INDIA'S TRADE NEWS AND VIEWS

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Oilmeal exports fell by 31% to 5.92 lakh tonnes during the April-June period of the current fiscal due to sharp decline in soyabean shipments to Iran, South Korea and other countries…

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Vegetable oil imports dipped four per cent in June to 883,679 tonnes compared with 947,591 tonnes recorded in the same period last year…

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In a move expected to help the cash-starved industry, the government has removed the quantitative ceiling on exports of organic sugar…

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Gold imports surged in June to a 12-month high, at an estimate of 52 tonnes…

Budget 2014: Import duty on stainless steel up 7.5%, to help domestic firms

In a major relief to domestic stainless steel industry, reeling under severe under- utilisation of capacity, the government today increased import duty on flat-rolled products from 5 per cent to 7.5 per cent…

Budget 2014: Arun Jaitley imposes tax on imports of telecom, IT products

In a move to give level-playing field to domestic electronics manufacturing sector, Finance Minister Arun Jaitley today imposed tax on imports telecom and IT products…

Anti-dumping duty on solar gear unlikely to reduce imports

In a setback to the government's bid to encourage domestic solar cell industry, solar power project developers have told the government that they would continue to import solar cells from different countries and would not source domestically, if an anti-dumping duty on solar gears is imposed…

WTO raises question on sugar subsidy

Geneva-based World Trade Organization (WTO) has raised questions over India's move to subsidise export of sugar. WTO member countries such as Brazil, Columbia, Australia and the European Union (EU) have especially expressed concerned at the WTO's Committee on Agriculture…

WTO rules against US duties on Indian steel products

The World Trade Organization (WTO) has ruled against the US in a case filed by India over imposition of high import duties on Indian steel products…

India says no trade facilitation pact without solving food security issue to WTO members

Deeply concerned over slow progress in finding a permanent solution to the food security issue, India in a stern message to WTO members said it would not be possible to agree on trade facilitation pact which is dear to the developed world…

China, Cuba back India for food procurement subsidies at WTO

India, China and Cuba have joined hands at the World Trade Organization (WTO) to demand inclusion of subsidies for food procurement and food-aid programmes in the list of permissible incentives…

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The Centre for WTO Studies was set up by the Department of Commerce, Government of India in 1999. The intent was to create an independent think tank with interest in trade in general and the WTO in particular. The Centre has been a part of the Indian Institute of Foreign Trade since November 2002. The Centre provides research and analytical support, and allied inputs to the Government for WTO and other trade negotiations. The Centre also has its own body of publications, and conducts outreach and capacity building programmes by organizing seminars, workshops, and subject specific meetings to disseminate its work, create awareness on recent trade topics and build consensus between stakeholders and policy makers.

Exports rise 10% in June, trade deficit touches 11-month high
Business Line (The Hindu)

New Delhi, 16 July 2014: In a sign that the global economy is gaining some momentum, exports increased for the third straight month in June, growing 10.22 per cent to $26.47 billion over the same month a year ago.

Imports, too, rose 8.33 per cent to $38.24 billion after declining for several months, with gold imports surging following the easing of restrictions. This widened the trade deficit slightly to an 11-month high of $11.76 billion, against $11.28 billion in June 2013.

The increase in exports was largely driven by readymade garments, engineering goods, petroleum products, leather and handicrafts, going by quick trade data estimates released by the Commerce Ministry, on Wednesday.

"The global situation is conducive to exports as both advanced and emerging economies are showing better economic indicators. Credit flow to exporters should increase so that exporters can utilise the opportunity," said Federation of Indian Export Organisations President Rafeeque Ahmed.

Some negatives

There was, however, a decline in gems and jewellery, electronic goods and agricultural exports. "The electronics goods sector has a small base that is getting squeezed further. This does not augur well for the skilled labour-intensive sector. The sectors where exports are declining need immediate help from the Government," said industry body Assocham.

Gold imports rose by a whopping 65 per cent to $31.20 billion in June after the RBI allowed seven more private agencies, in addition to designated banks, to procure gold. Imports of project goods and machinery, both indicators of a revival in manufacturing activity, however, were lower in June compared with the same month last year.

Oil imports in June were 10.90 per cent higher, at $13.34 billion. Goods exports in the April-June quarter stood at $80.11 billion, 9.31 per cent higher than the comparable period of the previous year. Imports in the first quarter of the current fiscal year were at $113.196 billion, 6.92 per cent lower than last year. The trade deficit for the April-June period was estimated at $33.08 billion, lower than the deficit of $48.32 billion in the same quarter last year.

