# INDIA'S TRADE NEWS AND VIEWS

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**India probably world's 3rd largest economy: OECD**
PTI

London, 30 May 2013: India has probably surpassed Japan to become the world's third largest economy after the US and China, Paris-based think-tank OECD said today even as it lowered the country's economic growth projection for 2013 to 5.3 per cent.

"China will likely pass the United States as the world's largest economy in the next few years and India has probably recently surpassed Japan to be third largest," said the OECD Economic Outlook report.

Until around 2020, China is set to have the highest growth rate among major countries, but could be then surpassed by India, it further said.

OECD also said that by early 2030s, the BRIICS' (Brazil, Russia, India, Indonesia, China and South Africa) combined GDP should roughly equal that of the OECD (based on current membership), compared with just over half that of OECD now.

"Between now and 2060, GDP per capita is seen to increase more than 8-fold in India and 6-fold in Indonesia and China," it added.

The Organisation for Economic Cooperation and Development (OECD), which in November had projected India to grow at 5.9 per cent in 2013, cautioned that structural bottlenecks in the country could further constrain investment and growth potential.

"GDP growth is projected to rise gradually over the next two years... Significantly more growth would be forthcoming if structural bottlenecks were swept away by fundamental structural reforms," the report said.

Looking ahead, it said India is likely to improve growth to 6.7 per cent next year, after having logged a decade's low of 3.8 per cent in 2012.

OECD said the world real GDP is projected to increase by 3.1 per cent this year and by 4 per cent in 2014. Across OECD countries, GDP is projected to rise by 1.2 per cent this year and improve to 2.3 per cent in 2014. Growth in non-OECD countries will rise by 5.5 per cent this year and 6.2 per cent in 2014.

In the US, activity is projected to rise by 1.9 per cent this year and by a further 2.8 per cent in 2014, OECD said.

GDP in the euro area is expected to decline by 0.6 per cent this year and then rebound by 1.1 per cent in 2014. Japan's GDP is expected to grow by 1.6 per cent in 2013 and 1.4 per cent in 2014, it added.

Talking about India's neighbour China, OECD forecast that its economy would grow 7.8 per cent this year, down from a previous estimate of 8.5 per cent.

Referring to India, it also said the fiscal tightening and the new fiscal consolidation roadmap are "welcome and should allow monetary policy to be eased further".

On-going efforts to better target household transfers are commendable although further progress is needed, OECD said.

It further said that with inflation projected to decline, the Reserve Bank of India could ease monetary policy provided the government sticks to its fiscal consolidation plans.

"The large Current Account Deficit may, however, make it difficult to cut interest rates significantly," it said.

However, subsidies could be better targeted and more revenues could be raised in a less distorted way, it added.

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**RBI to relax contract booking norms for exporters**
Business Standard

Mumbai, 25 May 2013: The Reserve Bank of India (RBI) has decided to relax norms for exporters. “The facility of rebooking of cancelled contracts is being increased from the present limit of 25 per cent to 50 per cent and made symmetrical for both exporters and importers,” said RBI executive director G Padmanabhan at the 8th Annual Conference of the Foreign Exchange Dealers’ Association of India held in Singapore.

The documentation for booking forward contracts up to $200,000 is also being simplified. “Let me hasten to add that these facilitations have nothing whatsoever to do with RBI’s perception about the exchange rate as some of practitioners had reportedly believed or stated when we relaxed the restriction on net open position limits of banks,” said Padmanabhan.

RBI had imposed a host of restrictions on both banks as well as corporates in December 2011 and subsequently in 2012 that were considered necessary for curbing their speculative behaviour. As the situation improved, many of these restrictions have been either relaxed partially or removed, said Padmanabhan.

However, according to Padmanabhan the restriction about positions undertaken by the banks in the exchanges cannot be netted/offset by undertaking positions in the over-the-counter (OTC) market and vice-versa. And the restriction about positions initiated in the exchanges have to be liquidated/closed in the exchanges only remains.

“RBI has been constantly monitoring the developments in both the OTC and exchange-traded markets closely and we continue to believe that there has to be a level-playing field between both these markets,” he said. Amid the rupee touching nearly nine-month low against the dollar, Padmanabhan said RBI will continue to manage the exchange rates as hitherto, targeting on curbing excessive volatility rather than any specific levels.

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**Indian exporters can’t compete without change in scope: Exim**
Joel Rebello, Mint

Mumbai, 23 May 2013: India has to increase the scope and definition of micro, small and medium enterprises (MSMEs) if it wants manufacturing companies to compete globally against larger economies and facilitate a rise in exports, said T.C.A. Ranganathan, chairman and managing director of Export-Import Bank of India (Exim), the largest export financier in the country.

Ranganathan's comments come at a time when India is facing a current account and trade deficit mainly because traditional exports such as gems and jewellery and textiles haven't been able to cope with the global slowdown.

Widening the definition to include larger companies will allow Indian manufacturers to access Exim Bank's low-cost financing and hence help them compete with peers in China, Europe and the US. India classifies manufacturing MSMEs as companies with a maximum of Rs.10 crore investment in plant and machinery. "Comparatively, Europe classifies companies with investment of €50 million or Rs.300 crore, US classifies investments of $50 million or Rs.250 crore and China of Rs.150 crore. Hence, Indian companies stand no chance because Indian companies are too small to compete," Ranganathan said. Exim banks around the world are backed by sovereigns and lend to their country's exporters at a cheaper rate to help the country earn foreign exchange.

Exim Bank India for example refinanced and disbursed Rs 800 crore of loans to these companies in fiscal 2012-13.

However, Ranganathan said Indian exporters continue to be challenged as traditional strengths such as processed petroleum, gems and jewellery and textiles are struggling because of a global economic slowdown.

"Technologies have changed, markets have changed but our definitions remain archaic and outdated. If we have to sign free-trade agreements and do business through the World Trade Organisation, this has to change," he said, adding that 2013-14 will continue to be a challenge for Indian exports.

Figures released last month showed that exports contracted 1.76% to $300.6 billion in fiscal 2012-13 while imports grew 0.44% to $491.2 billion, leading to a trade deficit of $190.9 billion.

India's credit rating by global rating agencies is on a negative watch as growth slowed to 5.1% in 2012 from 9.7% in 2010.

Standard & Poor's, which maintained the outlook on India's BBB minus investment grade rating with a negative outlook last week , reiterated that India faces a one in three chance of a downgrade if the pace of economic reforms undertaken by the government slows.

India's lower ratings against competitor countries such as China means that even Indian companies are now borrowing from Chinese banks because rates are much cheaper.

For instance, Essar Energy Plc. earlier this week signed a $1 billion agreement with the China Development Bank and PetroChina International Co. Ltd on the sidelines of Chinese prime minister Li Keqiang's visit to India, *Reuters* reported.

In January 2012, Anil Ambani-controlled Reliance Communications Ltd signed a deal to borrow $1.18 billion from Chinese banks to repay overseas convertible bonds.

Ranganathan said Exim Bank cannot match the Chinese banks in pricing. "They are rated at AAA minus compared to India's BBB minus. But I am not worried about Indian companies borrowing from Chinese banks. It's okay because they are getting it at a cheaper rate. Just like we are incentivising Indian exports, the Chinese are also helping their companies," he said.

India has to go beyond traditional exports and focus on manufacturing of electronics and engineering if the current situation has to be turned around, Ranganathan said.

Exim Bank earned a net profit of Rs 742 crore in 2012-13, up 10% from 2011-12.

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**The risk of lopsided trade with China**
Brahma Chellaney, Mint

29 May 2013: Chinese territorial assertiveness is obscuring how Beijing is strategically expanding lopsided trade with India to rake in mounting profits while undercutting Indian manufacturing through an avalanche of cheap Chinese-made products. China's ballooning trade surplus with India is compounded by its import of mainly primary commodities while exporting finished products.

Perpetuating such an asymmetrical relationship presents India in an unflattering light as a raw material appendage of, and a goods-dumping market for, the Chinese economy. More importantly, the lopsided economic engagement gives China little incentive to bridge a widening political divide with India. If anything, it encourages China to continue with a strategy to keep India under strategic pressure so as to regionally contain it.

