 2006 and 119.7 percent in 2007, and in the first five months of 2008 were 32.1 percent higher than a year earlier, a document filed by Turkey at the WTO at the time showed.

As a result, although total consumption of cotton yarn rose in the period, Turkish employment in the industry fell steadily and domestic production dropped in 2007, when the market share of imports reached 12.5 percent against 2.8 percent in 2004.

While Turkey waived the safeguard tariff for many developing countries that are not significant suppliers of yarn, it did apply to India, one of its biggest sources.

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WTO challenges and strategies
Gulzar Natarajan and Srikar M.S, Livemint

Feb 16, 2012**:** As India integrates rapidly with the world economy, there is increasing awareness about the need to align national economic policies with its World Trade Organization (WTO) commitments.

In recent months, policies proposed by the government of India to provide a level playing field for domestic thermal and solar power generation equipment manufacturers against unfair Chinese competition have been questioned on the grounds of its conformity to WTO rules. In particular, local content requirements imposed on solar generators for eligibility under the national solar mission, appears to violate them.

This assumes greater significance given the growing acceptability and importance of industrial policy—whereby governments enact proactive policies to guide the development trajectory of specific industries. There is now ample evidence, both from the developed economies and most recently from emerging Asia, of the critical role played by preferential industrial policy in promoting domestic manufacturing. It is, therefore, important that we explore the extent of a country's "domestic industrial policy space" that does not infringe on its WTO obligations.
A brief understanding of the WTO provisions relating to these issues is in order. Article III (4) of the General Agreement on Tariffs and Trade, 1947, prohibits protectionism and discriminatory treatment against imported products and in favour of domestic products (the "national treatment" rule). However, article III (8) permits "payment of subsidies exclusively to domestic producers" and for governments' non-commercial procurements. Taken together, in the context of power generators, it means that while governments cannot promulgate an industrial policy that directs a private generator to use only domestic components, it can subsidize its domestic equipment manufacturers, subject to the provisions of the Agreement on Subsidies and Countervailing Measures (SCM).

The WTO agreement that governs the subsidies framework is SCM. It defines two basic categories of subsidies—"prohibited" and "actionable". The former prohibits all local content subsidies which favour the use of domestic over imported goods. The latter, though not prohibited, can be challenged either through multilateral dispute settlement or through countervailing duties if the imports cause "serious prejudice to the interests of another member". But a subsidy is "actionable" under the context of SCM only if it is "specific" to an enterprise or industry or group of enterprises or industries. Further, a subsidy is defined as a "financial contribution" that involves a "charge on the public account". Alternatively, a subsidy which is "widely available within an economy" is excluded from SCM.

This means that "subsidies" are restricted to grants, loans, equity infusions, loan guarantees, fiscal incentives, the provision of goods or services, and the purchase of goods. They do not include any indirect and trade-distorting structural subsidy by way of "revenues forgone"—lower (than cost recovery) utility tariffs, low land prices, repressed labour market, artificially cheap capital and so on—which are universal in nature.

All these provisions benefits China as much as they hurt India. The definition of subsidy in SCM fits nicely into China's preferred international trade strategy and national industrial policy. Given its booming economy and favourable fiscal balance, the Chinese government can afford to massively subsidize its manufacturers with subsidies that are "widely available within the economy". For example, in 2010 alone, the China Development Bank gave $30 billion in low-cost loans to top five domestic solar panel manufacturers.

But countries such as India cannot afford an industrial policy that subsidizes their domestic producers. They, therefore, prefer to protect their domestic industry with preferential treatment through regulatory barriers like tariffs and domestic content requirements. Now, with regulatory restrictions prohibited by the "national treatment" condition and China-type manufacturer subsidies made impossible due to the weak fiscal positions of their governments, manufacturers from developing countries are left to fight an uneven battle against their Chinese competitors.

Any international trade law that seeks to control trade discrimination should equally neutralize the ability of governments to either regulate or subsidize away foreign competition. Regulation and subsidy are two sides of the same coin—a regulation is an indirect negative subsidy on the foreign competitor while a fiscal concession to domestic manufacturers is a direct positive subsidy to them. In other words, any WTO regulation to restrict trade discrimination can itself be fair only if the degree of restraints imposed on regulation is the same as that imposed on subsidies. Therefore, since China's universal subsidies for its domestic industry is structural and, therefore, inevitable, it is only fair that its competitors should retain some right to balance Chinese trade competition with regulatory restraints.