Services exports

For the first time, the Commerce Ministry released data for services exports, based on RBI data. Services exports in May this year were valued at $13.92 billion. Services imports during the month were valued at $8.02 billion. The trade surplus was at $5.89 billion.

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Trade reforms high on the agenda
Raghuvir Srinivasan, The Hindu

New Delhi, 10 July 2014: The Economic Survey 2013-14 strikes a reformist note on aspects related to trade, highlighting key issues such as rationalisation of export promotion schemes, a reality check of existing trade agreements with other countries and greater trade facilitation measures.

There are multiple and overlapping export promotion schemes with many focus markets and products, the Survey says, and argues for rationalising them to a "bare minimum" in order to reduce transaction costs and litigation. For duty drawback schemes, there should be limited rates instead of having different rates even for similar items, the Survey says, adding that such a move will make things simpler and avoid discretionary decisions.

The Survey bats for simpler procedures for documentation pointing out that an exporter in India needs nine documents compared to just three in Singapore while an importer needs 20 in India against four in Singapore. Consequently, it takes 16 days to export out of India compared to six in Singapore.

"Export infrastructure should be built on a war-footing," says the Survey and issues such as port connectivity, poor conditions of roads and poor cargo handling techniques and equipment need to be addressed.

Pointing out that some of the trade agreements that India has signed have led to an inverted duty structure where it is cheaper to import the finished product than the raw material, the Survey says that a "reality check" of these trade agreements is required.

Arguing for product diversification of our export basket, the Survey points out that in the top 100 imports of the world, India has only five items with a share of 5 per cent or more.

The electronic hardware manufacturing sector comes in for special mention with the Survey arguing that special attention needs to be given to that sector which virtually collapsed with the signing of the Information Technology Agreement-1 by India.

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Focusing on three Es of exports, leveraging FTAs tricks of trade
Financial Express

New Delhi, 10 July 2014: Ahead of the foreign trade policy (2014-19) announcement, likely next month, the Economic Survey has said a demand-based export basket diversification approach with a focus on three Es — electronic, electrical and engineering items — and rationalising the export promotion schemes to a bare minimum could lead to greater dividends for India.

In other recommendations that could lead to exponential gains for India's exports, the survey said it was important for the government to also do a reality check on existing free-trade agreements (FTA), focus on useful FTAs, address the problem of inverted duties in different sectors, and give a clear signal for Special Economic Zones (SEZ). India should ready itself to face new threats like the Transatlantic FTA between the US and the EU, which intends to create the world's largest free-trade area.

It called for ensuring greater trade facilitation by removing delays and high costs due to procedural factors, building export infrastructure on a war footing, as well as taking measures for a smooth intertwining of domestic and external-sector policies for agriculture.

These measures will help India increase its share in world merchandise exports from 1.7% in 2013 to a respectable 4% in the next five years, it said. The target of 4% can be achieved if India's exports grow by a CAGR of 30%.

The survey wanted the government to give special attention to the electronics hardware sector, which, it said, virtually collapsed with India signing the Information Technology Agreement-1, at a time when India's semiconductor sector was at a nascent stage of development, while that of newly industrialised countries and developed countries had already taken off.

Pointing out that, till now, India's focus was on exporting what it could (or supply based), the survey said now the country has to shift to items for which there is world demand and India also has basic competence.

The survey said the prevailing inverted duty structure is making Indian manufactured goods uncompetitive against finished product imports in the domestic market as finished goods are taxed at lower rates than raw materials or intermediate products.

The regional/bilateral FTAs with countries like Japan and South Korea and ASEAN, have added to a new inverted duty-like situation with some final goods of these partner countries having nil or low duty while materials for these items from other countries have higher duty.

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Govt to correct taxes on imported goods to boost manufacturing
Gireesh Chandra Prasad, Financial Express

New Delhi, 5 July 2014: Finance minister Arun Jaitley is likely to restructure import duties on a host of raw materials and intermediates in a bid to boost domestic manufacturing, which is central to the BJP’s vision of making India a global production hub. The manufacturing sector had suffered a 0.7% output contraction last fiscal.

