INDIA'S TRADE NEWS AND VIEWS

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Global slowdown may dampen export growth prospects in 2013
PTI

New Delhi, 28 December 2012: Indian exports, which were hit by global slowdown last year, are likely to remain sluggish during 2013 as well due to challenging economic conditions in western economies, though policymakers have drawn a strategy to diversify exports.

The year started on a double-digit growth for exports, but gradually declined and finally entered the negative territory in May.

In January 2012, outbound shipments grew by 10 per cent before contracting by about 5 per cent in May, with no major turnaround since then.

The government's effort to diversify from the traditional markets of the US and Europe yielded positive results but dependence on the western economies have led to decline in the country's overall merchandise shipments. These two markets account for about one-third of India's exports.

Although India's exports surpassed the USD 300-billion mark and reached USD 307 billion during 2011-12, the country's trade deficit also touched an all-time high of USD 185 billion in the period.

During January-November 2012, the trade gap has widened to USD 175.5 billion compared to USD 146.9 in the comparable period last year.

For government, it is a major cause of concern, as widening trade gap directly impacts current account deficit (CAD) and domestic currency. CAD stood at 3.9 per cent of GDP in the April-June quarter.

Due to the global demand slowdown, India's exports during the current fiscal are likely to barely cross USD 300 billion against the ambitious target of USD 360 billion for the current fiscal.

According to the Commerce Secretary S R Rao, any ripple worldwide will impact India's commerce as the country's integration with the global trade has reached a high level.

Slowing global output growth has led the World Trade Organisation (WTO) to cut its 2012 forecast for world trade expansion to 2.5 per cent from 3.7 per cent and to scale back the 2013 growth estimate to 4.5 per cent from 5.6 per cent.

"In an increasingly interdependent world, economic shocks in one region can quickly spread to others," WTO Director General Pascal Lamy has said.

Federation of Indian Export Organisations (FIEO) has said the year 2012 had been difficult for exporters. "Domestic issues like poor infrastructure, increasing transactions cost and some procedural hurdles are huge challenges for exporters," FIEO President Rafeeq Ahmed said.

Sharing similar views, Rakesh Mohan Joshi, internal trade expert and Professor with India’s prestigious Indian Institute of Foreign Trade (IIFT) said the ballooning trade deficit poses serious challenges to the government.

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Current account deficit widens to 5.4 % in Q2
Special Correspondent, Hindu

Mumbai, 31 December 2012: The Reserve Bank of India (RBI), on Monday, said that the Current Account Deficit (CAD), as a proportion of gross domestic product (GDP), during the second quarter (July to September) of 2012-13 increased to 5.4 per cent from 4.2 per cent in the second quarter of the previous year.

"Notwithstanding a reasonable increase in net services receipts, net invisibles earnings could finance only a lower proportion of trade deficit as net 'primary and secondary' income flows were relatively smaller. Consequently, the CAD worsened to $22.3 billion in the second quarter of 2012-13 from $16.4 billion in the preceding quarter and $18.9 billion in the second quarter of 2011-12," the RBI said in its report on developments in India's Balance of Payments (BoP) position.

Surge in inflows

Despite the surge in net inflows during the quarter under review led by foreign direct investment (FDI) and portfolio investment, there was a marginal draw-down of reserves by $0.2 billion, mainly due to the higher level of current account deficit.

On a BoP basis, merchandise exports recorded a decline of 12.2 per cent (year-on-year) as against an increase of 45.3 per cent during corresponding quarter of 2011-12. Similarly, imports registered a decline of 4.8 per cent (year-on-year) as against an increase of 38.1 per cent.

Steeper decline in exports than that in imports led to the widening of trade deficit to $48.3 billion during the period under review from $44.5 billion during the corresponding quarter of the previous year. However, in this period, net services receipts recorded a rise of 11.4 per cent (year-on-year), led by software, construction, information services, business services.

Net receipts under secondary income (private transfers) recorded a moderate increase of 2.9 per cent during the quarter and were partly offset by the net outflow under primary income (investment income). In the half-year period ended September 2012, CAD was higher at $38.7 billion against $36.3 billion in the same period of the previous year. As a proportion of GDP, CAD rose sharply to 4.6 per cent in the first-half of 2012-13 from 4 per cent in the the previous year "reflecting slowdown in GDP and a significant depreciation in rupee."

Net inflows under the financial account were lower during April-September 2012 over the corresponding period of the previous year, mainly due to decline in FDI, external commercial borrowings (ECBs) and banking capital.

"Moderation in capital inflows coupled with continued elevated level of CAD led to only a marginal accretion of $0.4 billion in foreign exchange reserves during April-September 2012," the RBI added.

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Govt plans gold import duty hike to trim CAD
Financial Express

New Delhi, 3 January 2013: As the current account deficit (CAD) hit a record 4.6% in the first half of the fiscal, a concerned government decided to clamp down on massive inflows of gold by raising the import duty on the "idle asset" for a third time in one year.

"As would be evident, gold imports constituted a substantial chunk of the imports and is a huge drain on the current account. Suppose gold imports had been one half of the actual level, that would have meant that our foreign exchange reserves would have increased by $10.5 billion. I would, therefore, appeal to the people to moderate the demand for gold, which leads to large imports of gold. I may add that we may be left with no choice but to make it a little more expensive to import gold. This matter is under the government's consideration," Chidambaram said on Wednesday. "I am confident that even if the year ends with a slightly larger CAD than last year, we would be able to finance the CAD without drawing upon reserves," he added.

Prime Minister Economic Advisory Council chairman C Rangarajan also said: "One of the approaches (to curb the CAD) is to to look at increasing the import duty on gold."

The plan to hike the import duty again from the current 4%, which has effectively been raised four fold since last January, reflects the government's growing uneasiness over large imports of an idle commodity-— unlike crude oil— worsening its current account, which comprises the balance of trade, net factor income such as interest and dividends and net transfer payments.

Although gold imports by India—the world's biggest consumer—dropped 30% in the first half of the fiscal to $20.2 billion, it was still more than what the country had bought from overseas during the entire 2007-08 fiscal and slightly lower than $20.7 billion in 2008-09.

Moreover, encouraged by the drop in the metal's imports following the duty increase, the government hopes another round of hike would put a check on purchases, especially when a slowing economy is dragging down exports.

The move is also significant as gold demand has started recovering since July after two successive quarters of a slowdown, thanks to the late revival of monsoon that raised rural income prospects, and restocking by traders and jewellers ahead of the festive and wedding season, according to the World Gold Council (WGC).

Indian gold demand surged 9% in the July-september period defying an 11% drop globally, in volume terms. Adding to policymakers' concerns, the WGC has forecast a rise in Indian gold demand in 2013 after a 25% fall in 2012 to 800 tonnes.

Last month, the WGC had also said the Indian consumers seemed to have adjusted to the rise in gold prices, following a sharp depreciation in the rupee and the hike in the import duty.

The country's trade deficit widened to a 17-year high of nearly $21 billion in the quarter through September, as exports tumbled by 12.2% while imports declined only 4.8%. Consequently, the CAD hit a record 5.4% of the country's gross domestic product (GDP) in the quarter through September, despite a sharp rise in foreign investments, driving up the deficit to a record 4.6% of the GDP, or $38.7 billion, in the first half of this fiscal. Worse still, while exports dropped 1.6% in October and 7.4% in November, imports rose 7.4% and 6.4%, respectively, during this period, which would impact the CAD in the third quarter.

"In a country where the use of gold is deeply entrenched in traditions and the culture, and where 5 million weddings happen annually, increasing the import duty won't serve the purpose. Gold imports dropped in the first half of this fiscal as prices were high following a 15% rupee depreciation and as high inflation hit rural people's purchase power, and not just because of the duty hike," said Prithviraj Kothari, managing director of Riddhi Siddhi Bullion.

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Centre announces sops to arrest drop in exports growth
Business Standard Reporter

New Delhi, 27 December 2012: The government on Wednesday announced a slew of incentives, for the second time in six months, to boost exports, which had seen their seventh straight monthly decline this financial year in November, amid dwindling overseas demand due to an economic crisis.
Among the measures announced on Wednesday were an extension of the two per cent interest subsidy on bank loans for certain sectors for an additional year till March 2014, inclusion of the sub-sectors of engineering goods as beneficiaries of the scheme and provision of incentives on incremental exports made to the US, the European Union and countries in Asia.