With China exporting more than 2½ times as much as it imports, its already large trade surplus will swell if bilateral trade rises from $70 billion currently to the targeted $100 billion in 2015. Economic problems in the West, by contributing to a slowdown in China, have only increased the importance of the Indian market for Beijing. This is what prompted Premier Li Keqiang to choose India as his first overseas destination for an official visit. This factor has also encouraged China's cash-rich, state-supported banks to offer debt financing to heavily indebted Indian companies that commit to buy Chinese equipment or supply raw materials.

While swamping the Indian market with its products, China has made it difficult for Indian exporters to gain much of a foothold in its own market, including in sectors where India is strong, such as pharmaceuticals and IT. As a result, India's exports to China largely consist of low-margin, unprocessed commodities. India's exports have actually slumped since 2012, in part because of legal and other wrangles at home over extraction of iron ore—the leading export item in the past decade to China—which conserves its own reserves of strategic mineral ores to rely on imports.

China's increasing access to the Indian market has done little to encourage it to pursue a less-adversarial foreign policy. Indeed, the more profits China has reaped, the more assertive it has become. As India's trade deficit with China has soared from just $1 billion in 2002 to $40 billion in 2013 (or one-third of India's overall trade deficit), Beijing has, for example, openly challenged Indian sovereignty in the large eastern and western sectors of the Himalayas by playing the Arunachal and Kashmir cards.

Instead of calibrating China's market access to progress on the political, territorial and water resource issues, a politically adrift India is unwittingly doing just the opposite—allowing Beijing to strengthen its leverage against it.

China has effectively turned asymmetrical trade into another instrument to prevent India's rise as a peer competitor. In fact, China is now leveraging its trade and financial clout—including its role as a major supplier of power and telecom equipment and its emergence as a lender to financially troubled Indian companies—to limit India's options on countering the Chinese strategic encirclement.

The paradox is that, despite the supply of turbines and other equipment, most Chinese exports are not technology items but cheap products that kill small-scale manufacturing and rob jobs in India, with some of them also posing safety risks or public health concerns. The bilateral focus on trade, even as China builds up strategic pressure along multiple flanks, aids the Chinese win-win agenda to reap profits while continuing to hem in India.

Consequently, the politics and economics of the relationship are going in opposite directions, to India's serious detriment. India wrongly bet on rapidly growing trade helping to mute political disputes and moderate Chinese conduct so as to create an environment conducive to the settlement of outstanding issues.

For China, trade is not only about economics but also about geostrategic interests. So, it does not allow booming bilateral trade to come in the way of its territorial assertiveness, as the recent Ladakh incursion highlighted. In fact, as underscored by its commercial actions against Japan and the Philippines, it employs trade as a political weapon. With China serving as Japan's largest overseas market, Beijing has sought to punish Tokyo through an informal boycott of Japanese products since last September.

In this light, any Indian dependency on Chinese imports will carry geostrategic risks. China encourages economic dependencies and then manipulates them to advance its strategic objectives.

So what can India do to prevent China from using its trade prowess for political ends? First, it must avoid any commercial dependency that cannot be easily be substituted with imports from elsewhere.

Second, India must aggressively contain the flood of Chinese-made subsidized goods through countervailing duties and anti-dumping measures that bite, or else it will become harder for it to develop a more mature manufacturing base. Its lodging of anti-dumping cases at the World Trade Organization has proven no deterrent.

And third—in the way China unofficially but assertively links economic issues with political matters—India must not shy away from linking market access to concrete progress on border and water issues. But if push comes to shove, it has the option to take a leaf out of China's playbook by orchestrating an informal consumer boycott of Chinese products.

*Brahma Chellaney is a professor at the Centre for Policy Research in New Delhi.*

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**Top commerce team to visit China to discuss trade deficit**
PTI

Beijing, 25 May 2013: A high-powered Indian commerce delegation would visit here next week for talks with Chinese officials to discuss initiatives to broaden market access for Indian products in China and address New Delhi's concerns over the ballooning trade deficit.

Days after Premier Li Keqiang's visit, commerce secretary SR Rao along with additional secretaries Rajiv Kher and JS Deepak would arrive here on a four-day visit from May 27 to take part in the 'Global Services Forum' being organised by UNCTAD, the UN trade agency and the prestigious China International Fair for Trade and Services.

During their visits here the Indian commerce officials delegation would also take part in bilateral meetings with their counterparts in the Chinese commerce ministry, official sources here told PTI.

The meetings would be taking place in the immediate backdrop of Li's visit to India this week, where he said China understands India's concerns over the trade deficit which ballooned to $28.87 billion in 2012 from $9.38 billion in 2007 and promised steps to facilitate market access to Indian products.

The delegation is also expected to discuss initiatives to boost bilateral trade, which has come down to $66.47 billion last year from about $74 billion in 2011.

The two countries set the target of $100 billion in bilateral trade by 2015 during Li's visit.

India has been specifically asking China to open up its public sector services, especially banks and other financial institutions to specialised Indian software products which would also enable Chinese firms to become more competitive.

Besides, India is also making a strong case for Indian pharmaceutical products which could help bring down costs in the Chinese health sector.

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**Big trade deficit with China? Excellent!**
SA Aiyar, The Times of India

2 June 2013: China is India's largest trade partner. But India runs a large trade deficit of $29 billion with China. Prime Minister Manmohan Singh reportedly told his Chinese counterpart, Li Keqiang, at their recent meeting that this "needs to be addressed." But as an economist he surely knows it is wrong to aim for balanced trade with each trading partner.

The beauty of international trade is that it enables every country to specialize in what it does best, export these specialties, and use the money to import what other do best. All countries end up specialising in what they do best, improving global productivity and reducing prices for everybody, a win-win situation. India should export whatever it can to whichever destination is profitable at the best possible price. In turn, it should import whatever it needs from wherever at the best possible price. This implies that India should run a trade surplus with relatively uncompetitive countries (like Pakistan or Bangladesh), and run a trade deficit with highly competitive countries (like China or Germany).

The more competitive the trading partner, the more India should buy from it, and the bigger should be the bilateral trade deficit. China is the most competitive exporter of all, so India should run its biggest trade deficit with this country. Far from decrying this, we should view it as evidence that India is, very sensibly, getting its needs from the cheapest source. To see this in perspective, consider Indo-Pak trade. Pakistan has long erected trade barriers against Indian goods, importing many items at prices higher than what India offers. This hurts both Indian exporters and Pakistani consumers.

Pakistan has promised to soon liberalise trade with India. When this happens, India's trade surplus with Pakistan will become even larger than it is today. That will be economically efficient, benefiting Pakistani consumers as well as Indian exporters. Yet many Pakistanis fret at the prospect, just as many Indians fret at their growing trade deficit with China. The fretting is unwarranted: large deficits in both cases are proof of sensible buying from the cheapest source.

Many Indians argue that China gives huge export subsidies that constitute unfair trade. Sorry, but no individual, corporation or country can become prosperous by selling its goods below cost. You can as a short-term measure subsidise some items here or there, but selling everything at a loss is economic suicide, and China is not suicidal. It does keep interest rates artificially low, and prevents its currency from appreciating. We can join the US in pressing for yuan appreciation. But that will affect the trade gap only slightly.

Where China gives excessive subsidies, Indian businessmen are quick to demand anti-dumping duties, and the government is quick to oblige. India has imposed more anti-dumping duties than any other country. Additional curbs have been placed on Chinese telecom equipment on security grounds.

The trade deficit however continues, suggesting that dumping is not the key issue. Rather, the deficit represents the gap in productivity between the two countries, especially in manufacturing.

Most people think that exports are desirable and should be maximized, while imports are undesirable and should be minimized. The very opposite is true. You typically export what you have a surplus of, and import what is locally scarce. What's scarce is obviously more valuable than what you have in abundance. Seen in this light, the main benefit of trade is to end scarcities by importing what you don't have. Exports are a secondary aim, required to pay for imports.

The pattern of Sino-Indian trade dismays many people. India exports mainly iron ore and other commodities. Its imports are almost entirely manufactured goods, especially machinery and telecom equipment. Some experts think commodities are somehow inferior to manufactures, and so bemoan the Sino-Indian pattern of trade. Now, manufactures often have more value added than commodities, yet somebody has to produce commodities too.

Specialising in commodities is not inferior. India's biggest commodity producers are Ambani (oil, gas, petrochemicals, fibres), Tata (steel, soda ash, fertilizers, power) and Birla (aluminium, copper, cement, iron ore). Are Ambani, Tata and Birla inferior industrialists in inferior industries? No, they are India's crème de la crème.