Finance ministry sources said correcting the inverted duty structure — or the problem of raw materials being subjected to higher taxes than the finished products — was a priority and had therefore asked for specific inputs on products, their uses, turnover and other details from industry. It is also part of the finance ministry’s broader objective of simplifying the tax structure.

The idea is to ensure to the extent possible that import tariffs are graded in such a way that in any value chain finished products attract the highest duty, the intermediates relatively lower taxes, and raw materials the lowest.

Giving tariff protection to certain items in a product’s value chain or allowing concessional import of final products under various free trade agreements (FTAs) discourages the use of imported raw materials for local production of final goods. Although this issue had been identified a decade ago and based on suggestions from expert committees, corrective steps have since been taken in case of several industrial sectors, the problem lingers in sectors like automobile components, IT and electronic products, some petrochemical products, paper, edible oil, tyres, pharmaceuticals and capital goods.

The solution involves reducing the basic customs duty (BCD, which represents import tariff) on imported raw materials to below the level of that on finished products or at least to bring parity.

Scrapping or lowering the 4% special additional duty (SAD) could also help address the issue partially. SAD was introduced to equalise the tax incidence on an imported item with that of a locally produced item, which earlier attracted 4% central sales tax. Since CST has now been reduced to 2%, the comparable tax on imported items too need to be brought to the same level, explained Pratik Jain, partner, KPMG.

If an imported component attracts 12% countervailing duty (CVD) and another 4% SAD on that, the total duty incidence on the raw material comes to 16.48% (assuming basic customs duty is zero), but the domestic producer of the final product would be able to avail of tax credit only against the 12% excise duty payable on the finished product. This leads to accumulation of input tax credit, which a local manufacturer will never be able to utilise.

“In the case of IT and electronic products (where the BCD is zero), the prevailing CVD of 12% and SAD of 4% is a major disincentive for local manufacturing as the effective duty rate on account of CVD and SAD comes to approximately 16.48% as against the effective excise duty rate of 12.36% on finished products. The above anomaly can be addressed by aligning the duty rates on inputs vis-à-vis finished goods,” said Jain.

Similar examples of perverse duty incidence affecting the use of imported components in local production of finished goods are seen in the case of toilet soaps, PVC, tyres, paper and edible oils, too.

“Correcting the inverted duty structure is very difficult because the same raw material may be used in different industries where imported finished products attract different rates of duty. One way to address it is to give duty relief or exemption for specific end use of raw materials. But this may have the flip side of requiring inspections to ensure that the relief is being claimed for intended end uses,” said Ajai Sahai, director general, Federation of Indian Export Organisations.

According to Krupa Venkatesh, senior director, indirect taxes, at Deloitte Touche Tohmatsu India, the problem of inverted duty is prominent in sectors like edible oil, cement, steel, aluminium, chemicals, tyres, pharmaceuticals, pumps, tractors and paper.

Tyres, for example, attract only a 10% BCD compared with 20% or Rs 20 a kg (whichever is lower) in the case of natural rubber, its principal raw material.

“Besides, tyre imports enjoy preferential duty under India-Asean FTA, Sri Lanka FTA and the Singapore CECA (comprehensive economic cooperation agreement) which leads to imports at concessional rates ranging from 0% to 8.6%, increasing the incidence of inversion,” she said.

In the case of pharmaceuticals, imported active ingredients attract 12% customs duty, while finished products attract only 6%, leading to accumulation of tax credit, said Venkatesh.

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SEZ package in works to push exports
Surojit Gupta & Sidhartha, Times of India

New Delhi, 14 July 2014: Special Economic Zones (SEZs) may have missed out on tax concessions in the Budget but the government is working on a comprehensive package for the enclaves to boost exports, investment and overall economic activity.

Top government officials told TOI that the commerce department, which has been pushing for a revival of the zones, is going to make a fresh pitch for doing away with minimum alternate tax and dividend distribution tax. Unlike earlier, the finance ministry too is not rejecting the proposal right away. "It could not be included in the Budget since the government is working on a package of sorts for SEZs. We will take up the issue with the finance ministry," said a senior tax department officer, who did not wish to be identified.