"With these measures, we should be able to give a push to our exports in the last quarter of this financial year. The objective is to stabilise the situation and try and move from the negative territory to positive," said Commerce and Industry Minister Anand Sharma.

Though he declined to specify an estimate of the resources being doled out by the government to implement these initiatives, the minister expressed hope that the measures would boost outbound shipments from the country and help in controlling the spiralling trade deficit. India's trade deficit has increased by nearly a-fifth to $175.5 billion (Rs 9.6 lakh crore) between January and November this year. The trade gap had stood at $146.9 billion in the corresponding period last year.

As part of the incentive package, the government has also announced the introduction of the two per cent interest subvention for exports to countries in South Asia, Africa and Myanmar. The objective of the scheme is to boost exports to these countries by providing long-term concessional credit through EXIM Bank. "This scheme will be operational immediately for a combined worth of $500 million to begin with," Sharma said.

Said Sanjay Budhia, chairman of the CII National Council on Exports and Imports: "Providing long-term concessional credit through EXIM Bank, as co-financing in infrastructure sectors for SAARC, Africa and Myanmar, will definitely increase exports to these regions. The South Asia region is fast-becoming the world's economic centre of gravity and though India's trade with South Asian countries has increased encouragingly--from $7 billion in 2005-06 to $15 billion in 2011-12-- the trade is below the potential."
The government has also decided to grant incentives on incremental exports that would be made during January-March 2013 over the base period January-March 2012. According to Rafeeque Ahmed, president of the Federation of Indian Export Organisations, the scheme for incremental growth would act as stimulus for exporters looking at the US, the EU and Asian markets as these three account for close to 80 per cent of the country's exports.

Cumulatively, between April and November, exports registered a fall of 5.95 per cent to $189 billion, while imports recorded a decline of only 1.58 per cent at $319 billion. Consequently, trade deficit rose to $129.5 billion, higher than $123 billion reported in April-November last year.

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Agenda for the coming year
T N C Rajagopalan, Business Standard

31 December 2012: The commerce minister's New Year gift for exporters includes extension of the interest subvention scheme, a scheme for promoting project exports, inclusion of more countries in the Focus Market Scheme, a scheme for rewarding incremental growth which could stimulate exports to America, the European Union and Asian markets, and an assurance to tweak the Special Economic Zone

scheme by next month. This package, his ministry hopes, will help turn the negative export growth rate figure to a positive one, and help achieve at least $400 billion of export by 2013-14.

The interest subvention scheme already in place covers select labour-intensive sectors and is available till end-March. It now gets extended for another year and also covers select segments of the engineering sector. The benefit of interest subvention, to be made available through Exim Bank for project exports, is for contracts in select countries in South Asia, Myanmar and Africa. Extension of the Focus Market Scheme is for export to New Zealand, Latvia, Bulgaria, Cayman Islands and Lithuania. The details for rewarding incremental exports to select countries are awaited.

The latest set of incentives help some sections of exporters but might not help revive export growth across the board. The fact is that abolition of the Duty Entitlement Passbook (DEPB) scheme and reduction in duty drawback rates, at a time when the global trading environment was far from robust, have hit exporters hard across the board. Also, while stubborn inflation and high interest rates have pushed up costs, it is only recently that the rupee has depreciated somewhat to compensate.

Grant of more duty credit scrips and the zero-duty Export Promotion Capital Goods scheme have not adequately compensated for the loss of DEPB, the adverse effects of inflation or the slowing in the global economy.

The task of reviving exports, therefore, calls for a more earnest attempt to remove the procedural and infrastructure bottlenecks. The commerce minister can try to meet more exporters in various parts and hear what they have to say about their problems. Presently, the perception is that international trade negotiations, both bilateral and multilateral, take up more time and attention of the ministry than the problems exporters face. And, that the policies help imports more than they help exports.

As a dismal year for exporters winds down, it is somewhat comforting to note that 2013 promises to be a better year. America and Europe appear to have gone through their worst days and with some luck, could see better days ahead. At home, since the advent of P Chidambaram as finance minister, the government has taken many hard decisions, despite stiff opposition, and seems more resolute. The confidence of global investors in the Indian economy has returned somewhat, as foreign institutional investor inflows in stock markets show.

The prospects of the government pushing through large infrastructure projects look better now than at the beginning or the earlier part of the year. The rupee's depreciation to around Rs 55 to a dollar should moderate imports and help exports, helping contain the ballooning current account deficit. On that somewhat promising note, let us welcome the new year.

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Farm sector seeks stable export policy, higher R&D outlay at pre-Budget meet
Business Line (The Hindu)

New Delhi, 3 January 2013: The agriculture sector wants the Government to formulate long-term, stable export policies for agricultural products, besides incentives and higher outlay to boost research and development (R&D).

At the pre-Budget meeting with Finance Minister P. Chidambaram on Wednesday, experts from the sector, representing farmers and private companies, stressed the need for a stable export policy and to regulate, if required, using tariffs.

The Finance Minister kick-started the pre-Budget discussions by meeting the farm sector representatives. “A stable export policy is a must for providing good incentives to farmers. If there is a need to moderate exports of any commodity, the Government should regulate it using duties rather than imposing a ban on shipments,” said Ashok Gulati, Chairman, Commission for Agriculture Costs and Prices (CACP). He was talking to reporters after the meeting.

Gulati, in his presentation, stressed the need to contain subsidies – food and fertilisers. The food and fertiliser subsidy in FY 2013-14 may touch Rs 2,00,000 crore if the National Food Security Bill is introduced and wheat and rice are sold at Rs 2 a kg and Rs 3 a kg, respectively, as promised, and if fertiliser prices were not revised upwards, he said. Implementation of conditional cash transfer could potentially reduce food subsidy by over Rs 50,000 crore by plugging the leakages, Gulati said.

The CACP estimates that 40 per cent of food distributed through the public distribution system does not reach the targeted beneficiaries and leaks away in the system. The CACP also suggested having a viable strategy and long-term commitment to boost cultivation of palm oil, which can help cut down the rising imports of edible oils.

The experts also stressed the need to hike R&D allocation to various Government research institutes to boost productivity and develop climate change resilient varieties.

P. Chengal Reddy, Secretary General, Consortium of Indian Farmers Association (CIFA) said the Government should announce incentives to attract private investments in food processing, infrastructure, irrigation projects and agro service centres.

The CIFA wants the Government review the terms of reference of CACP in recommending the minimum support price for ensuring profitable prices to farmers. It also wants the Government to declare region-wise MSP as cost of production varies from region to region.

The CIFA sought duty exemption on all imported farm equipment and machinery for a period of five years and to extend long-term credit to farmers at 3 per cent interest rate to purchase farm machinery.

Y. Sivaji, a former MP, suggested setting up of a CACP in each State so that State Commissions could fix the minimum support price considering local conditions. Sivaji also suggested that the Government should consider an indexation system for the MSP as in done in calculating the dearness allowance according to the cost of living.

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Government set to remove cap on sugar import, export
Rituraj Tiwari, Economic Times

New Delhi, 25 December 2012: The government is planning to remove quantitative restrictions on sugar exports and imports and will use tariffs to regulate trade as part of a new liberalised policy for the sector.

"We should have a stable export-import policy," said a food ministry official. Officials from the departments of agriculture, consumer affairs and food met last week to discuss the proposal. Until September this year, uncapped sugar exports were allowed under Open General Licence.

But fresh permission has not been given in the new sugar season which started on October 1. However, white and raw sugar can be imported with a 10% duty.

"The government may increase the import duty as global sugar prices have crashed from $650 to $510 a tonne, making imports cheaper than the domestic sugar. At the same time, we may impose some export duty also to keep a check on excessive exports when global prices go up," said the official.

India, which exported 34 lakh tonne till September this year, is set for a surplus production for the straight third year, opening up export opportunities.

"A decision on exports may be taken in January after assessing the cane crop size and sugar output," the official said. Meanwhile, the sugar industry is clamouring for a sharp increase in import duty to curb cheap imports into the country. Indian Sugar Mills Association (ISMA) has proposed that the import duty be raised from 10% to 60%.