Both China and India still have far too many barriers to trade and investment, and these need lowering. Chinese non-tariff barriers are higher, and Indian negotiators must focus on this.

But their overall aim must not be to balance trade with China, or target a particular trade deficit. Rather, India should target improvements in its own productivity and competitiveness. Once that happens, its trade deficit with all countries (including China) will automatically fall. Lesson: target the productivity gap, not the trade gap.

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**Japan keen to shift jobs, yen from China to India**
Pramit Pal Chaudhuri and Jayanth Jacob, Hindustan Times

Tokyo/New Delhi, 30 May 2013: Hundreds of Japanese companies may shift factories from China to India, bringing with them big investments and thousands of jobs, and a remilitarising Japan is likely to emerge as an attractive source of technology for India.

A deepening of joint military exercises between the two countries will offer India a chance to thumb its nose at China, which recently staged an audacious intrusion into our territory in Ladakh.

It's becoming increasingly clear that the Indo-Japanese relationship is now more than just exports and imports: It is about how Tokyo can transform India.

As Prime Minister Manmohan Singh said in Tokyo: "Greater investment by Japanese companies in India's large market will be in our economic as well as strategic interest."

As the Chinese fumed, Japan rolled out the honours for Singh.

In a rare gesture, the Japanese emperor hosted a private lunch for the PM and his wife, protocol usually reserved for visiting head of states only.

Singh and his Japanese counterpart Shinzo Abe enjoy a strong personal rapport.

Japan wants to build up India as an alternative, economic and military, to China, and Singh signalled strongly that India welcomed the idea.

The first phase of this is giving India a modern infrastructure: the Delhi Metro, the Delhi-Mumbai Industrial Corridor and now, bullet trains. The second is shifting the thousands of Japanese factories in China to India.

And on Wednesday, the two sides stepped up defence ties, with an offer from Tokyo for US2 amphibian aircraft, more bilateral naval exercises and defence technology cooperation.

The backdrop is deteriorating Sino-Japanese ties. Tokyo believes the Chinese regime is whipping up anti-Japanese sentiment to absorb rising middle class nationalism.

China's muscle-flexing over the Senkaku islands and anti-Japanese protests inside China are two sides of the same Beijing policy.

Beijing ultimately wants Tokyo to end its defence ties with the US and accept Chinese suzerainty, believe Indian and US diplomats.

One, as Chinese attack their employees and as labour costs keep rising, Japan Inc wants to move elsewhere. Japan is the second-largest foreign investor in China, with accumulated investment of over $70 billion.

But a Japan Export Trading Oraganisation survey last year showed India emerging as the most preferred alternative site for Japanese FDI.

India is seen as a difficult place to invest, but helping India's rise has a strategic benefit that is becoming increasingly important to Tokyo.

In the past decade, says an Ernst and Young study, Japan is already the second largest foreign job creator in India.

This is with only 300 Japanese firms in India. If a fraction of the 14,000 Japanese firms in China were to move, the result would be a job tsunami.

Two, Japan is preparing to re-militarise and India is a perfect partner. Abe will seek to increase defence expenditure and even change Japan's pacificist constitution this autumn.

India, which has begun bilateral naval exercises with Japan, will also be the first country to import military equipment from postwar Japan.

Because it has no hangups about Japan's World War II past, India would also provide legitimacy to Abe's re-militarisation.

Three, China does not fear its neighbours individually. But it is concerned about them ganging up. Japan is still the third largest economy in the world and technologically far ahead of China.

Abe seems to want to use Japan's capacities to enhance Indian power and make it a genuine geopolitical balancer to the Middle Kingdom.

A close Indo-Japanese relationship would also bring the US into the picture -- a trilateral equation that has Beijing gnashing its teeth.

"China's recent territorial actions only reinforce the logic of strong Indo-Japanese ties," says Hemant Singh, ex-Indian ambassador to Japan.

Singh's speeches, with their call for deepening Indo-Japanese ties and support for freedom of the seas -- a code word for opposition to Chinese maritime claims -- is music to Tokyo's ears and geopolitical din to Beijing's.

Hence the dark warning from the Chinese People's Daily to Abe that any attempt to make India part of an anti-Chinese alliance were doomed.

"The conspiracy of these petty burglars is doomed to fail," it said, pointing to how "successfully" New Delhi and Beijing settled the recent Ladakh border intrusion.

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**Sino-SL pact may stoke India unease**
Reuters

Beijing, 30 May 2013: China has offered Sri Lanka $2.2 billion in loans for infrastructure projects and a free trade pact, the island nation said on Wednesday, moves that could stoke fresh unease in India about Beijing's expanding influence in neighbourhood.

Sri Lankan foreign minister GL Peiris, however, said the agreements with China including a separate one to enhance defence ties, should not be a cause for concern. “But it’s not at the expense of any other country, there's no danger to any other country,” Peiris said in answer to a question on fears in India about China's deepening ties with Sri Lanka. Peiris was speaking to journalists during an official visit to China by Sri Lankan President Mahinda Rajapaksa.

Located just off India's southern tip, the island of 21 million has become a visible front in the competition between the Asian giants, where mutual suspicion and commercial ambition have led to a race for construction projects. China and Sri Lanka agreed on $1.5 billion in private-sector investment in the northern express highway, which links Kandy in the central part of Sri Lanka, to Jaffna in the north, Peiris said.

Officials from the two sides also agreed on the extension of a railway, the southern highway and the development of the port of Colombo, the country's capital, Peiris said.

Similar port developments from Myanmar to Pakistan have raised Indian fears about Chinese political and military influence, but Rajapaksa has rejected such concerns, saying China's presence in Sri Lanka is strictly business-related. Sri Lanka's location astride an ancient and lucrative trade route in the Indian Ocean makes it of strategic commercial and military interest to Washington, New Delhi and Beijing. That, some analysts theorize, makes it a prime part of China's so-called "String of Pearls" strategy to surround India and project its presence by setting up coaling stations under commercial auspices at port after port in the Indian Ocean.

So far, the weapons of influence have been financial: India and China have both funded huge chunks of Rajapaksa's $6 billion post-war overhaul of roads, railways, ports and power plants. The loans offered by China to Sri Lanka, which were signed on Tuesday along with the other agreements, make up a "preferential bias" credit facility for infrastructure, Peiris said.

China and Sri Lanka have also agreed on cooperation related to defence, "defence-related training, logistics and maritime security, and have agreed in principle to establish a free trade agreement, Peiris said.

China has stood steadfast with Sri Lanka while it has faced international criticism including from Indian poliicians for alleged human rights violations in the final stages of the war with Liberation Tigers of Tamil Eelam in May 2009. Asked about remarks by Britain that there would be "consequences" for Sri Lanka if its leaders did not address international concerns over the rights abuses, ahead of a Commonwealth summit scheduled to be held in Colombo in November, Peiris said that "the actions that we've taken in that area have been very, very substantial." In mid-May, Britain's deputy prime minister Nick Clegg told Parliament "despicable human rights violations" had taken place in Sri Lanka. "These are not things that can be done overnight, they take time, basically these are processes which have to move forward in accordance with the people's culture, their aspirations," he said. "These have to be homegrown, homespun solutions."

Tens of thousands of civilians, mostly Tamils, were killed in the final months of the war, a U.N. panel has said. Sri Lanka has repeatedly rejected calls for an independent, international investigation into the accusations of war crimes committed during the conflict.

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**India, Thailand set to end FTA suspense by October**
Shyamal Majumdar, Business Standard

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

While the joint statement issued after discussions between Prime Minister Manmohan Singh and his Thai counterpart Yingluck Shinawatra here this evening did not give a timeframe by when the FTA will be signed, Ashok Kanth, Secretary — East, said it was expected as early as October this year. The two leaders have asked their commerce ministers to take “personal charge and show the required flexibility” of the FTA to make this possible, Kanth added.

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

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

Singh, who came to Thailand for the first time on a bilateral visit (the earlier trips were for multilateral events only), said the FTA was necessary as both countries were planning massive investments in infrastructure over the next five years.

Meanwhile, the signing of India's 39th extradition treaty after 20 years of negotiations will remove a major headache for New Delhi as Thailand has for long been used by underworld dons not only to evade arrests by law enforcers in India but also to escape attacks by rival gangs.