Commerce department officers said that they are discussing various possibilities with the revenue department to ensure that some of the unused infrastructure, such as schools and hospitals, are used even by those who are not part of the zones so that the investment in the facilities isn't wasted. "The customs authorities had some concerns over the duty benefits flowing out of the zone and we have suggested two-three options. Hopefully, it will be done by the time we present the Foreign Trade Policy," said a senior commerce department officer. The BJP government's first FTP is expected to be presented next month.
In addition, the department has sought that the benefits of several schemes used by other exporters flow to those shipping goods from units in SEZs. "After all, they are also exporting from India. So why should we discriminate against them?" an officer said.

The revenue department had in the past blocked any attempt to provide duty concessions and had even impressed upon Pranab Mukherjee to levy MAT and dividend distribution tax despite the government promising the benefits in a law specially meant for SEZs. But with a change of guard, government interest in the zones has returned. In fact, soon after taking charge, Prime Minister Narendra Modi had himself shown interest and wanted to discuss various options with the revenue and commerce secretaries.

"We are hoping that the tax concessions are announced during the process of getting this Budget approved," said a senior commerce department officer. Several international investors, which had invested in SEZs during its heydays, are now facing difficulties with the tax authorities. For instance, Nokia has been served a transfer pricing notice, while Brandix, which supplies lingerie to global players, had its own set of problems. Officials and investors often complain that despite a law only for zones, getting approvals remains a problem.

SEZs, which have emerged as major export hubs, account for around a third of the country's merchandise exports and provide employment to around 15 lakh persons. Of the 566 formally approved SEZs, only 185 are in operation.

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Exports rise but no blueprint on cutting imports
Rajesh Gajra, Financial Chronicle

10 July 2014: The economic survey 2013-14 noted there was a turmoil in the country’s balance of payment position in FY14 and was categorical that the levels of current account deficit, or foreign trade deficit by implication, needed to restricted to sustainable levels which could be easily financed by stable sources of capital flows.

The survey stated there was a sharp improvement in current account deficit in FY14 to $32.4 billion from $88.2 billion in FY13 and $78.2 billion in FY12. This was due to elevated levels of net capital flows of $47.9 billion in FY14 and an improvement in the trade balance. FY14, was particularly good for the trade deficit. In absolute terms, according to the survey, trade deficit fell to $137.5 billion in FY14, from $190.3 billion in FY13.

The survey expressed the government’s wish to grow domestic exports at a very high compound annual growth rate of around 30 per cent in the next five years to boost India’s share in world merchandise exports from 1.7 per cent in 2013 to 4 per cent in 2018. But the survey is silent on reducing its overreliance on high oil and gold imports which are driving the current account deficit.

The survey noted China, US and UAE were the top three trading partners of India, with the three contributing almost one-fourth, or 24.5 per cent, to total foreign trade in 2013-14. Saudi Arabia and

Switzerland contributed 6.4 per cent and 2.8 per cent, respectively. What was interesting in the survey was the poor export-import ratio of 0.09, 0.29 and 0.33 seen in the case of Switzerland, China and Saudi Arabia.

The imports from these countries were far more than the exports to them which is what causes the foreign trade deficit. Overall, across all the trading partners, India's export-import ratio stood at 0.69 in FY14. While this was an improvement over the 0.61 exportimport ratio of FY13, in FY11 the ratio was 0.68.

While the survey shared no blueprint for improving the export-import ratio of Switzerland and Saudi Arabia, it did express the need for a comprehensive trade strategy with China. India's current exports to China made up for just around one per cent of China's overall imports and saw a lot of potential in increasing this.

Imports of petroleum, oil and lubricants, as a proportion of total imports, has risen sharply from 31.3 per cent in FY01 to 36.7 per cent in FY14. Even capital goods import share of total imports has gone up from 10.5 per cent to 11.9 per cent in the same period. An interesting contrast is seen in the imports of gold and silver whose share has come down from 9.3 per cent to 7.4 per cent, while electronic goods has seen its share almost unchanged at 6.9 per cent in FY14 against FY01.

The survey continued to harp upon the jolt received to India's service exports from the 2008 financial crisis. But FY14 was better for service exports which recorded an annual growth rate of 4.0 per cent, against 2.4 per cent recorded in FY13. The survey did not fail to acknowledge that net services exports has been a major source of financing India's growing trade deficit. The survey stated that net services exports had financed around 38 per cent of merchandise trade deficit during FY07 to FY13.

The government's plan to raise merchandise exports in the next five years hinges on around eight issues which the survey highlights. Among these are product diversification, building export infrastructure and addressing the inverted duty structure.