India is highly vulnerable to sugar coming from Pakistan through the Wagah border which is at least Rs 5-6 less cheaper than the Indian variety.

"We feel that the only way to ensure sugar mills are able to cover their cost and pay farmers on time is by checking the cheap import of sugar, both raw and white. At the current level of duties, it is viable for sugar traders to import sugar, which will outprice the domestic prices," said ISMA president M Srinivaasan.

The inter-ministerial meeting also discussed recommendations of the Rangarajan committee on sugar decontrol and mooted doing away with the existing regulated release mechanism, which controls the release of sugar quantity into the market.

"At present, the government decides the sugar quantity to be sold over four months. It will gradually move to six-monthly release and finally the restrictions will be completely removed, giving flexibility and options to sugar mills to decide their cash flow," said another food ministry official.

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High prices of basmati rice to slash exports
Madhvi Sally, Economic Times

Ahmedabad, 25 December 2012: High basmati prices are expected to slow down exports and domestic consumption. Leading basmati companies such as KRBL, Best Foods and LT Foods are offering a wide range of basmati varieties in consumer packs across price points for the Indian consumer.

Mohender Pal Jindal, president, All India Rice Exporters Association (AIREA), said exports and domestic consumption will come down by 25% owing to low production and high prices.

"People are not ready to spend Rs 70 to Rs 90 a kg on a staple," he added. In 2011-12, India produced 4.25 million tonne of basmati rice but this year, production is slated to be 10% less. Traders said basmati prices were 25% higher in the domestic market and by 25% to 40 % in the international market than the previous year, leading to low margins for exporters.

Anil Kumar Mittal of KRBL, which owns the India Gate brand, hoped to see a pickup in sales with Indian basmati prices quoted cheaper than the Pakistan variety.

"We might look at new markets like China but the scope of export in the first year will not be more than 20,000 tonne," he added. Exports to Iran, a major buyer, has slowed down this year owing to payment issues, leading exporters to look at new markets. AIREA targets to export over 3.5 million tonne basmati rice this year, compared to 3.2 million tonne in the previous year. Till date, exporters have registered 2.1

million tonne with APEDA for exports. "Apart from Iran, exports to other destinations are normal. By February-March, we will be able to reach last year's figure," said AIREA ex-president Vijay Setia.

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India can export 2-3 mt of rice annually for several years
Sanjeeb Mukherjee, Business Standard

New Delhi, 30 December 2012: Between 2000 and 2010, global rice production has seen a rise of about 16 per cent, primarily due to improved farm techniques and better seeds. However, many experts believe the trend might plateau, raising prices of the commodity. *Gurdev Khush*, internationally renowned agronomy and plant genetics scientist and a recipient of World Food Prize in 1996, in an interview with *Sanjeeb Mukherjee,* says world rice acreage and production wouldn't decline in the next few years. He, however, adds in the long run, it would be difficult to sustain the rise in production, as acreage is shrinking and water tables are being depleted. Edited excerpts:

What challenges does global rice production face?
Shrinking area devoted to rice, depleting water resources and the changing climate pose serious challenges to rice production. These would certainly affect rice production in the long run. To face these challenges, scientists must develop rice varieties with higher yield potential, which are more resilient to climate changes, resistant to flooding, drought, new diseases and insects that may evolve due to the changing climate.

Do you think the growth in global rice production would stop sometime soon?
I don't believe growth in world rice production would stop soon. It would continue as a result of the new breakthroughs in science and management practices in the field of rice, as well as benign government policies. The area devoted to rice would continue to increase in Africa and Latin America. Asia would also see some increase.

After it lifted the ban on exports, India has emerged as a major player in the global rice market In the last few years. Do you think the trend would continue for some more years?
I firmly believe India would continue to export rice for at least the next ten years. Growth in India's domestic demand would not increase due to the substitution of high-value foods, resulting from a rise in the middle-class population. In 10-15 years, the demand would actually start to decline, as the population starts to stabilise.

On an annual basis, how much rice would India continue to export in the next few years?
I believe India would continue to export two to three million tonnes of rice a year for several years.

How have trade barriers such as export bans by rice producers affected the world rice market?
Trade barriers and export bans have more than doubled rice prices in the international market. These have also affected prices in domestic markets. Poor rice consumers have been affected adversely in many countries.

India's annual rice production faces challenges from flooding and water stress. How should the government tackle these factors?
The government must support research and extension programmes to develop technologies for mitigating the adverse effects of flooding and drought. It should also invest in development work to reduce the losses arising from stresses. Land management practices such as bunds and channelising of rivers to reduce flooding, along with the development of irrigation, would reduce the likelihood of droughts.

Of late, there has been a lot of stress on shifting India's rice cultivation from the North to the East through programmes like Bringing Green Revolution to Eastern India. Do you think it is the right strategy?
It is the right strategy because there is immense scope to increase production in eastern Uttar Pradesh, Bihar, Odisha, West Bengal and Assam. The potential to produce rice in these states has not been exploited to the extent possible. There is considerable scope to increase the area under irrigation, owing to underground water aquifers, and increase cultivation area in the rabi season.

The impact of the 'golden rice' programme on reducing vitamin A deficiency has been questioned. What do you think are the benefits this variety of rice offers and when can we expect it to the reach the mass market?
Golden rice would help alleviate vitamin A deficiency, particularly among the poor who derive most of their calories from rice, as rice lacks vitamin A. Most of the criticism golden rice faces is unjustified and comes from those who are opposed to the use of genetically modified organism (GMO) technology in crop improvement. Golden rice has undergone all the regulatory tests such as bio-availability, food and environmental safety. Its yield is the same as that of non-GMO rice. How soon it would reach the consumers would depend on the public perception about the use of GMOs. The opposition and scare mongering tactics of well endowed non-governmental organisations would be major hurdles to releasing golden rice for mass production and consumption.

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Tea sector eyes export opportunities in Asean
Supratim Dey, Business Standard

Guwahati, 21 December 2012: Against the backdrop of improved trade and business bonhomie between India and the Association of South East Asian Nations (Asean), the tea sector is eyeing an increase export to these countries. It feels that given the declining trend in tea production and increase in tea import for consumption in Asean countries over the last few years, there appears to be a "clear opportunity" for India to vigorously market its tea to Asean.

Figures show tea production in Asean, including Vietnam and Indonesia, the only two tea-exporting Asean members, is on the decline. In contrast, consumption in this region has been increasing over the years, brightening the chances of India being able to increase its export to this neighbourhood market.

The recent flag-down ceremony of the Asean-India car rally in Guwahati gave the Assam tea industry an opportunity to showcase different varieties of Assam tea before participants, delegates and leaders from Asean countries.

"The production trend is on the downside and consumption is increasing in the Asean countries, which clearly reflect in their downward trend of exports over the last three-four years. Vietnam and Indonesia are the only exporting countries from Asean. Their export share is also on the decrease — from 13.23 per cent to 12.49 per cent during 2009 to 2011.This gives a clear opportunity for India to increase our export share to these countries," said Bidyananda Barkakoty, chairman of the North Eastern Tea Association.

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Coffee exports dip 9% in 2012 over glut in global market
Mahesh Kulkarni, Business Standard

Bangalore, 27 December 2012: India's coffee exports have declined nine per cent in 2012 in line with the market expectations. The country exported 307,700 tonnes between January and December 21, 2012, against 337,715 tonnes in the previous year.

The drop in exports was mainly on account of subdued demand from major consuming markets in Europe, Asia and US, as a result of global slowdown. Bumper crop in Brazil and Vietnam also contributed to the glut in the international market resulting in demand drop.

"In the beginning of this year we had projected around 10 per cent drop in exports. The exports have moved in line with our expectations. The continued economic slump globally contributed towards the decline in demand for coffee in almost all major consuming countries," Ramesh Rajah, president, Coffee Exporters Association of India said.

However, there is no encouraging news in store for the exporters in 2013. Contrary to the cheerful start to 2012, when the exporters opened the year with good prices, the opening of 2013 is not encouraging for the exporters. According to the early indications, there is no positive news either, as the order book remains very thin and there are not many enquiries for the first quarter of 2013, he said.