In this context, India's strategy should be threefold. The first priority should be a carefully tailored, WTO compliant, industrial policy that promotes local industry. Second, it should aggressively pursue the WTO's dispute settlement mechanism to establish that China's structural subsidies are actionable. Finally, as a strategic goal, India should push for renegotiating SCM itself so as to achieve a more equitable balance between the "national treatment" principle and SCM.

But with the Doha Development Round itself faltering, treaty renegotiations look a distant possibility whereas active engagement with the existing WTO mechanisms appears more practical. However, aggressive pursuit of India's interests at WTO should carefully balance specific sectoral interests with broader economic and consumer interests.

Gulzar Natarajan and Srikar M.S. are civil servants. These are their personal views.

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Distant second best
Business Standard

India's mixed record on bilateral FTAs

New Delhi Feb 20, 2012: In December last year, the push to try and complete the Doha round of trade talks ended in failure at the World Trade Organisation's headquarters in Geneva. The Doha round had begun 10 years earlier, in 2001, but has run into several stumbling blocks; disagreement over agricultural subsidies and controls, in particular, has consistently held up progress. Meanwhile, new issues have arisen in the past decade, such as the rise of informal barriers to trade like differing labelling standards. Unsurprisingly, many countries have moved forward on bilateral trade deals. Such agreements are frequently less than ideal – they can divert, rather than increase, trade – but given the Doha deadlock, there are few alternatives. India's landmark trade agreement with the Association of Southeast Asian Nations, or Asean, is coming into force in stages. The section dealing with the free movement of goods became effective in 2010, and it is now reported that the agreement on services trade should be ratified by the end of March. Trade has not increased to the degree it should have; India has held back on slashing tariffs, with the commerce ministry claiming that one or two Asean countries, too, have delayed full ratification.

Tardiness in ensuring that the gains from freer trade are available to India's consumers and producers is visible, too, in the ongoing negotiations for a comprehensive trade agreement between India and the European Union (EU). The EU's trade department estimates the gains from trade as being substantial — in the region of Euro 5 billion. Yet negotiations for the Broad-based Trade and Investment Agreement, or BTIA, have been on for seven years, and 13 rounds have failed to produce any result. The idea is to essentially remove tariffs on as many as 90 per cent of tradeables. Yet some sector-specific concerns have been raised. India's automobile manufacturers, for example, have claimed that tariff-free imports of European cars would cause them to lose a "level playing field". Such claims for protection are by and large unpersuasive, and auto tariffs should not be allowed to derail the agreement. However, worries about the effect of the EU's much more stringent intellectual property rules on India's consumers of generic pharmaceuticals are of greater moment. There are also questions as to whether India's trade in generics with pharma-hungry markets in Africa will be hit. Assuaging these concerns must be given the highest priority by negotiators from both sides.

While freer trade is essential to build up depth in markets and stability for manufacturers and service providers, much research shows that bilateral and plurilateral trade agreements are simply not as effective as multilateral trade liberalisation. A multitude of different agreements with varying exceptions and concessions confuses the medium-sized exporter, who finds it difficult to respond to the opening up of these markets. For example, India signed a trade agreement with Chile in 2007. But instead of shooting up, trade with Chile declined from $2.3 billion in 2007-08 to $2.1 billion in 2010-11. While pushing for more and clearer free trade agreements (FTAs), India must not lose sight of the fact that the only real magic bullet for trade is the completion of the Doha round.

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India's global banking dream interrupted by harsh realities
James Lamont, Financial Times

22 February 2012: When the State Bank of India started offering mortgages in the UK last month, it was as if a dream had started to come true for Duvvuri Subbarao. India's central bank governor has pinned his hopes on four global financial institutions emerging one day from India's largely state-owned banking sector.

Their rise would be testament to India's conservative macro-prudential regime that has kept the banking system under state control and largely out of trouble in the financial crisis. It would also be a long overdue reflection of the scale of India's economy and the ambitions of New Delhi.

Yet SBI's offer of mortgages to British homeowners coincided with a rude reminder of realities back home. At SBI's head office in Mumbai, the country's largest lender has reported that non-performing assets are on the rise and a capital infusion of Rs79bn ($1.8bn) from the government is on its way.