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Our approach to FTAs is unsustainable: Rajeev Kher
The Hindu

New Delhi, 15 July 2014: Stating that India is committed to trade facilitation, Commerce Secretary Rajeev Kher, on Tuesday, said the country's conventional approach to Free Trade Agreements is "highly unsustainable".

While addressing industry leaders at CII National Council meeting, Mr. Kher said there is a pressing need for India to put its house in order to take on the challenges that it will now face.

Highlighting areas that need to be focused on, he said India needs to look at diversifying into markets such as CIS countries, CLMV countries, Africa, West Asia and Middle East.

He added that India needs to push services exports and focus on standards and technical regulations to graduate to higher markets.

A more comprehensive foreign trade policy that goes beyond the reward scheme approach is being put in place, he said, adding that a significant amount of work is required to address issues related to ease of doing business, infrastructure, digitisation and studying the negative impact of FTAs.

Industry leaders such as Biocon Chairman and Managing Director Kiran Mazumdar-Shaw, Godrej Industries Chairman Adi Godrej, Hero MotoCorp's managing director & CEO Pawan Munjal, CII president Ajay Shriram attended the meeting. Revenue Secretary Shaktikanta Das, who also addressed the meeting, said the Budget had taken a lot of measures to revive economic growth, despite the fiscal space being extremely limited.

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Govt to push for FTA with Latin American nations
Huma Siddiqui, Financial Express

New Delhi, 15 July 2014: Even as the government is to review its free-trade agreements with several countries in South and South East Asia, including the Asean region, it is set to push for new such pacts with countries in Africa and South America. This is part of its strategy for engagement with countries with potential to provide Indian entities greater scope for investment.

"Latin America and Africa presents a vast market for Indian companies that have remained largely untapped. Gradually the scenario is changing as resource base and market dynamics are encouraging investments from India. An FTA will be a win-win for India here," said a senior commerce ministry official.

The Modi government has indicated that it will review several of the FTAs the country has signed over the years, especially those that have resulted in loss to the Indian industry. But, at the same time, it is pushing for active engagement with African and Latin American countries, expanding the scope of bilateral trade and providing ground for more investment by Indian companies.

"During his visit to Brazil for BRICS summit, Prime Minister Narendra Modi will meet leaders of 11 South American countries on July 16. These include leaders from Argentina, Bolivia, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay and Venezuela," said Dinkar Khullar, secretary, West, MEA.

According to Javier Paulinich, ambassador of Peru to India, "India and Peru may also hold bilateral meeting during the summit and discuss boosting trade and investments between the two countries and also take the process of a proposed FTA forward. A team of Peruvian officials are already slated to visit New Delhi in August at the invitation of the commerce ministry."

Aiming to increase current bilateral trade from $1.5 billion to $2 billion between Peru and India, the South American nation is looking to take the proposal of FTA with the Modi government.

The new Peruvian foreign minister, Gonzalo Gutiérrez, recently mapped out some key priorities for Peruvian foreign policy and highlighted FTA with India as priority.

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Indo-Israel FTA likely by year-end
Amit Mitra, Business Line (The Hindu)

Hyderabad, 9 July 2014: The Indo-Israel Free Trade Agreement may be concluded by this year-end, according to a senior Israeli diplomat.

“It should have been signed by the end of last year, but it got delayed. I expect that it will be finalised by this year-end,” Avi Friedman, Counsul for Trade and Economic Affairs, Head of Trade Section, Consulate General of Israel, Bangalore, said on the sidelines of a interactive meeting with trade body FAPCCI here today.

He said the conclusion of the agreement could significant increase bilateral trade between the two countries, which is currently at $4.5 billion, excluding the defence sector.

Cyber security

Friedman identified cyber security as a new potential area that the two countries could have deeper engagement, especially in the context of preventing cyber attacks.

“India is a victim of cyber attacks in the power and oil and gas sectors, I am given to understand. Even Israel is faced with cyber attacks (hacking of key installations),” he told *Business Line.*

Centres of excellence

Efforts are also on to expand the Indo-Israeli cooperation in setting up of centres of excellence beyond the horticulture sector.

“We are looking at other agri-related sectors such as dairy and alternative crops. So far, there are 28 applications from nine states to set up such centres of excellence,” Udai Ken Sagar, President of Indo-Israel Chamber of Commerce and Industry, said.