For example, Chhota Rajan had survived an assassination attempt on him in a hotel in Bangkok in September 2000, when his former boss, Dawood Ibrahim, purportedly sent sharpshooters to kill him. Though one of his associates was killed, Rajan managed to escape with a bullet injury and later also fled from a hospital to escape arrests by a Mumbai Police team that rushed to Bangkok to catch him. The immediate extradition could be that of Munna Zingda, a Dawood Ibrahim aide who is wanted by the Mumbai police in several cases. India and Thailand already have a mutual legal assistance treaty and the two countries also signed an agreement for transfer of sentenced persons during Shinawatra's visit to New Delhi in January this year. In addition, the two sides signed a memorandum on cooperation in anti-money laundering.

There were at least a couple of big initiatives on the connectivity front. First, India will explore cooperation on the Dawei special economic zone in Myanmar, which is expected to emerge as a major regional logistic hub and open shorter and quicker sea route to Indian ports in Chennai, Visakhapatnam and Kolkata. The project will also open business opportunities for the region and Indian infrastructure companies are interested in participating in its development.

Second, a plan to have a physical link between Thailand and India via Myanmar is also being implemented with a trilateral highway project as it would enhance the connectivity between the Mekong sub-region and India. India's contribution will be in the northeastern states and helping Myanmar to build and upgrade roads and bridges inside that country, while Thailand will do its part to link to the Myanmar port. The project is expected to be completed by 2016. The two Prime Ministers also welcomed establishment of a Thailand-India Business Forum to expand the role of the private sector in business partnerships. The two sides also agreed to provide fast-track business visa service.

The statement said there was a need for an institutional arrangement on the social security benefits of the workers in each other's countries, which will facilitate labour mobility. An agreement to this effect is expected soon. The two sides also agreed to strengthen maritime and defence relations, including through exchanges, exercises and joint patrolling. Besides, the two countries will explore industry collaboration in the defence space. More joint initiatives will be taken in areas such as science and technology, space science, education, culture and people-to-people exchanges.

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**India asks EU to address concerns on data security status**
PTI

New Delhi, 30 May 2013: India today asked European Union to address its concerns on providing data secure status for the IT industry under the proposed Free Trade Agreement (FTA), to which the 27-member bloc has expressed willingness to set up a Joint Working Group (JWG).

India's concerns were conveyed by Commerce and Industry Minister Anand Sharma to EU Trade

Commissioner Karel De Gucht when the two met on the sidelines of an OECD meeting in Paris today during which they also reviewed the current status of the India-European Union Broad-based Trade and Investment Agreement (BTIA) negotiations.

The two sides have failed to bridge the gap on various crucial issues, including increase in FDI in insurance sector by India and granting of the status of data secure nation by the European Union during the talks between their Chief Negotiators here earlier this month.

During the meeting, "Sharma emphatically underscored the need for addressing India's concerns on providing data secure status. EU is willing to set up a Joint Working Group which will look at all the technical aspects to ensure that India will be able to achieve necessary compliance for data security purposes," an official statement said here.

Data-secure status is a big demand of India as its current lack of status has prevented the flow of sensitive information to India, a big deal for its IT industry.

This has also impacted the movement of people through restrictions on business development as it restricts transfer of personal data to locations outside EU, unless the importing country ensures adequate data protection.

India has been arguing that since US has a safe harbour pact with the EU, and that the US and India have a data adequacy agreement, therefore the EU should give data adequacy status to India.

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**New bulk drug export norms to comply with EU standards**
The Hindu

New Delhi, 23 May 2013: The Commerce and Industry Ministry, on Thursday, issued new guidelines for pharmaceutical makers to comply with the European Union (EU) Good Manufacturing Practice (GMP) standards.

In a statement issued here, the Ministry says such a move will give a boost to pharma exports from India. “India has demonstrated its keenness to meet international requirements for exports of pharmaceutical products yet again by taking timely action for complying with the new procedural requirements of the EU for import of Active Pharmaceutical Ingredients (API) into the EU,” the statement adds.

Active Pharmaceutical Ingredients, commonly referred to as bulk drugs in the industry, are used in making medicines. The new legislation, which will come into force from July 2, requires a written confirmation by a competent authority nominated by the government that the API has been manufactured in accordance with the EU GMP standards, the Ministry says in the statement.

The authority will also give a written confirmation that the manufacturing facility, where the API is produced, is subject to control and enforcement of GMP standards and is equivalent to those in the EU countries.

*EU Directive*

The EU had issued a new directive on June 8, 2011, to lay down a community code relating to medicinal products for human use and to ensure that the defective products do not reach consumers. The directive lays down a system of control over the entire supply chain for pharmaceuticals. “Various EU industry members have been expressing their concern over the ability of India to comply with the new procedure by the July 2 deadline. However, India is optimistic that its pharma industry will be able to meet regulatory requirements within the given timeframe.

“This landmark achievement underlines the seriousness of India towards pharma exports. Compliance by pharma industry with the EU directive is expected to have a positive impact on the companies as many of them are aspiring to export to developed countries,” the statement adds.

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**Commerce Dept bats for pharma exporters**
Business Line (The Hindu)

New Delhi, 3 June 2013: The Commerce Department has come out in strong support of the Indian pharmaceutical industry facing criticism from the media on quality issues following a series of action taken by the US drug controller against top Indian companies.

Debunking media reports on the suspect quality of drugs manufactured in India for exports, the Department has said that the pharmaceutical sector is a highly regulated one and the US continues to be a top buyer of Indian generic or off-patent medicines.

"Statistics reported by Pharmexcil (drugs export council) indicates strong presence of Indian industry in the US and the reports of US FDA penalising Indian companies are only a small aberration," an official release of the Commerce Department said.

Last month, Indian generic pharmaceutical manufacturer Ranbaxy was fined by the US Food and Drugs Administration (USFDA) for selling adulterated drugs in the US. Later in the month, the FDA issued an import alert against Indian drugmaker Wockhardt for violating manufacturing processes in its Aurangabad plant.

Close on its heels, another Indian pharmaceutical major Hospira got a warning letter from the FDA following concerns about contamination of finished drugs at its manufacturing plant in Tamil Nadu. This led to a series of media reports, both in the country and abroad, raising questions on the quality of low-priced generic drugs being produced in India.

The Commerce Department, in its release, said the allegations were not supported by facts. India is the fourth largest producer of drugs by volume in the world and continues to account for 15 per cent of generics sold in the US in volume terms.

"The pharmaceutical sector is a highly regulated one and exports are heavily guided by various regulatory regimes of the importing countries. There is also a requirement for continuous monitoring of quality related aspects including complaints of sub-standard / falsified drugs from various countries," the release said.

All organisations concerned in the Government are constantly interacting to ensure that India's image as a safe exporter is protected from all angles, the release said, adding that the Government is working with the industry on a "trace and track" mechanism which would enable monitoring of the supply chain possible at the tertiary, secondary and primary levels.

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**India's stance on compliance raises fears of copycat action**
Amy Kazmin, Financial Times

29 May 2013: Throughout the 1990s, India was the bête noire of western pharmaceutical companies. It was a country that did not recognise drug patents and had a large generics industry churning out low-cost copycat medicines for domestic use and to export to other developing countries.

India was expected to fall in line with global intellectual property rights standards in 2005 when New Delhi adopted a patent law ostensibly compliant with its obligations to the World Trade Organisation, which it joined in 1995.

However, the refusal in April of the Supreme Court to grant a patent to Swiss group Novartis for its cancer drug Glivec is seen as the latest sign that Indian attitudes towards drug patents are little changed.

The ruling follows a series of recent Indian decisions to override or revoke patents on cancer and hepatitis C drugs from "big pharma" companies such as Bayer, Pfizer and Roche. These rulings have raised hackles among western companies and fears that other emerging markets could soon follow India's lead.

"We still don't have an ecosystem [in India] that encourages patents," Ranjit Shahani, managing director of the territory for Novartis, says. "Most of the patents granted are either revoked or violated, or a compulsory license is issued."

Jason Rutt, a patent lawyer at Rouse, an intellectual property law firm, says: "The trend that has emerged is that India is an unfair place for innovative pharmaceutical companies. Pharmaceuticals are a global market and you would expect everybody to behave the same way in each country."