India seems almost certain to produce its own equivalents of HSBC, Citigroup and China Construction Bank.But for the moment, the wings of its banks are clipped by their balance sheets. As well as being weighed down by rising NPAs, they face possible business failures such as Kingfisher Airlines , the task of bringing millions of poor people into the banking system and demands to finance yawning infrastructure needs.

Many lenders are in need of urgent recapitalisation. By one estimate, they need to raise Rs2.7tn in equity capital within five years. The strains of financing the fastest-growing large economy after China have not gone unnoticed. Last year, Moody's, the rating agency, downgraded its outlook for India's banking system to "negative" from "stable", airing its worries about asset quality, capitalisation and profitability.

Since then, policymakers have given strong hints of the magnitude of the capital injection needed to meet international regulatory standards and support India's growth.One official says private sector banks will have to find a "few trillion rupees" to meet Basel III capital adequacy norms. Public sector banks have requested more money from the Congress party-led government, which already faces criticism for its widening fiscal deficit . Delhi has agreed loans from the World Bank to bolster its banks' capital base.

Tranches of new capital are on their way to help public sector banks meet new capital requirements to be introduced at the beginning of next year. Pranab Mukherjee, finance minister, wants to go beyond Basel III by lifting banks' tier one capital above 8 per cent of risk-weighted assets against a requirement of 6 per cent. This will prove costly for the government, and the fiscal implications will alarm economists.

Last year, Delhi extended capital support to the tune of Rs202bn to public sector banks. Among the recipients were Bank of Baroda, Union Bank of India, Oriental Bank of Commerce, UCO Bank and Dena Bank. Bank recapitalisation tops the priorities of Manmohan Singh, the prime minister, alongside his concerns about fiscal profligacy and his impatience to introduce much-

needed tax reform.

As the national budget on March 16 approaches, expectations are running high that Mr Singh will give fresh momentum to economic reforms in the two years left of his term in office. He badly needs to find ways to return India's growth back to 9 per cent and prevent it sinking further below the current 7 per cent. The prime minister could do worse than to take some weight off the banks' shoulders.

Nowhere is this more important than infrastructure finance . Rather than expecting commercial banks to meet all the economy's needs with short-term loans, Mr Singh and his team must allow alternative financing mechanisms, such as bonds. For too long, they have bandied about staggeringly large figures to estimate the investment opportunity to modernise India's infrastructure. The favourite is $1tn. But such estimates are meaningless without plans translating more readily into delivery of roads, railways and ports.

Now is the time for the prime minister to remove the barriers to insurance companies, pension funds and longer-term debt instruments financing infrastructure. He should also lift restrictions on financial products such as credit default swaps and derivatives.

To attract foreign funds with the prospect of returns well above 6 per cent, he might consider state assistance, such as an offer to reduce currency hedging risk or to allow debt securitisation. Liberalised financial markets, as much as repaired bank balance sheets, will give Indian lenders a far better chance of expanding overseas and providing mortgages in other parts of the world in the years to come.

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Giving BRICS a non-western vision
Samir Saran & Vivan Sharan, Hindu

February 14, 2012: On issues of common interest, it is time the five-nation group developed its own responses.

India is all set to host the Fourth BRICS Summit in March this year. The journey from Yekaterinburg to New Delhi has demonstrated that the political will amongst member nations to sustain this contemporary multilateral process is strong. Along the way South Africa has been welcomed into the original "group of four." Yet, the challenge for BRICS has always been, and continues to be, the articulation of a common vision. After all, the member nations are at different stages of political and socio-economic development. While some have evolved economically and militarily they are yet to succeed in enabling plural governance structures, while others who represent modern democratic societies are being challenged domestically by inequalities and faultlines created by caste, colour, religion and history. The BRICS nations do have a historic opportunity — post the global financial crisis and the recent upheavals in various parts of the world — to create or rebuild a new sustainable and relevant multilateral platform, one that seeks to serve the interests of the emerging world as well as manage the great shift from the west to the east.