"The global economic slowdown has turned out to be much worse than we expected. The continued slowdown and change of consumption pattern for cheap-priced coffees has resulted in demand dip for the new year," Rajah pointed out.

According to Coffee Board of India, export of Indian coffee witnessed a drop of 9.8 per cent during the calendar year 2012 at 260,590 tonnes as against 288,958 tonnes. While the export of Arabica variety went up 8.5 per cent to 57,633 tonnes against 53,087 tonnes in the year 2011, the exports of Robusta suffered a blow. The export of Robusta variety declined 18 per cent to 156,475 tonnes as against 190,705 tonnes in 2011.

Similarly, the export of instant coffee (value-added coffee) remained flat at 93,368 tonnes against 93,643 tonnes in the year 2011.

"The coffee market is still saddled with a global glut of Arabica coffee beans this year. As a result, prices of Arabica may not see further rise from its present level of Rs 6,800 per 50 kg bag", the Coffee Board said on its website.

Rajah said, last year the outlook was much more bullish compared to this year as we had better prices and carry over stock from the previous year. Bumper crop in Brazil and Vietnam have contributed to glut in the global markets during this year.

Crop year 2012-13 is now under way and arrival of the new crop is delayed by three weeks. It is expected to hit the market in January. The crop for the year is likely to remain more or less same as last year at 300,000 tonnes. The Coffee Board has pegged the domestic crop at 325,300 tonnes, a growth of 3.5 per cent over 2011-12.

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Dairy product prices to rise globally
Business Standard Reporter

Mumbai, 22 December 2012: In a major boost for Indian exporters of dairy products, their prices are likely to go up in the coming quarters, due to reduced supplies from major producing countries.

A recent Rabobank study said dairy products are likely to become costlier by a little over 10 per cent in the current quarter ending December 31. The trend would continue in the next two quarters, to see a further rise of a little over 20 per cent until June 30, 2013.

The government lifted a ban on export of dairy products on November 21. It lifted this on export of milk and cream, whole milk powder, dairy whitener and infant milk foods. It also revised the quota on skimmed milk powder to permit import up to 10,000 tonnes and at a 15 per cent tariff.

A slow recovery in international dairy prices which began in August continued into the final quarter of this year but failed to gain much momentum, according to Rabobank's latest dairy market report. Consumption remains weaker than anticipated and key buyers have accumulated solid forward coverage. Rabobank expects milk production growth in key export regions to continue to fall below the prior levels in the first half of 2013. While current buyer inventories will provide temporary protection from supply shortages, the market will inevitably tighten further if there is even a modest improvement in demand for imports from key buying regions, and this appears highly likely.

Tim Hunt, Rabobank's food and agribusiness research and advisory global dairy strategist, commented: "The fact that the first contraction in milk supply in export regions in two and a half years failed to generate a stronger rise in prices in the international market in Q4 suggests two things — weaker consumption and solid forward coverage of key import buyers. While consumption is likely to continue to grow at a slow pace into 2013, current forward coverage will provide only temporary insulation for buyers from what we anticipate will be a worsening supply-side situation. As such, the fundamentals still point towards a market tightening as we progress into the New Year."

For most European dairy farmers, 2012 has been a difficult year. During the cold and wet summer in Western Europe, cows needed supplementary feeding and, in some cases, shelter. Farm input prices also rose as feed markets reacted to the news of the US drought. Higher year-on-year fertiliser and energy costs further exacerbated the troubles of farmers. This forced up the cost of producing milk, creating year-on-year reduced production in all the main European dairying states in the second half of the year. Rabobank expects European Union milk production to, more or less, track prior year levels through the first half of 2013.

In the US, milk supply growth is expected to lag year-ago levels in the first half of 2013 (-0.9 per cent year-on-year). The collapse of US dairy market premiums to the world market will bring lower milk prices in nearby months, imposing another reduction in profitability. Weaker supply, and some domestic market growth, will leave the US with reduced supply for the world market in the first half of 2013, with most of the reduction likely to come in powders.

Milk production in key export regions is likely to remain below prior year levels through at least the first quarter of 2013. Globally, a weak back-end to the southern hemisphere season is likely to coincide with low production levels through the northern hemisphere winter, as farmers respond to unexciting margins.

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Interest subsidy to slash cost of garments industry
Sharleen D`Souza, Business Standard

Mumbai, 28 December 2012: The decision to extend two per cent interest subsidy to some labour-intensive industries, including textiles, garments and handicrafts, till March 2014 has brought cheer to the garments industry. It would help garment manufacturers reduce working capital expenditure and, consequently, production costs. India is losing ground in exporting apparel to high-margin Western destinations to new competitors such as Indonesia, Bangladesh, Vietnam, Turkey and Mexico, as the cost of manufacturing in India is very high.

"The decision to extend the two per cent interest subvention scheme for specific sectors up to March 31, 2014 is timely and would help boost exports. It would surely give a thrust to the apparel and textiles sector, reeling under the sluggishness in the US and European markets. The impacted markets, especially in Europe and America', and the resultant weak demand have adversely impacted our exports," said A Sakthivel, chairman of the Apparel Export Promotion Council. With the extension of interest subsidy, garment exporters would now be able to reduce prices of garments and compete with major exporting nations. Rahul Mehta, president of the Clothing Manufacturers Association of India, said the government's move was a positive one.

While apparel exports fell 7.2 per cent to $989 million in August, for the April-August period, these plunged 12.16 per cent to $5.26 billion. The decline was, however, in line with the fall in overall exports, which fell 6.79 per cent to $143.6 billion in the April-September period. Apparel exports account for about half of India's textile exports.

Sanjay Lalbhai, chairman and managing director of Arvind Ltd, a textile major, said, "We have a unit that produces garments. The interest subsidy would definitely help us. Also, since all our borrowings are in rupees, this would help us." However, Mitesh Shah, vice-president of the company, said, "The interest subsidy would benefit only on the books; it wouldn't help boost garment exports in any way."

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US is largest importer of Indian seafood
George Joseph, Business Standard

Kochi, 28 December 2012: After a gap of 10 years, the US became the largest importer of Indian seafood items in rupee value terms during the April-September period (H1) of the current financial year (FY13), pushing the European Union (EU) to the second spot. The US's share in India's seafood export kitty for H1 stood at 24.40 per cent, followed by the EU at 24.18 per cent, according to the latest data released by the Marine Products Export Development Authority (MPEDA).

However, Indian exports recorded a positive growth in both volume and rupee value terms only to the US. In fact, India suffered a serious setback in marine product exports in all its traditional markets in H1, except the US.

While exports to the US recorded a growth of 11.42 per cent in volume and 9.33 per cent in rupee value terms, shipments to the EU dipped 11.27 per cent in volume, and Japan recorded a dip of 14.26 per cent, according to the MPEDA data. Among the most serious drop was shipments to Japan, where exports dipped in all parameters — volume, rupee and dollar value.

Exports to China also recorded a setback as shipments dropped 33.09 per cent drop in volume terms. Total exports to China during H1 FY13 stood at 21,488 tonnes, valued at Rs 435.41 crore against 32,116 tonnes valued at Rs 486.40 crore during the same period last year.

On the quantity front, south east Asia became the biggest importer with 31 per cent of the total volume of exports, followed by Europe with 20 per cent, the US 13 per cent and Japan with 10 per cent. This is mainly due to the bulk export of low-value items, such as mackerel and Red fin broom to the south east Asian market.

Detection of ethoxyquin, an anti-oxidant used in shrimp feed above the permitted level had stalled shrimp exports to Japan for weeks together in June and July that caused huge loss to exporters in Odisha and West Bengal. The issue is not settled and India has sought intervention of the World Trade Organisation (WTO) in sorting it out.

Global economic recession, especially in the Euro zone, is also a major reason for this set back. Implementation of new import regulations and certification systems in markets such as China and Japan has also hurt exports.

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US producers seek more duty on Indian shrimp
George Joseph, Business Standard

Kochi, 1 January 2013: India's seafood export industry is facing a serious threat after an American shrimp producers' organisation has filed petitions against subsidising shrimp exports by seven countries, including India.