India's parliament deliberately drafted the patent law to set a high standard for inventiveness and to ensure sufficient flexibility for generic companies to provide low-cost medicines if the original patented drugs were too expensive for local consumers. Indians buy around $13bn worth of drugs a year - tiny compared with the US at $400bn - but the market is growing by more than 10 per cent annually. India exports about $13bn worth of pharmaceuticals a year, about 40 per cent of which go to the US and the EU.

India's law tries to prevent "ever greening" - the practice of companies renewing patents on old drugs by making minor changes - under section 3d, which states new patents can only be issued on previously known molecules if the modified versions show much improved efficacy.

Unlike most countries, where only governments can seek a compulsory license authorising production of low-cost copies of patented drugs, India permits generics companies and patient groups to apply directly to patent authorities for such licenses.

Western companies fear other developing nations, such as South Africa, may take the cue and dilute patent laws - making it tougher to obtain or extend patents and easier for patents to be overridden.

That is worrying for the industry as it seeks growth in emerging markets to compensate for pressure on margins in advanced economies and tries to fund innovative drug research.

"India has said: 'We are the thought leaders in terms of the ever greening of patents'," says Kiran Mazumdar-Shaw, founder of Biocon, a Bangalore-based biotech company. "Others are jumping into the fray saying: 'This is a good decision and we want to follow the path'."

Yet given the high stakes, India is likely to come under intense pressure to adhere more closely to global patent practices.

Pfizer has appealed to the US government to make India's failure to adequately protect intellectual property an important issue in bilateral relations.

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

"If you are a country that has a patent law, and a WTO commitment, don't make it a sham," says Mr Shahani. "There will be a point where the red line will be crossed."

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**Rules for 'Sensitive' Electronic Goods Import Likely Soon**
Kalyan Parbat & Joji Thomas Philip, The Economic Times

Kolkata/New Delhi, 24 May 2013: The home ministry will shortly unveil comprehensive guidelines to screen imported electronics, IT and telecom gear deemed 'security sensitive' in its bid to secure India's core information infrastructure.

It has identified eight categories of electronics, including cameras, radars, routers, base stations, devices used for data storage/transmission, general computers and biometric/access control devices, that will be subject to a stringent security drill if procured from overseas markets, according to internal ministerial documents reviewed by ET.

The home ministry has evolved a template to assess whether a specific electronic item poses a security risk.

For instance, "electronics that can be connected to the internet, can be controlled remotely or which radiate energy (excluding cell phones), will be classified as sensitive", says a home ministry note, a copy of which was reviewed by ET.

Though there is no specific reference to imported tablets or smartphones, "electronic equipment capable of receiving or transmitting images, voice and data" will also be tagged security sensitive.

Justifying its stance, the home ministry has cited the examples of the US and China, claiming that both the countries rely "entirely on indigenous capacity to meet their requirement of sensitive gear and embedded systems".

It further said that the UK does import electronic items and added that the British international procurement policies involve risk profiling and management of sensitivity considerations through a mix of "testing, inspection and securitisation".

The latest developments come at a stage when the government is about to notify the final preferential market access norms (PMA) that will mandate a minimum 30% domestic sourcing of security-sensitive electronic products by all central ministries, excepting defence.

The home ministry's plans could stir a hornet's nest in international business circles, especially at a time when leading global lobbies, including the US India Business Council, Information Technology Industry

Council, Digital Europe and the Telecommunications Industry Association of the US, among several others, have decried India's plans of extending the PMA provisions to private mobile phone companies, claiming that the proposed norms "represent an unprecedented interference in the procurement of commercial entities and would also run afoul of India obligations to the World Trade Organisation (WTO).

The home ministry note, however, asserts that India's security-related concerns are in sync with the WTO agreements, "which are based on the premise that it is the legitimate role of the member states and governments to take action that the member country alone in its sole discretion considers necessary for protection of its essential security interests".

It further claims that "it is legitimate to include security-related conditions in tender specifications". "Provisions may be invoked on grounds of national security to place embargo on products originating from certain countries and the manner of placing such embargo may be determined in consultation with the commerce ministry," the interior ministry note said.

The home ministry's concerns also come in the wake of the National Security Council's recent warning that Chinese gear makers pose a security risk to Indian telecom networks, and that India must expedite steps to overhaul its domestic manufacturing capabilities to "check, investigate and ultimately replace risks that come with foreign electronics equipment".

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**Government set to protect domestic market**
Chetan Chauhan, Hindustan Times

New Delhi, 2 June 2013: India is readying to protect its domestic manufacturers from Chinese products swamping the market, despite the danger of WTO rules looming large. The move, however, courts the danger of other countries dragging India to WTO terming the favours granted as unfair trade practices under the international agreement.

Three Central ministries - Telecom, Heavy Industries and Renewable Energy - would soon have policies to protect domestic producers from the increasing penetration of foreign manufacturers especially in the form of cheaper equipment from China.

These three sectors contribute to around 1/3 of annual manufacturing output in terms of money but their growth has slowed down in the recent years, with many players opting for cheaper and less reliable Chinese goods, thereby making the market unprofitable for domestic manufacturers.

“The Bharat Heavy Industries Limited has already manufactured equipment required to generate power in the 12th plan. We have expanded facilities to meet the target of the 13th five year plan also. But, the buyers are opting for cheaper Chinese power generation equipment and we are helpless,” said a senior official of the ministry of heavy industries.

This has prompted heavy industries minister Praful Patel to urge Prime Minister Manmohan Singh this week to take a policy initiative which would protect the domestic manufacturers. He suggested incentives or mandatory sourcing of certain amount of equipment from the manufacturers as a part of the policy. The ministry also wants higher duty on power equipment imported from China.

The Telecom Ministry is working on the guidelines of making, minimum procurement of 20% of equipment from domestic manufacturers, mandatory for all telecom companies in a bid to revive the sagging telecom manufacturing industry. The reason for plight here is also same - cheaper Chinese equipment which has flooded the market.

There is already a policy in place for public sector bodies prescribing procurement of certain amount of equipment from domestic players. Now, the ministry has formed guidelines to extend a similar policy framework for the private sector, a move opposed by certain foreign companies. A ministry committee has already identified 18 hardware items including sim-cards and modems to be mandatory procured from domestic players.

Another emerging sector in India, solar energy, is also facing the Chinese heat. Almost 60% of solar goods sold in India are from the northern neighbour even though they are extremely low on efficiency.

The Ministry of new and renewable energy in its draft policy document for Jawaharlal Nehru Solar Mission (JNSM) has provided a provision that certain amount of solar energy under phase-II of the mission will be manufactured only from home produced equipment.

The government is keen to provide the protection as zero growth in domestic manufacturing sector was one of the reasons for economic slowdown in the last financial year which was the year the growth rate stagnated at 5%.

The move, however, is laced with the danger of other countries dragging India to WTO terming the favours granted to domestic industry as unfair trade practice under the international agreement.

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**RBI to allow gold imports only for meeting exporters' needs**
ENS Economic Bureau

Mumbai, 5 June 2013: The Reserve Bank of India on Tuesday extended the restrictions on the import of gold on consignment basis by banks to all nominated agencies and trading houses to check the alarming trend that has put huge pressure on the current account deficit (CAD).

Any import of gold will now be allowed only for meeting exporters' need of gold jewellery, the RBI said in a statement. "All letters of credit (LC) to be opened by nominated banks or agencies for import of gold under all categories will be only on 100 per cent cash margin basis," the RBI said in a notification. Further, all imports of gold will necessarily have to be on 'documents against payment' basis. "Gold imports on 'documents against acceptance' basis will not be permitted. These restrictions will not apply to import of gold to meet the needs of exporters of gold jewellery," it said.

On May 13, the central bank had imposed the restriction on banks importing gold on consignment basis. Besides, it has also put restrictions on banks and NBFCs for providing loans against gold coins as well as units of gold ETFs.

The import of the yellow metal during the first two months of the current fiscal are estimated at $ 15 billion. Gold imports by India stood at 860 tonnes in 2012. The World Gold Council expects the country's gold import to touch a record level at 300-400 tonnes in April-June period.

*'Govt working on further measures'*

Even as the Reserve Bank of India put fresh restrictions on high gold imports that have hit the trade deficit, the government on Tuesday said it has further measures to curb demand but said it would take "measured actions" at present.