Way forward

Indeed, two out of the five economies in BRICS, China and Russia, have already emerged, and are veritable heavyweights in any relevant global political and economic discourse. Why then should BRICS depend on sluggish multilateral channels such as the World Trade Organisation (WTO), or try to imbibe didactic, non-pragmatic western perspectives on issues purely of common interest? It is amusing to be offered solutions to poverty and inequality, bottom of the pyramid health models, low cost housing options, education delivery, energy and water provision, *et al* by the wise men from organisations and institutions of the Atlantic countries. When was the last time they experienced poverty of this scale, had energy deficiency at this level and suffered from health challenges that are as enormous? The responses to the challenges faced by the developing world reside in solutions that have been fashioned organically.

BRICS could systematically create frameworks offering policy and development options for the emerging and developing world and assume the role of a veritable policy think tank for such nations, very similar to the role played by the Organisation for Economic Co-operation and Development (OECD) in the 20th-century world. Thus BRICS must create its own research and policy secretariat (for want of a better term) for addressing specific issues such as trade and market reforms, urbanisation challenges, regional crises responses, universal healthcare, food security and sustainable development (many of these issues are being discussed at the BRICS Academic Forum in March).

Non-traditional security

The OECD's stated mission is to "promote policies that will improve the economic and social well-being of people around the world." Although the BRICS nations account for a fourth of global GDP and represent over 40 per cent of the total global population, none of them are OECD members as yet; instead what they have is "enhanced engagement" with the OECD. The BRICS nations have already created a viable platform for "enhanced engagement" with each other through the institutionalisation of the annual Leader's summit, preceded by an Academic Forum of BRICS research institutions and a Financial Forum of development banks (and this year, a newly instituted Economic Research Group will focus on specific economic issues). The dominant discourses within each of the BRICS nations today are centred on non-traditional security, which can be efficiently addressed through collective market based response mechanisms.

Despite intra-BRICS trade volumes rising exponentially over the past decade, there are few instances of actual financial integration within the consortium (aside from the case of Russia and China starting bilateral currency trading last year). A useful first step to enable this would be to institute a code of liberalisation of capital movements across the five countries, as a modern day parallel to the 1961 OECD code with an equivalent mandate. In the current environment of global economic uncertainty, multinational corporations are perhaps the most adaptable and profitable drivers of economic growth. Therefore, at the outset, the creation of favourable policies for multinationals to conduct business across BRICS would be well justified. Moreover, just as the OECD has a comprehensive set of guidelines that set benchmarks for various

economic activities, from testing standards for agricultural goods to corporate governance of state owned enterprises, the BRICS nations could create their own guidelines on the best practices and standards within the consortium.

Finally, within the BRICS nations, there are both import and export centric economies. This provides an excellent template for a realistic multilateral negotiating platform where obdurate self serving bargaining positions are natural starting points. The stalled discussions at the Doha Round of the WTO are an example of the difficulties of consensus building. Since the BRICS nations are already addressing a plethora of issues covered by the Doha Round, they are well placed to move ahead of it, and resolve mutual positions and common concerns.

What started as an investment pitch by Goldman Sachs (BRIC) has evolved into a useful multilateral instrument, for the BRICS nations. BRICS must now move on from being a grouping of individual nations, discussing agendas, to becoming a “go-to” institution for setting regional and global agendas. The essence and ethos of such an institution must in turn, flow from the inorganic prism of stability, security and growth for all. Stability from business cycles and financial governance failures, security from traditional and non-traditional threats posed to humans and the environment, and unbiased growth and prosperity are common aspirations for all BRICS nations, and they must be achieved and delivered from within. The Fourth BRICS Academic Forum will attempt to address these imperatives.

(Samir Saran is Vice-President and Vivan Sharan an Associate Fellow at the Observer Research Foundation. The foundation is the Indian coordinator for the Fourth BRICS Academic Forum on March 5-6, in New Delhi.)

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SAFTA: You take one step, we will take two, says Anand Sharma
Amiti Sen, ET Bureau

Feb 17, 2012, ISLAMABAD: India has said it has been unilaterally taking steps to integrate with countries in the Saarc region, but it was time others reciprocate by reducing their list of protected items under the South Asian Free Trade Area, or SAFTA.