On Friday, the Coalition of Gulf Shrimp Industries (COGSI) filed petitions with the US government, seeking relief from the subsidised shrimp imports from China, Ecuador, India, Indonesia, Malaysia, Thailand and Vietnam. The petitions seek imposition of countervailing duties (CVD) on shrimp from these countries. These duties are needed to offset the unfair trade advantage currently held by these countries, they said.

If Washington imposes CVD on imports, India's seafood exports industry will be in deep crisis as the US is the largest importer of Indian seafood in value terms. The exports industry is already hit by a drop in exports to other major markets, such as the European Union, Japan, South-east Asia and China. During April-September, however, the US imported 45,540 tonnes valued at Rs 1,947 crore, registering a growth of 11.42 per cent in value terms. The US is the only country which recorded growth in import during the period.

Earlier in 2005, the US Department of Commerce had imposed 11.17 per cent anti-dumping duty on Indian shrimp, which had caused a steep fall in exports. This was based on a petition filed by the Southern Shrimp Alliance, a producer's organisation.

Over 280 exporters were shipping shrimp out to the US during that period, which had come down 68 in 2009. Thanks to the concerted efforts by the industry and the government of India, Washing-ton was forced to reduce the duty to 2.52 per cent last year, following which Indian shipments rose again.

COGSI, in a press statement, said the US shrimp producers struggled hard to compete with "artificially low-priced" imported shrimp that is heavily subsidised by foreign governments. Since 2009, shrimp producers in these seven countries have gained US market share by aggressively undercutting domestic prices, they said.

Shrimp is a major export commodity in each of these seven countries, and their governments have set specific growth and export targets for their domestic shrimp industries. To meet these targets, these

governments are spending billions of dollars on subsidies, including grants, investments, low-interest loans, tax breaks, provision of land and export credits and guarantees. The petitioners document over 100 programmes benefiting shrimp producers in these countries, including numerous export subsidies.

"Today's filing is about the survival of the entire US shrimp industry," said C. David Veal, executive director of COGSI.

The petitions will be investigated by the US International Trade Commission (USITC) and the Department of Commerce, with final determinations expected in the second half of 2013.

USITC will issue questionnaires to US producers, importers, and foreign exporters next week. Finally, in mid-February ITC will issue its preliminary vote. If it votes in the affirmative, the case will proceed, but if it votes in the negative, the case ends. ITC is composed of six commissioners, and at least four need to vote in the negative for the case to end. If the case continues, the Department of Commerce will proceed with its investigation through the issuance of questionnaires to the government and largest packers and will conduct verification after issuing a preliminary determination of CVD.

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Putin Says Russia, India to Double Trade in Three Years
RIA Novosti

Moscow, 24 December 2012: Russian President Vladimir Putin, who arrived in India on Monday, said he hoped that by 2015 the two countries will double mutual trade turnover, which is expected to reach over $10 billion this year.

In an interview with The Hindu newspaper, published on the eve of his official visit, Putin said that one of Russia's foreign policy priorities is the further development of cooperation with India, particularly in trade and investments sector.

"Our trade turnover overcame the consequences of the global [economic] crisis and in 2012 we are expecting a record figure of over $10 billion. Our next task is to reach the level of $20 billion by 2015," Putin said.

He added that in order to achieve this task it is necessary to promote formation of investment, technological and industrial alliances in the most dynamic and perspective sectors, particularly in energy sector.

President Putin's negotiations in India are expected to focus among other issues on the construction on the Kudankulam nuclear power plant (KNPP) and India's participation in Russia's Sakhalin-I project. During the visit, the Russian leader will hold talks with Indian Prime Minister Manmohan Singh and President Pranab Mukherjee and also meet with Indian National Congress Chair Sonia Gandhi and opposition leader Sushma Swaraj.

This year Russia and India celebrate the 65th anniversary of the establishment of diplomatic relations.

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From across the border, a trade boom
Chander Suta Dogra, The Hindu

Wagah, 22 December 2012: The trucks — over a thousand of them — are lined up, bumper-to-bumper for nearly six kilometres. It may take up to six days before they can get from one end to the other.

But the long wait doesn't seem to dampen the buzz here. Ever since trade barriers between India and Pakistan were lowered and an Integrated Check Post (ICP) — providing the infrastructure for trading such as warehouses and weighbridges under one roof — opened at Wagah earlier this year, the talk on the streets of nearby Amritsar and the entire region has been the ongoing trade boom. The excitement is palpable but people in this part of Punjab who are familiar with the often fraught and tangled state of India-Pakistan relations understand that disruptions can also lurk around the corner.

From June to October, Indian customs and the DRI seized 140 kilograms of heroin and 500 live cartridges from separate consignments smuggled into rail bogies carrying cement from Pakistan. This led to intense questioning of importers here and most of them began diverting their imports through trucks. Pakistani exporters followed suit.

Even a year ago, an incident like this would have reduced trade traffic to a trickle. But now, the truckers simply switched over to the more intensely checked truck route so that business does not suffer.

Exports from India, mainly soyabean, vegetables and cotton yarn, increased by over 50% for the April-November period compared to last year — from Rs. 802 crores worth to Rs. 1,237 crores. Imports from Pakistan and Afghanistan through Wagah have nearly doubled, from Rs. 544 crores, to Rs. 1,075 crores.

The 118 acre-ICP on the Indian side clears about 200 trucks a day. Harried customs officials say that they are under pressure to increase that number. The Pakistani post is equipped to clear about 50 trucks a day, and they are working on creating an ICP for themselves. Scanners are also being installed at both ends to cut delays.

Currently India can export only 137 items through the Wagah land route, but Pakistan is committed to phasing out by January its negative list that bars import of 1,209 items from India. This could mean a surge in export of wheat and rice — something that Punjab looks forward to eagerly.

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Pak. MFN status for India delayed
Anita Joshua, The Hindu

Islamabad, 1 January 2013: It is now official. Pakistan's decision to grant India the Most Favoured Nation (MFN) status will not come into effect from the New Year. Neither will the two countries be switching to the negative list approach in bilateral trade right now.

Though improved trade was billed by both countries as a major step forward in relations, the momentum that gathered pace earlier this year seems to have sputtered to a halt with Pakistan's Commerce Minister Makhdoom Amin Fahim conceding in Karachi over the weekend that the two decisions have been delayed for a short time.

He was quoted in *The News* as saying, "The process of converting the negative list into positive and granting MFN status has been delayed," Further, according to him, the delay in granting MFN status was due to the apprehensions expressed by certain industries. As for the delay in switching to a negative list, he maintained that the decision was taken in consultation with Indian Commerce Minister Anand Sharma.

Given the delay and with elections round the corner, businessmen are of the view that another six months may pass before the two decisions are operationalised. Though improved trade with India has across-the-board political support, religious rightwing organisations are against the move. In fact, after lying quiet for several months, the Difa-e-Pakistan Council reactivated itself in December to take out a protest march to the Wagah border against granting MFN status to India.

Pakistan took an 'in principle' decision to grant MFN status to India in 2011 and the schedule drawn up envisaged it becoming operational from 2013. Though there is a strong view in favour of more trade with India, there is also a section in the trading community which has strong apprehensions of its impact on their business.

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Most Favored Nation (MFN) Treatment for India: An Analysis from Pakistan
Irfan Shahzad, Policy Perspectives

31 December 2012: The issue of granting Most Favored Nation (MFN) treatment to India has generated heated debate with a variety of strong arguments for and against the decision. As the federal cabinet announced in November 2011 that it had decided 'in principle' to reciprocate the Indian decision of granting MFN treatment to Pakistan (in 1996), not only a countrywide debate ensued but protests also erupted in parts of the country to oppose the decision.

The proponents argue that there is no harm in granting the MFN treatment, as both Pakistan and India are already members of South Asia Free Trade Agreement (SAFTA), which can be termed as an MFN-plus arrangement. Those opposing the move are of the view that it will increase the influx of Indian goods to Pakistan, and Pakistani industry will be at the receiving end. A very strong opposition to any liberalization of trade with India on the political grounds also remains there, separately.