"RBI has taken measures. We should be careful to note that high gold imports are not unique to India... we have to be careful about not being overly heavy handed," the finance ministry's chief economic adviser Raghuram Rajan said when asked whether the Centre would further hike import duty on gold.

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**Gems, jewellery exports rebound, surge 33% in April**
PTI

New Delhi, 25 May 2013: After declining 3% in March, India's gems and jewellery exports witnessed robust growth of about 33% to $3.38 billion in April 2013.

In April 2012, exports stood at $2.55 billion, according to the data provided by the Gems and Jewellery Export Promotion Council (GJEPC).

"These exports saw very healthy growth as demand is rising not only in American market, but also in emerging markets like China, Russia and Latin America," GJEPC executive director Sabyasachi Ray said. But, he said, the European market is still sluggish. The major markets for the country's gems and jewellery exports include the US, the UAE, Hong Kong and Europe.

Among the categories that witnessed growth in April, silver jewellery topped the list with a robust growth of 469%, followed by coloured gemstones 218 %, cut and polished diamonds 37% and gold medallions and coins 13.2%.

However, outward shipments of gold jewellery saw a decline of 13.8%. During 2012-13, gems and jewellery exports declined by 9.4% year-on-year to $39 billion due to weak demand in western markets. The council feels that in 2013-14 these exports would grow between 10% and 15% compared to the last fiscal.

Gems and jewellery constitute 17% of India's total exports and the sector employs 1.5 million people.

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**Pacific threat looms for textiles**
Ritesh Kumar Singh, Business Line (The Hindu)

29 May 2013: With all the brouhaha over China-India border issues and election in Pakistan, one issue that has received little attention in the Indian media is the proposed US-led Trans-Pacific Trade Pact (TPP).

This is understandable, as India is not party to the proposed trade pact involving Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the US. However, it has serious implications for India’s textile and clothing sector.

Textile and clothing accounts for roughly five per cent of India's GDP, 15 per cent of its industrial output and export earnings and provides livelihood support to 55 -60 million people directly or indirectly.

*Trade Diversion*

It is important to analyse the effect of TPP on India's textile and clothing sector, as the US is an important export destination. When it comes to the export of readymade garments and made-ups, the US alone accounts for 30 per cent of India's total exports. TPP will affect India's textile and clothing sector (and of all non-TPP member countries like Brazil or China) in two ways.

First, exporters from TPP member countries will get preferential access in the US market vis-à-vis exporters from non-TPP member countries, such as India. This will put India's garment exports (to the US) at a disadvantage as US import duties on readymade garments are quite high with average duty at around 7.9 per cent; duties on some clothing items are as high as 32 per cent according to WTO tariff profile database.

Second, a key feature of the TPP – 'yarn forward rule' --- makes it mandatory to source yarn, fabric and other inputs from any or a combination of TPP partner countries to avail 'duty preference'. This is likely to disrupt the well-integrated global supply chain in textile and clothing.

*Implications for India*

It will induce garment manufacturers in the TPP countries to source their inputs from TPP countries at the cost of non-TPP countries, even if the suppliers in TPP regions are not the least cost. This will be a clear case of trade diversion – moving trade away from more efficient producers to less efficient producers. Though this rule is 'primarily' aimed at restricting the benefits accruing to Chinese manufacturers of yarn and fabrics from further opening of the lucrative US markets for clothing, it will create a comparative disadvantage for all non-TPP member countries, including India.

India's textile and clothing sector is under severe pressure from slowing demand in key export markets, and backdoor entry of Chinese goods via Bangladesh under South Asian Free Trade Area that allows duty-free import of garments from Bangladesh into India.

*Clothing Retailers Hit*

The likely exclusion from US' GSP benefits is another headache for the sector. If this were not enough, to comply with its commitments to WTO, India will have to phase out its export incentives in textiles and clothing.

Export competitiveness is deemed to be achieved if a country's global export share of a specific product group (defined as a section heading of the ITC-HS) is 3.25 per cent or more in two (consecutive calendar) years. India's share in world export of textile and clothing (falling under section heading XI of the HS) already crossed this limit in 2007. As a result, India will have to phase out its export sops for the sector by 2015. Only 17 per cent of the textile and clothing exports under NAFTA and Central American Free Trade (CAFTA) have gone through the 'yarn forward rule'. Yet, US trade negotiators are pushing it in the proposed TPP. Clearly, the move seems to be protectionist, aimed at reviving indigenous textiles industry at the cost of the foreign, but it will limit the freedom of clothing retailers to choose their suppliers. In the process, it will also disrupt the global textile supply chain of which India is a part.

*The Way Forward*

That explains the strong opposition of clothing retailers (e.g. JC Penny, Levis and Gap) and their associations (e.g. TPP Apparel Coalition) to the yarn forward rule. To deal with this, the US trade negotiators have come up with the idea of 'short supply list' – that will give some flexibility to clothing retailers in sourcing their inputs (which are not available in TPP region) from non-TPP countries. India's best bet can be the conclusion of WTO Doha round at next Ministerial in Bali, which will deflate the interest of TPP member countries in the trade pact. Unfortunately, that seems unlikely, given the American disinterest in the round. Joining TPP can help India's textile and clothing sector, but accepting US-promoted WTO-plus proposals on IPR, investment protection, services and state-owned enterprises will not find favour with policymakers or India Inc. Getting India's vulnerable products in TPP's 'short supply list' is yet another option that can be explored.

India's market for premium apparel is growing at 10-12 per cent a year. India can consider sponsoring its own yarn forward rule in the Regional Comprehensive Economic Partnership (of which it is a party) that will find support from China, the biggest loser of the rule.

Going forward, India can leverage it to negotiate with the US for dilution of the TPP's yarn forward rule. The likely loss in export of textile items to TPP countries will have to be compensated by gains in other markets. Here, tweaking the rules of origin to stipulate utilisation of yarns and fabrics of Indian origin as a pre-condition for allowing duty free import of garments from Bangladesh will help India's fabrics export. It will also check backdoor entry of Chinese fabrics into India via Bangladesh.

India needs to continue pushing its exports to non-traditional emerging markets of Africa, Asia CIS and Latin America. The textile and clothing sector is heavily protected in Mercosur countries with import duties as high as 35 per cent on many items.

Expediting the conclusion of India-Mercosur Comprehensive Economic Cooperation Agreement will help counter the impending trade diversion because of the yarn forward rule under TPP.

Some kind of product differentiation (e.g. voluntary carbon labelling) will protect our textile and clothing exports in the US despite the impeding post TPP comparative cost disadvantage vis-à-vis TPP partner countries like Vietnam.

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**Agri, processed food exports cross Rs1-lakh-cr mark in FY13**
Sandip Das, The Financial Express

New Delhi, 5 June 2013: A sharp rise in the global demand for products such as guargum, rice, wheat, meat, fresh fruits and vegetables has pushed agricultural and processed food exports up by more than 41% to Rs1.16 lakh crore in 2012-13. The country's farm product exports have crossed the Rs1-lakh-crore mark for the first time.

A commerce ministry official told FE these products, which made more than 77% of the country's total agricultural good exports last fiscal, are expected to push up the shipments from India in the current fiscal as well. Gulf countries, US, UK, Germany, Vietnam, Malaysia and Indonesia are some of the leading export destinations for Indian products.

According to the data compiled by the Agricultural and Processed Food Products Exports Development Authority (APEDA), the key driver behind the surge last fiscal is attributed to a rise in the shipment of commodities such as guargum (Rs21,190 cr), basmati rice (Rs19,391 cr), non-basmati rice (Rs14,416 cr), wheat (Rs10,488 cr), fresh fruits (Rs3,290 cr) and vegetables (Rs3,096 cr).

Though volume-wise, exports of guargum — mostly used in the petroleum industry in the US — increased by more than 29% last fiscal in comparison to 2011-12, the biggest rise in exports has been seen in commodities such as non-basmati rice and wheat.

India lifted the ban on non-basmati rice exports in September 2011 and the country has started to export wheat following a bumper crop last year.

Since the lifting of restriction of rice exports, there has been huge global demand for Indian rice, especially in Africa, EU and West Asia. India has retained its biggest rice exporter tag with shipments of 10 million tonne (mt) during 2012-13.

The country was the world's largest exporter of rice in 2011-12 with exports of close to 10 mt, Thailand exported 6.9 mt and Vietnam sold 7.8 mt overseas.