New Delhi also sought quick conclusion of the Saarc agreement on trade and services that will encourage private commercial flow of capital. "Many countries import substantially from India and we do not get any trade preferences under Safta. Enhancement of trade in Saarc region may only remain an elusive dream unless these steps are taken," Commerce and Industry Minister Anand Sharma said at the sixth Safta ministerial meeting in Islamabad on Thursday. Sharma said India was in favour of implementing the Safta protocol, but it has been taking asymmetrical steps.

"We understand the sensitivities of other countries. If they take one step, we are prepared to take two steps," Sharma said. India has reduced the sensitive list for the least developed countries (LDCs) from 480 to 25 items and a zero duty regime has been introduced for all items not on the sensitive list.

"This has completely addressed the concerns of all Saarc LDC members as all items of their export interest are now allowed for import in India at zero duty," Sharma said. The minister said that he hoped to mitigate the trade deficit that Saarc LDCs suffered with India through these measures. The least developed countries in Saarc include Maldives, Bhutan, Bangladesh, Nepal and Afghanistan while Pakistan, Sri Lanka and India are developing country members.

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Pakistan promises negative list in a few days, to keep word on MFN too
Amiti Sen, ET Bureau

Feb 16, 2012, ISLAMABAD: In a big breakthrough in bilateral trade talks, Pakistan has said it will adhere to the timeline for announcing a short negative list by February and give India the most favoured nation status by the end of the year, even as the country's Cabinet could not pass a resolution on the issue on Tuesday.

This will mean that Pakistan will soon allow imports of all goods from India except those mentioned on the negative list that expected to contain around 700 items.

In a joint statement issued by the two commerce ministers following the bilateral talks, Pakistan said that it will switch over from the restrictive positive list regime to a negative list this month, but a timeline for phasing out the negative list will be announced later.

"It is expected that the phasing out will be completed before the end of 2012," the joint statement said.

It is likely that the key items of interest to India, such as automobiles, pharmaceuticals, textiles and machinery, will be on the negative list and continue to face ban till the time Pakistan gives a MFN status to India.

"The two commerce secretaries are discussing negative list. We expect to reach some conclusion by February end. I don't think there will be any problem," Pakistan Trade Minister Makhdoom Amin Fahim said at a press conference.

Fahim had admitted on Wednesday morning that some ministries in Pakistan had raised issues on the size of the negative list, but had said the matter would be resolved soon.

Pakistan allows import of just 1963 items from India included in a positive list, but had promised to move to a negative list regime by February this year.

Earlier in the day Anand Sharma said Indian banks will open branches in Pakistan once the two countries put all modalities in place to liberalise the sector.

"The Reserve Bank of India has invited a team from the Central Bank of Pakistan to visit New Delhi in first week of March for next round of talks on allowing banks to open branches in the

other country," commerce and industry minister Anand Sharma told reporters after his meeting with Pak counterpart.

"Indian banks will definitely open branches when an agreement is reached," he added.
The two sides on Wednesday signed three initial trade related agreements -- customs cooperation agreement, a grievance rederessal mechanism and an agreement for mutual recognition of quality certifications -- in Islamabad on Wednesday which will be implemented once ratified by India's Union Cabinet.

Both sides have also decided to expedite revision of visa rules that would ease the highly restricted movement of business people between the two countries and increase business opportunities.

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India and Pakistan to go in for a liberal new visa regime
Sujay Mehdudia, Hindu

16 February: In what could prove to be a historic step in removing the atmosphere of animosity between India and Pakistan and promoting peace and people-to-people exchange, both countries have agreed to completely revise the 1974 Bilateral Visa Agreement and put in place a liberal visa regime shortly for all categories of people, especially businessmen, as part of the Confidence Building Measures (CBMs) aimed to promote peace in the region.

Briefing visiting Indian journalists after his bilateral meeting with his Pakistan counterpart, Makhdoom Amin Fahim, Commerce and Industry Minister Anand Sharma on Wednesday said both countries had exchanged drafts on the new visa regime which were now pending necessary approvals from the respective governments. These drafts have been prepared after the report of the Joint Working Group set up in March 2011, consisting of officials from the Home and Commerce Ministries.

“Both the countries are now moving forward. The 1974 visa regime will be phased out. Not only a liberal visa regime for the businessmen will be put in place but also the common man will be the beneficiary of the new liberal regime. There will be new systems in place for different categories of people but I cannot announce the details till they are approved from both sides. But I must state that the Inter-Ministerial consultations have been done and suggestions have been made. We are now in the final stages of giving shape to the new regime which should be in place shortly,” Mr. Sharma said.