Implications, positive or negative, apart; it would not be wrong to say that the issue is rather misunderstood at public and even academic levels. This paper briefly introduces the concept of MFN treatment, sheds some light on the recent developments taking place in Pakistan-India context; explores its bearings for Pakistan and suggests an approach for the Pakistani decision makers. Pakistan-India trade is a broad subject and inevitably has a political angle attached to it, which cannot be ignored in any discourse. This paper, however, approaches only the recent decision of the incumbent government in Pakistan to liberalize trade with India fully by end 2012, by granting MFN treatment from start of January 2013. The write-up however traces, in brief, the international pressures on Pakistan in this connection – highlighting the decision more as an instrument of international agenda than the indigenous one.

What is Most Favored Nation (MFN)?

Most Favored Nation (MFN) treatment is the basic principle and one of the general provisions and obligations of General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO). The general principle of this provision is that a member state of the GATT/WTO, will accord the MFN treatment to all other member countries, and will adopt no discrimination against any other. Thus, every other member state of GATT/WTO will be the "most favored nation" on equal, non-discriminatory ground. In trade terms, it means that rates paid by a country declared as MFN on its exports to the markets of the country granting MFN, will also be applicable for the other countries and in this way, all countries will be treated equally as MFN.

Article I of the GATT provides that the member states will accord the MFN treatment to all other member countries and therefore basically lays the principle rule of non-discrimination amongst the WTO members

with respect to:

- Customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports;

- The method of levying such duties and charges;

- All rules and formalities in connection with importation and exportation, and

- Advantage, favor, privilege or immunity granted to a WTO Member to any product originating in or destined for any other country and has to be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

Exceptions to MFN

However, the above provisions do not mean that extending MFN treatment to all the member countries is mandatory. GATT, the agreement in operation since 01 January, 1948, which transformed into WTO from January 1, 1995 (also known as GATT 1994, as the same agreement was continued with some amendments and several additions) provide certain exception to this general principle. These exceptions include:

- When two or more member countries enter into a 'Free-Trade Area' or 'Customs Union' between themselves, they are not required to necessarily accord the equivalent tariff treatment to the members outside such arrangements (Article XXIV of GATT 1994)

- When the member countries accord some trade benefits to another member country with an aim to facilitate frontier traffic (XXIV.3)

- Besides, MFN treatment does not apply to Government Procurement and can also be denied, citing the security reasons (Article XXI).

It means there are still 'reasons' citing which a country can block or deny MFN treatment to other. Besides the exception mentioned above, there is a special exception provided in GATT specifically for Pakistan and India. Paragraph 11 of GATT Article XXIV reads as follows:

"Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis."

This particular exception literally provides the two countries with an exception to enter into a specific arrangement for mutual trade "pending the establishment of their mutual trade relations on a definitive basis." However, this 'exception' is seen by some as more of a 'positive' exception than the prohibitive one, as it implied that the two countries, arising out of a single economic unit, were allowed to go for an arrangement beyond general principle of MFN, not denying it.

It may be noted here that Pakistan does not stand out as the only example of exercising an exception and not granting the MFN. The United States has been using the granting of MFN as a tool to achieve its political or economic objectives in case of various countries including China for years. Henry Kissinger (2011) in his recent book on China also details how politics has been prevailing over grant of MFN treatment to China by the United States, not very long ago.

The Pakistan-India Case

Since independence in 1947, Pakistan-India trade has been conducted on the basis of a host of bilateral, regional and multilateral arrangements. Commercial relations, however, were blocked between 1965 and 1974, owing to two wars between the two countries. Trade resumed in 1974, and remained at negligible levels for the next two decades that followed.

India had granted Pakistan the MFN treatment in 1995, soon after the WTO was formed, and the treatment is in force since 1996. However, Pakistan had not reciprocated so far, citing that despite giving Pakistan MFN treatment, India maintained a number of non-tariff barriers (NTBs) against imports from Pakistan. These NTBs include requirement of political/security clearance, sampling/customs inspection, requirements of technical/standard certification, labeling and marketing rules, packaging rules and specifications etc.

Therefore, despite the grant of MFN treatment, Pakistan suffers a heavy trade deficit with India, which is continuously increasing as well. According to State Bank of Pakistan's statistics, with imports payment of $1.033 billion and export receipts of $313.037 million, Pakistan faced a deficit of $719.857 million in fiscal year 2008-09 with India. The deficit in the next fiscal year 2009-10 surged to $802 million, up by 11 percent, with $1.061 billion imports payment and $260 million export receipts. The balance further deteriorated during the last fiscal year as Pakistan faced a deficit of $1.158 billion as compared to $802 million in fiscal year 2010, depicting an increase of 44 percent in fiscal year 2011.
Pakistan, though did not grant MFN treatment to India, has been maintaining a 'positive list' of importable items from India, which it has been continuously increasing. The list started with seven items when the trade was started again after a gap of 9 years in 1974, had reached 800 items in 1996 when India granted MFN treatment to Pakistan and had risen to 1945 items by the end of 2011 when Pakistani government moved forward towards granting India the MFN treatment.

Recent Developments

It was in November 2011 that Pakistani government announced that it has decided 'in principle' to give India the much awaited treatment. While there may have been some maneuvering behind the scenes, the public decision was so quick, apparently, that it surprised even the Indian officials, if the media reports are to be believed. There prevailed a confusion in Pakistan over what actually will be the modus operandi of grant of this treatment, as much as this confusion is present in the not so clear interpretation of WTO/GATT documents that how this treatment is accorded, is it automatic or whether it has to be notified.

However, on February 29, Pakistani cabinet decided that the 'positive list' of importable from India will be replaced with a 'negative list' of 1209 item, in which trade will be restricted, implying that trade will immediately be opened for all of the items not listed in the 'negative list'. Surprisingly, in the same session, the cabinet decided that even this 'negative list' will be removed fully, in phases, by December 31, 2012 and thus, trade with India will be on the basis of MFN treatment from January 01, 2013.

The premise and the situation on ground

It was argued that as SAFTA already provides for a 'sensitive list' for the member countries, there will be no harm in granting the MFN treatment and removing the 'positive list', believing that 'sensitive list' will serve the purpose of restricting and undesired influx of imports from India that may be damaging for the local industry. However, ironically, the 6th ministerial meeting of SAFTA, held in Islamabad on February 15, also announced that member countries have agreed to continue reducing their respective 'negative

lists' further with an aim to enhance regional trade.

Another argument forwarded by Pakistani officials and picked up by the proponents of free trade between India and Pakistan was that in exchange for MFN treatment, India may be asked to remove NTBs against Pakistani exports. Thus, it was argued, Pakistani exports will also increase. Rather, Pakistan will gain more as Indian market of 1.2 billion people was much larger than Pakistani market of 180 million people. However, there has been no assurance or guarantee on part of India in this regard, despite the claims of Pakistani officials.

The evident reality is that even if India removes all or some of the NTBs on Pakistani exports, Pakistani industry at present is not in a position to benefit owing to the severe gas and electricity shortages and the damages caused to Pakistani economy by floods in 2010 and 2011, as well as the negative impacts of the decade long 'war on terror'. Thus, timing of the decision is also questionable.

International Dimension – agenda beyond bilateral trade

The decision by Pakistani government comes in a peculiar environment at global and regional level, when India visibly is being promoted as 'emerging power' apparently to contain China's rise in Asia. Hillary Clinton's speech in Chennai during her visit to India in July 2011 made waves all over the world in which she publicly invited India to come forward and assume the leadership role in Asia-Pacific region.

There is no denying the fact that Pakistan has been under visible pressure to 'normalize' its relations with India, including opening of trade and providing transit to Indian goods and services, towards Afghanistan and Central Asian Republics (CARs). First, the country was cajoled into providing transit facility to India under Afghanistan-Pakistan Transit Trade Agreement (APTTA) that was signed in Washington in 2009. Hillary Clinton, in one of her interviews to a Pakistani journalist in October 2011, expressed her desire in the following words: "We share a vision of a sovereign, self-sufficient and democratic Pakistan; a Pakistan at peace and trading with its neighbors and full of opportunities for both men and women."