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Boosting Business Ties: Pakistani SIM cards may be allowed access in India soon!
Dilasha Seth, Economic Times

New Delhi, 8 July 2014: India may soon allow mobile phone SIM cards issued in Pakistan to function in the country, a unilateral measure that could boost trade ties between the two neighbours that have so far cited security concerns to deny a longstanding demand of businessmen on both sides of the border.

Commerce Secretary Rajeev Kher has written to the home ministry asking that Pakistani SIM cards be allowed access in India, a government official told ET, adding, "Pakistanis coming on visas are not terrorists. Giving SIM card access will only enhance business ties between the two nations." Kher's letter comes ahead of a meeting between Commerce and Industry Minister Nirmala Sitharaman and her Pakistani counterpart Khurram Dastgir Khan on July 24.

This will be the first bilateral ministerial meeting since the Narendra Modi-led government took charge at the Centre. The two ministers are scheduled to meet on the sidelines of the South Asian Free Trade Area (Safta) ministerial council in Bhutan and expected to discuss the road map for liberalisation of bilateral trade.

"By allowing sim card access, India may be in a better position to monitor telecom traffic," the official said on condition of anonymity. "A person who has to communicate may anyway use other means such as Skype. If you bring along a Dubai sim, it will work in India. So how is it (the ban on Pakistani sim cards) enhancing security?"

Although Pakistani businessmen enjoy a 10-city visa access to India, they are forced to procure local sim cards or turn to other means to stay connected. Pakistan does not allow sim cards issued in India to function in its territory either. The commerce department has also raised the matter with the telecom department, which has said that access for Pakistani sim cards may be allowed subject to clearance by the home ministry.

Experts say the home ministry's nod may lead to better regional integration and boost bilateral trade, which stood at $2.6 billion in 2013-14. "It is more about giving the same treatment to visitors from Pakistan as to people from the rest of the world. This will improve communication and business between the two sides like never before and will have a multiplier effect," said Nisha Taneja, professor with think tank ICRIER.

Buying a local sim in India is cumbersome for Pakistani businessmen given the numerous security checks that are carried out, Taneja said, adding, "If we allow Pakistani sim cards to function in India, we must ensure that it is not done in a complex way that would discourage people."

India had allowed investments from Pakistan two years ago through the Foreign Investment Promotion Board, along with one-year multiple entry visas for business visitors that permit entry and exit through different cities.

The government expects Pakistan to soon grant India non-discriminatory market access (NDMA), which will facilitate more trade through official channels. Pakistan had called off a cabinet meeting in March to discuss NDMA status in return for concessional tariffs on a range of its goods, saying it would like to engage with the next government in India.

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Can India bridge its trade deficit with China?
Nisha Taneja & Samridhi Bimal, Financial Express

15 July 2014: China is today India's largest trading partner. More striking is the fact that India has a large and growing trade deficit with China. In FY13, India recorded the largest bilateral trade deficit of a whopping $39.4 billion. This has raised concerns among Indian policymakers—largely related to what constitutes this deficit and how this deficit can be bridged.

Trade data shows that India's major exports are cotton, copper and iron ore which account for 51% of its total exports to China. Major imports from China comprise mechanical and electrical machinery and their parts and organic chemicals accounting for 44 % of total imports.

A more insightful inference can be drawn if we classify traded items into raw materials, intermediate goods, capital goods and consumer goods. Raw materials and intermediate goods were 89% of our exports and 83% of our imports comprised capital goods and intermediate goods.

More importantly, India's exports are largely resource-intensive and non-fuel primary commodities while imports are basically high- or medium-skill and technology intensive commodities. How concerned should we be about the huge imports? Clearly, intermediate and capital goods at competitive rates are essential for our manufacturing sector and would contribute to the industrialisation process. An interesting observation is that consumer goods comprise only 15% of total imports. This sets to rest the concern that many analysts have raised regarding Indian consumer goods sector being affected by a surge in imports from China.

Can India increase its exports to bridge the trade deficit? India's exports to China have been dominated by primary commodities. However, the composition in the last few years has changed. In 2008-2009, iron ore exports were the single-largest item, accounting for 60% of our exports. India's response was to impose export restrictions on iron ore in the form of duties. In the subsequent years, iron ore exports have fallen but there has been an increase in the exports of copper items, leading to a rise in its share in India's export basket to China from 1% in FY09 to 15% in FY13.