Asked if the visa liberalisation would also be in place for the common man, Mr. Sharma said it would take into account all categories, which included the common man. “Under the new regime for businessmen, which will allow them multiple visas and entries into each other's country, the government would appoint two apex business chambers which would endorse the visa documents of the businessmen who require multiple visas. Based on that, visa would be issued to the concerned businessmen. In India, FICCI [Federation of Indian Chambers of Commerce and

Industry] and CII [Confederation of Indian Industry] had been designated as the nodal business chambers for this purpose and Pakistan will also appoint apex chambers."

Mr. Sharma said he had also been assured by his counterpart that a negative trade regime list would be put in place shortly. Similarly, Pakistan has assured that the Most Favoured Nation (MFN) status for India would be in place by the year-end. "We are also working on putting in place a regime that would work towards allowing foreign direct investment (FDI) in both countries."

Mr. Sharma said India was committed to the adhering to the "Delhi roadmap" for taking definitive steps to normalise relations and trade with Pakistan. He also indicated that the issue of "negative list" trade by Pakistan would be resolved within the government soon and hopefully an announcement would be made within this month on the issue. "The people and the business leaders on both sides are eagerly awaiting these historic steps and we have a responsibility towards fulfilling their aspirations towards bringing the people of the two countries together in the interest of peace and prosperity in the region," he said.

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Attari border infrastructure needs revamp

Surojit Gupta, Times of India

Feb 17, 2012, ISLAMABAD: India wants to increase trade with Pakistan through the border route significantly but serious efforts would be needed to tone up the infrastructure at the Attari-Wagah border. The customs check point too needs a fresh coat of paint and is dimly lit. Rows of trucks line up on both sides of the road as one approaches the border gates. A fresh spell of rain brings trouble. Mud and slush make loading and unloading of goods difficult for the porters.

But, the picture on the other side of the border is different. Manicured lawns and neat roads welcome visitors on the Pakistani side. The customs and immigration check point is modern and swanky. The state of infrastructure on the Pakistani side stands out.

"Rains create huge problems for us. There is mud all over the place and it becomes very difficult for us to work," said Kashmir Singh, a porter at Attari. Both sides have agreed to open a second gate. But work is delayed. The integrated check post is expected to be ready by April 2012. The Indian government has spent nearly Rs 150 crore to create the facilities but analysts say serious efforts are needed to keep a strict vigil on the progress and state of infrastructure on the key land route.

It is estimated that the new gate will help raise the number of trucks to 500-600 daily from the current 100-150 trucks that transport goods through the Attari-Wagah border. The two sides also need to focus on increasing trading hours for faster movement of goods. The approach road to Attari needs to be widened significantly to facilitate movement of large containers and trucks. Officials at the Attari border say the communications links also require revamp for better data sharing.

The two sides have also discussed opening another trade route at Munabao-Khokrapar route. They have set up a joint working group to examine the feasibility of this new trading point. The group is expected to submit its report to the commerce secretaries of both countries at the next meeting of the officials.

Any increase in trade through the land route will have spin-off effect on the infrastructure and incomes of people living near the border areas. Development of cold chains, warehouses and logistics chains is expected to transform the region.

Porters and villagers at Attari are hopeful. "I earn Rs 200-250 every day now. We are able to attend to two or three trucks but once the new facility is ready, we will have more trucks to attend to. I am hoping that my income will increase to at least Rs 500 a day," said Balbir Singh, a porter. He said the facilities for porters should also keep pace with the development of other infrastructure.

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Pak may be allowed to invest in India
RICHA MISHRA, Businessline (Hindu)

ISLAMABAD, FEB 16: As a goodwill measure, India may allow investments from Pakistan into the country. Government sources said the Commerce Ministry has proposed to the Finance Ministry to exempt Pakistan from FEMA regulations.

This is being seen as a move to strengthen bilateral economic relations between the two countries. The issue was also discussed during the three-day trade talks that ended on February 15. However, the buck on the subject stops with the Finance Ministry.
The source said that this does not require an amendment to the Foreign Exchange Management Act (FEMA), but can be done by way of notification. Currently, Pakistan is the only country under this regulation.