"India has exported rice worth of close to Rs32,000 crore during the last fiscal. It would be challenging for us to maintain our position in the global rice trade this year," Asit Tripathy, joint-secretary (agriculture), commerce ministry, told FE.

Other key commodities that saw growth in shipments include dairy products (Rs1,763 crore), pulses (Rs1,279 crore) and floriculture (Rs423 crore).

APEDA has identified 20-odd clusters located across the country for maintaining a healthy growth in the country's food product exports during the current fiscal.

These clusters include basmati rice (Haryana and Punjab), buffalo meat (western Uttar Pradesh), grape and grape wine (Nasik region, Maharastra), pomegranate (Satara and Pune regions of Maharashtra), dehydrated onions and garlic (Gujarat), poultry or egg (Namakkal) and mango pulp (Uttar Pradesh and Maharashtra)

"Indian agriculture seems to have a greater comparative trade advantage than manufactured goods. This has been possible as the sector has responded by undergoing a structural transformation," a paper by the Commission for Agricultural Costs and Prices (CACP) chief Ashok Gulati recently stated.

The CACP paper also points to the changing composition of India's agricultural exports basket between 2001 and 2012. In the last fiscal, rice was the leading agriculture export product (12%), followed by raw cotton (11.4%), marine products (9.9%), oil meals (7.9%) and meat (7.6%).

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**India may gain little from Japan, Korea ban on US wheat imports**

M. R. Subramani, Business Line (The Hindu)

Chennai, 2 June 2013: Though suspension of wheat imports from the US by Japan and South Korea is likely to offer opportunities to other nations exporting the foodgrain, India is unlikely to gain much from the development.

During the weekend, Japan, the second largest wheat importer in Asia after Indonesia, and South Korea suspended wheat purchases from the US after a non-approved genetically modified wheat was found growing on a farm in Oregon.

The US is nowhere nearer to finding how this happened, though the Department of Agriculture officials said that a probe was on to see how the wheat which has a gene altered to make it resistant to herbicides reared its head. The US has allowed cultivation of various genetically-modified crops such as corn, soyabean, cotton and alfa-alfa grass but not wheat.

As an immediate reaction to the finding of the wheat, prices on the Chicago Board of Trade dropped. However, prices in the other origins such as Europe gained.

“Prices of Europe, Australian and even Black Sea region wheat have gained. But this is likely to be a short-term gain. Once the US comes out with the result of its probe, things could change,” said Tejinder Narang, a consultant with a wheat export firm.

“Impact on Indian wheat is likely to be minimal since it is treated more as a feed wheat abroad, where the US wheat is a soft one for milling,” he said.

This also means India, which is trying to export more wheat from its warehouses, may not find a buyer in Japan or South Korea in the short-term.

“It will be hard for India to meet Japan’s specifications. They also need a more clean wheat which goes against the Indian grain.

“Though facilities for cleaning wheat have come up at places such as Adani port, they are yet to be accepted,” said Pramod Kumar, Director of Sunil Agro Mills in Karnataka.

“Maybe, Korea could accept our wheat,” he said.

“Even Korea considers Indian wheat for feed purpose only,” said Narang.

“It is not easy for Indian wheat to gain in markets where they look for high-protein produce which the US will be able to deliver. Japan mills have specifications for their products and we won’t be able to meet them,” said M.K. Dattaraj, former president of the Roller Flour Mills Federation of India.

India is looking to export wheat to cut its warehouse stocks. As on May 1, the Food Corporation of India held 11.7 million tonnes of wheat as stocks.

This is almost thrice the norms fixed by the Centre for buffer stocks that help meet any food emergency in the country.

In April, the Government gave its approval to export three million tonnes of wheat but there have been a few buyers for Indian wheat abroad.

This is because India is looking for a price of $300 a tonne that is much higher than the prevailing prices in the global market.

The Government appeared a bit desperate to export wheat since it has estimated the current year’s crop at 93.9 million tonnes.

“Some Indian wheat has been sold at $280 a tonne c&f for delivery in August. This is against $265 quoted for Black Sea region wheat,” said Narang.

Indian wheat is finding its way through West Asian and North African markets. Still, prices are considered high.

Though Indian wheat can be cleaned and efforts could be made for its acceptance for milling by mills abroad, the cost is seen prohibitive.

"There will be at least 2-3 per cent wastage when Indian wheat is cleaned.

This could mean a loss of $10 a tonne. Even if $7 a tonne premium is given for clean wheat, it will still be a loss proposition," he said.

"Australia will be able to supply the quality that Japan requires," said Pramod Kumar.

"Canada can also supply quality wheat to Japan. But all these could be short-term developments only," Dattaraj said.

Wheat prices at the New Delhi Lawrence market, a benchmark for the country, increased to Rs 1,590 a quintal on Saturday.

On the National Commodities and Derivatives Exchange, wheat for delivery in July closed at Rs 1,624. On the Chicago Board of Trade, wheat July contracts quoted at $7.05 a bushel or $259 a tonne.

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**Draft Bali Decision on Ag Export Subsidy Cuts Tabled**
Bridges Weekly Trade News Digest

30 May 2013: Developed countries should halve ceilings for budgetary spending on farm export subsidies in a decision at the WTO's ministerial meeting in the Indonesian resort of Bali this December, the G-20 group of developing countries has said.

The group, which seeks farm policy reform in the developed world, has said that the move would be a token step towards ending the controversial payments - widely seen as the most trade-distorting type of support to producers.

Quantity commitment levels should also be cut to actual average levels in a 2003-05 base period, the G-20 also said.

WTO ministers agreed that farm export subsidies would be eliminated by 2013 when they met in Hong Kong nearly eight years ago - alongside parallel moves to curb other forms of "export competition." But slow progress on the broader Doha Round of trade talks, launched in 2001, has stymied efforts to phase the payments out.

Ministers agreed that the Doha negotiations were at an "impasse" when they met in Geneva eighteen months ago, and said they would focus instead on small steps that could be fast-tracked as the basis for a broader accord.

*"Another milestone missed"*

The G-20 non-paper, which was submitted last Thursday, said that the group regretted that the 2013 deadline for ending farm export subsidies "is yet another Doha Round milestone to be missed."

The group's proposal should therefore be seen as part of an "incremental approach" to achieving the more ambitious goal, according to a copy of the submission seen by Bridges.

While the latest version of the draft Doha accord "continues to deserve the unwavering support of the G-20," the group was nonetheless willing to propose agreement on "intermediate" commitments for Bali, "in a spirit of flexibility and pragmatism."

*Export credits: "intermediate" targets*

The proposal therefore sets targets in a number of areas that are less ambitious than those included in the draft Doha "modalities" text, the most recent version of which dates from December 2008.

Developed countries should immediately set maximum repayment terms at 540 days, the group proposed, while developing countries would have to do so no later than three years after implementation.

The original Doha accord would instead have set a maximum of 180 days for subsidised export credit repayments.

However, the non-paper's sponsors do not set out in detail new disciplines for addressing any trade-distorting effects arising from the activities of exporting state trading enterprises or the provision of international food aid. In 2005, WTO members had agreed to address these in the Doha talks in parallel to negotiations on export subsidies and export credits.

*"Overloaded" boat for Bali?*

Trade sources said that the EU and US immediately opposed the G-20 non-paper. Some members of the G-10 group of countries with highly-protected and subsidised farm sectors were also reported to have expressed concerns.

"The boat is already overloaded," warned one negotiator who expressed misgivings about the G-20 proposal.

"If you add one extra issue, you make things much harder," the source explained.

Many trade officials have cautioned against adding too many items to the global trade body's agenda ahead of the ministerial conference, fearing that another high-profile failure could potentially deal a death-blow to the faltering Doha Round talks.

However, others cautioned against setting the bar for ambition too low. "This year, we're supposed to be eliminating fully export subsidies," another trade source said.

Actual spending on agricultural export subsidies and export credits has dropped substantially from the levels seen in the 1980s and 1990s, when the European Community and US used these programmes to keep producer prices high at home by shifting surplus production off of domestic markets.

*Trade facilitation: finding the balance*

Some developing countries have argued that a Bali deal on trade facilitation - seen by many as a potential centrepiece of the ministerial gathering - would have to be complemented by action in other areas, such as agriculture, if it is to generate consensus amongst the organisation's membership.