The decision of grant of MFN treatment to India can also be linked with the much talked about New Silk Route Initiative of the United States of America, which also, apparently, seems to be an effort to provide India an unhindered access to Afghanistan and CARs. Pakistan is also under pressure to open more crossing points at the Line of Control (LoC) in Kashmir, for Cross LoC trade. All these moves seem to be in sync with each other, and make one assume that the decision to grant of MFN treatment to India has a lot to do with international agenda than just bilateral trade.

Implications for Pakistan

Granting MFN Treatment implies that while gains would be questionable, owing to India's NTBs and current fragile state of Pakistani economy, there are worth pondering consequences considering the peculiar nature of relationship between the two countries and state of affairs of their economies at present. Gains, perceived and actual: It is perceived, and as a general rule it is true to some extent, that enhanced trade leads to mutual gains and therefore the decision to grant MFN will have some positive results for Pakistan's commerce and industry in particular, and overall economy in general. Some of these perceived benefits, which this government and its functionaries describe as the merits of this decision are following:

- Opposition to MFN treatment for India is often based on misconception of the definition. It is wrongly believed that giving MFN treatment to India will mean zero rated and free trade, meaning free flow of goods and services. This is not the case, and MFN treatment means uniform tariff rate and structure for all WTO member states.

- Pakistan and India are two close neighbors, and trading with each other will save time and transportation

costs. While direct trade between the two countries is not very high, the two countries trade via third markets (mostly Dubai, Sri Lanka and Hong Kong) in a higher volume, which certainly increases time and intermediary costs. These costs can be saved.

- Geographic nearness, long border and lack of desired level of legal trade transactions results in illegal trade i.e. smuggling. Legalizing this illegal trade will result in enhanced revenues for both the countries, particularly Pakistan.

- It would be beneficial for Pakistan to import the same items from India that it imports from the Western and other far away countries. Less costly items will be available for Pakistani consumers, and this will be in ‘consumer interest’.

- Cheap raw materials will be available for Pakistani industries which can reach Pakistan in a relatively quick span of time.

- Diplomatically, it is believed that Pakistan will be able to generate goodwill in India and globally as well. This decision will also result as a Confidence Building Measure (CBM) between the two countries.

The other side of the coin: The above mentioned ‘perceived gains’ present just one side of the coin. As is the case with every decision, the treatment will entail important pitfalls. There are some other considerations to be taken into account, for instance:

- There are many studies indicating that as compared to Pakistani manufacturing sector, Indian industry is much more broad-based, subsidized and more competitive. This is because of easy and cheap availability of power and credit as against Pakistan’s industry operating in an environment of high cost of doing business and severe power shortages. MFN in these circumstances will mean that Pakistan’s already struggling industry will be wiped out.

- India’s NTBs and tariff rate quotas will continue to hinder Pakistan export potential, trade deficit with India will continue to rise.

- Considering the nature of relationship between Pakistan and India, in which trade has been cut off many a time in the past due to hostilities and tensions, and considering the substantial issues between the countries are still unresolved, Pakistani industry and economy cannot afford to build any sort of dependence on supply of raw materials, even though the cost of import from other countries is relatively heavy. It must not be forgotten that India has opted out of proposed Iran-Pakistan-India gas pipeline because it does not want its industry/economy to depend on gas supplied through Pakistan.

- Allowing inflow of cheaper goods only in the name of ‘consumer interest’ is not always advisable. A country will always have to find a balance between becoming a trading country and a manufacturing/industrial country.

- The biggest demerit, which is being neglected in prevailing discourse on the subject, is that MFN does not merely mean an abolition of ‘negative list’ of tradable items from January 1, 2013. MFN also implies that Pakistan will have to allow free transit of Indian goods, services and their transportation through Pakistani territory towards other countries. Soon after Pakistani announcement to grant the MFN treatment, Indians traders have already started asking for transit access to Afghanistan and CARs. Chairman Confederation of Indian Industry Amritsar Zone, Suneet Kochhar, has demanded that “now Pakistan must act on giving transit route to India for catering to Central Asia.”

It is well known that most of the transit goods destined for Afghanistan, mostly subsidized, have been ending up in Pakistani market, severely damaging the local industry. This will be a major drawback in

this arrangement. While Pakistan may get some transit fees, past experience of transit trade tells that most of the goods destined for Afghanistan are dumped in Pakistani market. Furthermore, if it so happens, Pakistan's weak physical infrastructure, particularly the roads network that is already in shambles due to excessive use by containers carrying NATO supplies, cannot afford the unprecedented load of traffic from India to Afghanistan and Central Asian Republics.

- Allowing inflow of cheaper goods in the name of 'consumer interest' is not always advisable. A country will always have to find a balance between becoming a trading country and a manufacturing/industrial country.

- Trade, as the record shows, has not been able to build trust between Pakistan and India as the reasons of mistrust are deep-rooted in strategic issues. It is not simply a case of 'trading for peace' but essentially demands sustainable 'peace for trade'. Also, the conduct trade between countries of the world in present times, including the world's two largest economies, United States and China; trade cannot be fully isolated from the political issues between the countries involved.

The Reactions

The reaction to the decision in Pakistan has been varied, motivated by the commercial interest of the businessmen involved. It is quite natural that pure importers and those industrialists whose industries would benefit from cheap raw materials or machinery would welcome the decision. So has been the case. However, some objective voices have also emerged. Chairman of All Pakistan Textile Mills Association (APTMA), Mohsin Aziz says that "textile industry had no apprehensions about granting of MFN status to India but would like to be assured of level playing field" citing the continuity of India's NTBs. Pakistan Economy Watch, a Civil Society Organization based in Islamabad has cautioned that MFN status will be damaging for Pakistan's largest export earner, the textile sector. Rice exporters, the second largest export sector of Pakistan, have also demanded that rice should not be traded with India on MFN basis.
The budding auto and pharmaceutical industries have also expressed their concerns. Some of the leading trading bodies including Rawalpindi Chamber of Commerce have opposed the decision. It needs no mention that business sectors and bodies may have their particular business interest in any such decision by the government. However, it is quite clear that all the stakeholders have not been duly consulted – particularly in case of 10 months time frame for abolition of the 'negative list". Vice President of federation of Pakistani Chambers of Commerce and Industry, Khalid Tawab is of the opinion that 10 months period is insufficient and government should have given at least three years to the local industry.

Conclusion and the Course Ahead

A closer look on the concept of MFN treatment shows that exceptions have existed, and have been exercised by countries for their own national interest. Based on the above discussion, one can conclude that in purely commercial terms there may be some short-term benefits of granting MFN treatment to India but those seem to be outweighing the costs and demerits. Thus, this decision may result to be a heavy price and risky bet for Pakistan in the medium to long run.

In light of the above brief discussion on this multidimensional subject, the following is suggested for Pakistan's policy makers:

- A gradual and cautious approach should be adopted and no decision should be taken in a haste doing away with the "negative list" in a quick span of time, just 10 months. Such decisions are not made merely to establish soft images but ground realities (economic as well as political and strategic) are also considered accordingly. Gradual and sectoral approach should be adopted for liberalization of trade with India. For the short to medium term, the items that can useful for mutual trade can be added to the "Positive List".

- The passage/transit through Pakistan towards Afghanistan and Central Asia is utmost important for India. It is also detrimental for the interests of world powers, particularly the US, at this point of time. The idea is not to block India's access to Afghanistan and CARs. But the very concept of trade is 'give and take'. Therefore, if Pakistan is granting this big concession, the country should link it with certain concessions from India – economic and political – particularly elimination of NTBs, guarantees for Pakistan's rightful share of water, and assurance that India will not malign Pakistan on pretext of supporting terrorism.

- Concerned government ministries and departments, before the grant of MFN, should prepare a comprehensive study of implications that this decision will have for Pakistan's economy in general and industry and infrastructure in particular. Remedial and precautionary measures should be taken before this major move.

- Business and industrial sectors of the two countries should also build pressures upon the two governments that while enhanced trade will be in favor of both sides; its sustainability will always be very hard to ensure unless the fundamental irritants and sources of tension between the two sides are removed.

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Asean services pact talks concluded
Business Standard Reporter

New Delhi, 21 December 2012: India and the Asssociation of Southeast Asian Nations (Asean), the 10-member regional grouping, moved closer on Thursday to completing a bilateral trade pact, by finalising a free trade agreement (FTA) on services and investments. They are expected to sign the pact in August 2013.