Once the go-ahead comes, foreign direct investment (FDI) from Pakistan will be possible through the Foreign Investment Promotion Board (FIPB) route on case-to-case basis, the source added.

Asked whether the security issues would also be considered, the source said, the Home Ministry views are being taken into account. The Home Ministry’s main concern was about security.
On whether investments will be allowed through the automatic route, the source said, it will be based on the current mechanism, sector-specific and case-to-case basis by the FIPB. At present, the trade between India and Pakistan is tilted in favour of India.

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Doing Business with Pakistan
P. Vaidyanathan Iyer, Indian Express

Feb 12: Not many may know, but one of the two Ms in the $14.4-billion M&M or Mahindra Group once stood for 'Mohammed'. In 1945, the Mahindra brothers (JC and KC) and Lahore-born Malik Ghulam Mohammed jointly set up a steel company in Mumbai called Mahindra & Mohammed. After Pakistan was born, Mohammed migrated to become the country's first finance minister. Later, he wielded enormous clout as Pakistan's third Governor-General in 1951.

"Though the Mahindra Group has no business ties with Pakistan now, the fact that one of its partners was from Pakistan will forever remain a part of Mahindra's history," says Arun Nanda, who spent 36 years with the group and retired as Executive Director in April 2010.Nanda, who is still associated with the Mahindra group in non-executive positions, has personal moorings that take him up north to Rawalpindi. "My parents were born near Rawalpindi. I have friends across the border," he says. On Monday morning, he will accompany Commerce and Industry Minister Anand Sharma to Lahore in Pakistan through the Wagah border by road. "I have several personal agendas," he says, making a convincing case for India to be more than generous in dealing with neighbours, especially Pakistan, and keeping business devoid of politics.

India-Pakistan Trade

Lahore is hardly a 40-minute drive from Amritsar. Logically, India, given its phenomenal market size, should be Pakistan's largest export destination. Far from it. Despite its proximity, Pakistan does not figure even among India's top 50 suppliers. It stands way behind at 67, accounting for less than 0.1 per cent of India's total imports. India's imports stood at $350 billion in 2010-11, of which Pakistan accounted for goods worth less than $350 million. On the other hand, India sold merchandise worth $2.33 billion in 2010-11, and ranked amongst the top 10 suppliers to Pakistan. With a 4.2 per cent share in Pakistan's total imports of roughly $55 billion in 2010-11, India was the eighth largest supplier to its neighbour.

Pakistan, not surprisingly, sees a bias not just in the balance of trade, but also in India's trading practices."The business community in Karachi wants a level playing field. There are many tariff and non-tariff barriers that limit exports from Pakistan. Practices that are followed on the ground are not documented many times," says Amin Hashwani, vice-chairman of the well-diversified Hashwani Group, with interests in textiles, rice and mineral exports and real estate, besides owning two Marriott hotels in Karachi and Islamabad.

Barriers to trade have held back even big business groups such as Hashwani from increasing their business engagement with India. To illustrate a point, Hashwani claims, samples are withdrawn from consignments for testing with no results for over a month. Companies end up paying significant demurrage charges. "Recently, my consignment was detained at Nhava Sheva (Maharashtra) by Indian Customs intelligence. Finally, I had to abandon it and get the stuff auctioned," he says. Smaller companies cannot bear such charges and never explore opportunities.

Officials in the Pakistan High Commission in New Delhi cite specific instances that businesses in Karachi and Islamabad have complained about. India's tariff, for instance, on certain textile items is taken as the higher of the two—a specific duty or the ad valorem rate. When prices increase, the actual duty paid based on the ad valorem rate turns out to be significantly higher than the specific duty. "So, they end up paying much more in taxes," says an official.

Other countries in the region, Bangladesh and Sri Lanka, do not face this compounded tariff structure. In the case of chemicals, the quality control standards are quite rigorous. Certain dyes are not allowed because India does not accept certification that the dye makers obtain from laboratories in Pakistan.

Commerce Secretary Rahul Khullar says the Pakistan trade's biggest grouse is that New Delhi imposes very high tariffs on textiles and this prevents market access. "Almost 80 per cent of their export basket is textiles. So it hurts," he says.