A proposal last year from the G-20 on tariff rate quotas was aimed at establishing this "balance," as was another submission on food stockholding and domestic food aid from the G-33 group of developing countries with large populations of smallholder farmers.

Trade sources told Bridges that countries such as India are making progress on trade facilitation conditional on corresponding action on their priorities - such as increased flexibility for developing countries to purchase food at administered prices when building food stocks or providing domestic food aid.

Others reported that the US was also proving reluctant to entertain new proposals on other issues in the absence of faster traction on trade facilitation.

*G-33 proposal: some convergence?*

The chair of the agriculture negotiations, New Zealand ambassador John Adank, told a meeting open to all negotiators last Thursday that "elements of potential convergence have begun to surface" in two areas on consultations on the G-33 proposal.

Countries might be willing to explore whether WTO members could agree to exempt a set of developing country farm programmes from subsidy limits, so long as these cause no more than minimal trade distortion, the chair said. They may be also be willing to agree not to bring legal challenges to minimally trade-distorting support programmes under a possible "peace clause," perhaps along the lines of similar commitments made in the past.

However, members are "still very much divided" over any possible amendment to the Agreement on Agriculture, or an agreed interpretation of its provisions, in the run-up to the Bali ministerial. They were also divided over the utility of setting up some kind of case-by-case mechanism that could allow members with specific concerns to seek additional flexibility.

"I know that some delegations will be disappointed that I am not able to report rather more definitive progress," Adank acknowledged. However, he proposed to continue holding further informal consultations "to identify more clearly the range of potential landing zones."

*OECD meeting: negotiators look for a signal*

Several trade officials told Bridges that they were hopeful that ministers meeting in the sidelines of an OECD event in Paris this Thursday and Friday might be able to provide some sort of signal on how to move forward in the talks.

A number of ambassadors, including Adank, were due to attend, sources said. Both OECD members and some other countries would be there.

"Maybe right now it's too early to make a compromise," mused one negotiator.

Another concurred, telling Bridges that "the deal is always going to get done closer to the time." Negotiators will "have a better idea" of prospects for the ministerial by September, the source said.

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**Trade Negotiations: Officials Put Focus on Advancing Trade Facilitation at Bali Ministerial**
Daniel Pruzin, WTO Reporter

Paris, 31 May 2013: Trade ministers and senior officials from some two-dozen key World Trade Organization member countries wrapped up a half-day "mini-ministerial" meeting in Paris on May 30 with a commitment to step up technical discussions on a proposed agreement on trade facilitation and a handful of other issues which they hope to conclude by the organization's critical Bali ministerial conference in December.

Officials taking part in the meeting said an immediate focus would be on trade facilitation, in particular clearing up what was described as the "underbrush" of technical issues holding up progress in the negotiations.

That underbrush is reflected in the 550 or so brackets still in the draft trade facilitation text reflecting areas where WTO members still have disagreements.

While no deadline was fixed for achieving progress, the chairman of the Paris meeting, Australia trade minister Craig Emerson, said sufficient forward movement would have to be made by the time of the WTO's summer break in August.

"We'll all know by then whether Bali is feasible," Emerson declared. If progress in the talks is not achieved by then, "time will have beaten us."

*Punke: 'Intensive Effort' Ahead*

Deputy U.S. Trade Representative Michael Punke, who represented the United States at the Paris meeting, said that one of the positive things which emerged was a "very clear agreement for an intensive effort over the next month to remove brackets from the trade facilitation text."

"We'll be engaged in that very robustly and I think at the end of that time we'll have a much clearer idea of where we stand," Punke said.

Trade facilitation is viewed by many as a cornerstone of a Bali package, which in turn is considered vital to jump-starting the stalled Doha Round of trade talks, now in their 12th year.

Emerson said the three hours of discussions in Paris were "focused and quite specific in terms of the work program that needs to be implemented in order to achieve a successful outcome in Bali."

"Today we gave clear instructions to negotiators," Emerson declared. "Ambiguity was not a feature of the discussions today."

"We've recommitted to finding a way forward and doing so in a very aggressive way," Canadian trade minister Ed Fast added.

The trade facilitation agreement would address issues such as freedom of transit, import and export fees and formalities, and transparency in trade regulations and administration.

Emerson said trade facilitation was “not a highly political and vexed issue but one which does require technical expertise.”

“To date, while there has been progress, the rate of progress has not been consistent with getting a trade facilitation agreement in Bali,” he declared.

“We cannot get an agreement without removing those brackets, and we cannot be in a position where there's a reluctance to remove those brackets pending agreements in other areas,” Emerson continued. “So it essentially comes down to the practicalities of removing a very large number of those brackets by July.”

*Agriculture Looms as Major Challenge*

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

The G-33 proposal would allow developing countries to classify purchases of food stocks at subsidized prices to be classified as “green box” subsidies exempt from WTO spending limits. Normally, such price supports must be classified as trade-distorting “amber box” support.

The main proponents are India, where legislators are now considering a bill that would expand subsidized purchases of rice and wheat at an estimated cost of $24 billion annually, as well as Indonesia, Pakistan and the Philippines.

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

WTO Director-General Pascal Lamy said discussions on a separate proposal from the Group of 20 developing countries on export competition were still in the early stages.

“That was proposed 10 days ago,” Lamy noted. “Many delegations still have to look at that … at this stage it's very difficult to say whether or not this will lead to a result in Bali.”

New Zealand trade minister Tim Groser told BNA he was “always confident” WTO members would be able to reach a deal on a Bali package by the time of the Dec. 3-6 ministerial.

“The real question is the quality of it,” he said. “That will be determined through the negotiating process.”

“My only real concern is that [the Bali package] is such a subset of the bigger problem,” which is a larger Doha deal, he added. “There's still a mountain to climb after Bali.”

*India Promises to Be Cooperative*

India trade minister Anand Sharma promised India would play a “constructive role” in ensuring a successful outcome in the Bali ministerial.

In a statement issued after meetings with Lamy and Roberto Azevedo, the Brazilian who will take over the director-general post on Sept. 1, Sharma "assured Mr. Lamy and Mr. Azevedo that India will remain fully engaged with all key stakeholders from the developed and developing countries to find a fair and balanced outcome in Bali," according to a statement issued by the Indian commerce ministry.

"While recognizing the importance of Trade Facilitation (TF) and upgrading infrastructure at border, ports and custom procedures for giving a boost to exports, [Mr.] Sharma underscored the need for addressing the concerns of food security which have been outlined in a proposal presented by G-33 countries," the statement noted.

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**India for fair outcome at WTO's Bali Ministerial meet: Anand Sharma**
PTI

New Delhi, 30 May 2013: India will remain fully engaged with all key stakeholders from developed and developing nations to find a fair and balanced outcome at WTO Ministerial Conference to be held in Bali in December, Commerce and Industry Minister Anand Sharma said today.

The minister made these observations during his meetings with the outgoing World Trade Organisation (WTO) Chief Pascal Lamy and Designate Director General Roberto Carvalho de Azevedo in Paris, an official statement said.

The meet was convened by Australia to push the long- stalled Doha Round of talks for reaching a global trade deal.

During the meeting, Sharma informed the WTO head that India will play a constructive role in ensuring successful outcome in the Bali Ministerial, the statement added.

The 9th WTO Ministerial Conference is scheduled to take place from December 3-6 in Bali, Indonesia. The Conference is the highest decision-making body of the 158-member strong WTO. It meets every two years.

The key WTO members are trying to resolve some of the major issues and reach a consensus on a early harvest package which would benefit all the members.

Under that, rich nations, including the US, want India and other emerging economies to be part of the four major sectoral pacts -- Trade Facilitation, IT, environmental goods and international services agreement.

The Doha talks, launched in 2001, have missed several deadlines due to divergent views on some of the issues like agriculture subsidies between the developed countries like the US and developing nations such as India.

Besides, Sharma stressed that the centrality of multilateral processes must be retained.

All nations need to work together to strengthen WTO as an institution, said the statement, quoting Sharma.

The minister is also scheduled to attend an informal WTO Ministerial meeting which will discuss the possible outcome at December Bali Ministerial, it added.

Recognising the importance of Trade Facilitation and upgrading infrastructure at border, ports and customs procedures to boost exports, Sharma underscored the need for addressing the concerns of food security which have been outlined in a proposal presented by G-33 countries.

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