An FTA on goods was signed between Indian and Asean in 2011. India's services sector contributes around 55 per cent to the country's GDP, making this new pact significant. The agreement on services and investment had been pending.

The 10 members in Asean are Cambodia, Laos, Malaysia, Singapore, Thailand, Vietnam, Brunei, Indonesia, Myanmar and Philippines.

The pact will enable free movement of professionals from here such as doctors, engineers, architects and management consultants across the Asean markets. It is being seen as lifting the India-Asean relation to a new strategic partnership. Business process outsourcing (BPO) is among the areas likely to benefit once the pact is signed. In his opening remarks at the two-day 'Asean India Commemorative Summit' here, Prime Minister Manmohan Singh said negotiations for the new FTA had been concluded. "This represents a valuable milestone in our relationship. I am confident it will boost our economic ties in much the same way the FTA in goods has done," he said.

India-Asean trade has grown over 10 times in the 10 years since the annual summits between the two sides began, the PM noted. While the summit is celebrating 10 years, India has been a dialogue partner with this regional grouping for 20 years.

Two-way trade grew 41 per cent in 2011-12, to touch $79 billion. While the target has been set at $100 billion by 2015, the PM said on Thursday it had the potential to reach $200 billion by 2022.

As Asean investments into India have multiplied, their countries, too, have emerged as major destinations for Indian companies, the PM said. "From energy resources to farm products, from materials to

machinery, and from electronics to information technology, Indian and Asean companies are forging new partnerships of trade and investment."

Implications

Services will include sectors such as healthcare, pharmaceutical, biotechnology, tourism, transport, communication and construction. The FTA aims to cover a market of 1.8 billion people and a collective GDP of $3.8 trillion.

Shubhada Rao, chief economist at YES Bank, told Business Standard it was extremely important for India to diversify its export destinations. "With the developed world likely to take a while before getting back to a normal trajectory, this agreement will allow India to look at growth in the Southeast Asian regions for greater competitiveness," she said. According to her, India has already demonstrated its skill sets to the West. "We can now replicate our expertise before the Asean region in a cost-effective manner," she added.

Agreed another economist, Sridhar Venkateswaran, who noted the services pact would be critical from India's standpoint. "Visa on arrival and free movement of professionals in the services sector are among the advantages for India. Indian information technology and BPO companies will get significantly benefited, as they will be able to set up back-office centres across the Asean region," he said. Also, the Asean market would like to access India's tourism sector, he said.

Last month, the Indian PM was in Phnom Penh, Cambodia, to attend the Asean Summit and the parallel East Asia Summit, where talks were held on extending the scope of the FTA to services and investment. Ahead of the two-day Asean-India Commemorative Summit being attended by the heads of states, trade ministers had met to reduce the differences on many issues that some had in connection with the services and investment pact. Philippines and Indonesia, strong in outsourcing, are among the member-countries with some reservations on opening their services sector.

Speaking to reporters, Singapore Prime Minister Lee Hsien Loong said the Asean-India FTA was now a comprehensive agreement, in line with the other Asean Plus One FTAs. Lee is learnt to have met some industrialists in Gurgaon, the satellite city next to Delhi. Bharti Group chairman Sunil Mittal was one of them. Singapore's Sing Tel is an investor in Bharti. The two discussed the scope of investments in Singapore.

A vision statement issued at the summit said, "We declare that the Asean-India Partnership stands elevated to a strategic partnership." India and Asean share the vision of a peaceful, prosperous and resurgent Asia, which contributes to and promotes global peace and security, it added.

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Asean beckons
Financial Express

24 December 2012: Given India's competitive advantage in services—a Deloitte study puts India's revealed comparative advantage index in all services at between 1.5 and 2 as compared to a number between 0.5 and 1 for Asean nations and China—the successful conclusion of an Indo-Asean dialogue to include a pact in services as well as investments is a very big positive. The exact details are not known as yet since the formal signing has not taken place, but Indian officials announced that a deal had been reached on Thursday. India's long-held position, in both multilateral and bilateral talks, has been that the opening up of Indian markets would be contingent upon it getting access to global services markets including through the movement of Indian professionals. Of course, this goes both ways and India cannot

stop, say, Singapore lawyers from practising in Indian courts while wanting Singapore to allow India's IT professionals to be allowed to work in Singapore. Asean is a big importer of services and, in 2011, imported $262 billion of services as compared to its services exports of $253 billion.

In the medium term, Indian manufacturing will have to get quite competitive. As per the agreement, when the FTA gets fully functional in 2016, tariffs will be eliminated on 80% of traded items in a phased manner, tariffs on 10% of items (sensitive items) will not be touched and the tariffs on the rest will be brought down to 5%. While India can be more competitive in chemicals and pharmaceuticals and mineral fuels, Asean scores in machinery and electrical equipment—in automobiles, the picture is not so clear-cut as both have their own competitive advantages. Apart from the onus this puts on India's manufacturing sector, this means the government will have to do its bit as well since, more often than not, lack of land, rigid labour laws, unavailability of world-class infrastructure and general bureaucratic lethargy are what prevent firms from acquiring global quality. While India stands to gain from the greater access to Asean markets, the bigger gains will undoubtedly arise when the Asean+6 agreement gets formalised.

At the end of the day, while global trade is slowing—India's exports have been falling steadily for seven months—intra-regional trade offers better potential, especially since it is clear multilateral talks are not going to succeed till the global economy starts picking up. While intra-regional trade is a significant part of both European and the Americas global trade—it is 25% in the case of the Asean—India's trade with her neighbours is minuscule, partly an indictment of the way in which India's neighbours view her. A Mekong river-type joint development, for instance, looks near impossible between India and her neighbours that share the same river waters.

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Exporters less than thrilled by FTAs
Domain-B

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

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

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

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

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

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

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

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The bilateral threat to free trade
Peter D. Sutherland, Livemint

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Renewed hopes in 2013
T S Vishwanath, Business Standard

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

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

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

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

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

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

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

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

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

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

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

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Emerging countries in world trade
C.P. Chandrasekhar & Jayati Ghosh, Business Line (The Hindu)

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

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

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

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

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

Advantage China

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

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

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

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

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

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

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

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

Growing deficits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Candidates from nine countries vie to become WTO head
AFP

Geneva, 31 December 2012: Nine countries have presented candidates to succeed Pascal Lamy as head of the World Trade Organisation ahead of the deadline Monday.

The last candidate was Roberto Azevedo, Brazil's envoy to the WTO, whose name was put forth on Friday. He has been with the world's trade oversight body since 2008.

Mexico has nominated Herminio Blanco Mendoza, an economist and former minister who led that country's negotiations on the North American Free Trade Agreement.

Mendoza also led Mexico's participation in the Uruguay round of talks that preceded the creation of the WTO in 1995.

Costa Rica proposes that its foreign trade minister, Anabel Gonzalez, is the best candidate for the job.

South Korea and New Zealand have also nominated their trade ministers, Taeho Bark and Tim Groser, respectively.

From Jordan, the name of ex-minister Ahmad Nindawi has been put forward, while Indonesia is going with Mari Pangestu, current tourism minister and also a former trade minister.

The race kicked off on December 17 when Ghana nominated its former trade minister Alan John Kwadwo Kyerematen, while Kenya has since suggested that its former WTO ambassador Amina Mohamed be given the job.

The WTO's 158 member countries had until Monday to nominate candidates for the prestigious position, and the UN trade body is to make its decision known by May 31.

When Lamy, who is French, was first chosen in 2005, three other candidates from Brazil, Mauritius and Uruguay also threw their hats in the ring, but the Frenchman was unopposed to succeed himself in 2009. As his second term drew to a close, developing countries said it was time that one of their own get another chance as WTO director general. Supachai Panitchpakdi of Thailand preceded Lamy in the post, serving one term.

The WTO's General Council is mandated with selecting the director general by consensus, and candidates that stand little chance of being selected are expected to withdraw on their own.

The next WTO head will be charged with trying to wrap up the so-called Doha Round of trade talks, which were launched in 2001 but have since encountered obstacles set in particular by China, the European Union, India and the United States.

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