Officials in the department of commerce say the biggest boost to trade ties will come after Pakistan grants India the Most Favoured Nation status it has committed to. Under MFN, Pakistan will accord India the same treatment as it extends to its other partner countries. "This will open up trade fully, except for a small negative list," says an official in the department.
In the same breath, Indian government officials say New Delhi does not impose any geography-specific restrictions to trade.

Biswajit Dhar, Director General, Research and Information System for Developing Countries, a leading trade think-tank in New Delhi, says, "Pakistani businessmen have been saying this in several forums. There are non-tariff barriers, but we are surely not putting these deliberately. They are the same for all. If the MFN issue is taken care of, there will be interest on the part of Indian businesses to look beyond."

An Attack and A Freeze

After the December 2001 attack on Parliament, India's relations with Pakistan again went into deep freeze. In April 2003, then prime minister Atal Bihari Vajpayee took a baby step by stating he would try to normalise relations with the neighbour on the basis of "trust and sincerity". It was around this time that business leaders from both sides engaged in Track II diplomacy. It was the beginning of another fresh attempt to bring about a thaw in relations.

New Delhi was host to an unusual event on Sunday, September 14, 2003. A group of top CEOs from Pakistan and the big guns from corporate India were huddled at Taj Mansingh for a candid discussion on their impressions about, and expectations from, each other.

To make it more focused, Boston Consulting Group's India CEO Arun Maira, who is now Planning Commission Member, was entrusted with the job of moderating the discussion.

A top Indian CEO began saying, "For us, you are like our younger brothers. You are always a part of us." Words said in good faith, but by saying this, he unwittingly called for trouble. A Pakistani businessman immediately stood up and said: "This is what is not acceptable. We are a

separate country and you must understand that you have to treat us as equals." Names are being withheld deliberately.

Maira remembers how he steered the discussion that Sunday. "I said, let a group specifically discuss this perception since the Pakistani businessmen are saying it is a fundamental issue that affects business," he recalls.

Sunil Munjal, whose family migrated from Kamalia (Faislabad) and settled in Ludhiana to start a cycle factory, was also present during the discussion at Taj Mansingh.

Do Pakistani businessmen still feel the same way? "I am not sure if I can give a definite response," he says, before adding that India must go out of its way to improve trade ties. "But we should not sound condescending while we do this," he says. Indeed, India needs to realise that when it comes to identities, the size of the country or its economy does not matter.

Slowly and steadily, the talks gained momentum and in January 2005, Sunil Munjal, then president of the Confederation of Indian Industry, led a delegation that included Arun Maira, Hari Bhartia, Arun Bharat Ram and Sunil Mittal, among others, to Pakistan where they met President Pervez Musharraf and the prime minister too.

Then came general elections in May 2004 and India had a new Congress-led coalition at the Centre. Over the next couple of years, the two countries hardly travelled any meaningful distance. Then came the Mumbai attack in November 2008 and ties deteriorated further. But what is surprising is civil society and people-to-people contacts have withstood the test of times.

"People-to-people contacts, I have to say, are splendid," says Rajan Mittal, who will be in Lahore on Monday as part of the Indian delegation. This is a unanimous sentiment on both sides. "The average person on the street goes out of way to help you, especially if he knows you are from India," adds Munjal.

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As Anand Sharma walks into Lahore on Monday, he may be guided by what trade experts and Corporate India strongly recommends. "There is a strong case for unilateral liberalisation on India's part. The kind of goodwill this will generate is enormous," says India's leading trade economist Biswajit Dhar.

After all, how much can exports from Pakistan or Bangladesh threaten India? Today, if the bilateral trade is about $2.5 billion, goods routed to Pakistan through Dubai or UAE is estimated to be as high as $6 billion. By opening up to Pakistan, New Delhi will also silence a lot of critics who claim India plays the Big Brother.

Amin Hashwani says civil society interaction, people-to-people contacts through a more easy visa regime and increased business ties, are low-hanging fruits that need to be plucked now. This will bring traction to more serious dialogue on all pending issues, including Kashmir.

“Some contentious issues don’t look so contentious then,” Hashwani points out. While he admits that it is possible that words used with the best of intentions can be misconstrued during stressful times, he also says India must not stoke the feeling of insecurity of a country smaller in size. Business cannot be devoid of politics perhaps, but successful trade interests are the best wedges we have to serve the larger political interests.

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