Thus, unless India diversifies its export basket, it is unlikely that it will be able to bridge its trade deficit with China through raising exports. One way to reduce India's overall deficit is by expanding India's export basket in manufactured products. Investment from China will not only bring in capital inflows but would also provide the much needed impetus to the manufacturing sector. Unlike trade, levels of investment between India and China remain relatively low. Total FDI inflows between April 2000 and February 2014 were a mere $396 million, accounting for less than 1% of the total FDI inflows received by India during the period. Of this, $251 million flowed in the last two years, indicating the potential synergies that can be realised between the two countries.

What is not understood very well is why FDI inflows from China are low. In the past, India has had a restriction on inward investment flows from three countries—Sri Lanka, Bangladesh and Pakistan—which were removed by 2012. Even though China has never been on the negative list for inward FDI, it is not too clear whether there is a non-transparent policy that inhibits FDI inflows from China. Another factor that may be inhibiting FDI from China is that it has been linking obtaining work permits to larger investment flows, drawing the reluctance of the Indian government. Evidence seems to suggest that Chinese prefer to use their own labour in investment projects than the local workers of the host country. China's Go Global Policy, meant to encourage more investment abroad, preceded a rise in the number of Chinese workers overseas. China had 812,000 workers abroad at the end of 2011, double of what it was in 2002.

In view of these problems, the recent signing of a memorandum of understanding to set up Chinese Industrial Parks in India is a welcome step. The MoU is aimed at attracting Chinese investments in India and providing an enabling environment for Chinese companies to invest in industrial parks and zones. To have a sustained inflow of FDI from China, the governments on both sides should address the barriers that have restricted these flows so far. Not only would FDI bring benefits such as technical know-how, jobs, and higher productivity, but would also rejuvenate the manufacturing sector that would help India increase its exports and lower its trade deficit in the coming years.

Taneja is professor and Bimal, researcher, ICRIER

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Japan to issue multiple entry short-term stay visa to Indians
PTI

New Delhi, 3 July 2014: Starting today, Japan will issue multiple entry visas for short-term stay to Indians.

This was announced by the Japanese embassy here today. The decision was taken following the announcement by Prime Minister Shinzo Abe when he visited here this January that his "government would introduce multiple entry visas based on the recognition that enhancement of people to people exchanges is important to further broaden relations between Japan and India," the embassy said.

The multiple entry visa will be issued not only at the Japanese diplomatic missions in India but also at all the Japanese embassies and consulate generals overseas in light of a large number of Indian nationals living outside India, it said in a release.

It is expected that this will help increase the number of Indian tourists to Japan and improve convenience in business activities, thus further developing bilateral exchanges between the two countries.

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IT companies worried as Canada tightens visa norms
Sujit John, Times of India

Bangalore, 8 July 2014: Like the US, Canada too has over the past few weeks tightened significantly the regulations governing its skilled worker immigration visas, a move that could hurt Indian IT companies' ability to win and service orders in that country.

IT industry body Nasscom sees the changes to be so potentially disruptive that on Friday it sent mails to external affairs minister Sushma Swaraj and industry & commerce minister Nirmala Sitharaman requesting "urgent intervention". The matter is expected to come up on Tuesday during the visit of Canada's minister of citizenship and immigration, Chris Alexander, to India.

"We are disappointed that Canada has chosen to follow an insular path rather than a progressive policy as adopted by the EU recently with regard to treating skilled workers transfer under intra-corporate transfers," Nasscom president R Chandrashekhar told TOI. Indian companies use over 15,000 Canadian work visas annually.

The visa that's used the most to work for short periods in Canada is called the Intra-Company Transfer (ICT) visa. It's similar to the L1 visa in the US, and can be used by companies to transfer specialist employees, in say India, to their subsidiary in Canada. On June 9, the Canadian government introduced changes that make it more difficult to understand what kind of people would be eligible to use the visa. The change states that it must be people with "uncommon knowledge". The implication is that profiles normally considered specialists in the tech sector will no longer be adequate under the new rubric of `uncommon knowledge'.

Gagan Sabharwal, deputy director of global trade development in Nasscom, said the Canadian government's failure to define `uncommon knowledge' has meant that Canadian embassies do not know how to implement the new norm. "So they are putting the onus on applicants to prove they fit the requirement. They have brought in a huge level of subjectivity and ambiguity. No visas have been issued under this category since the changes were introduced on June 9," he said.

Another visa that can be used is the LMO (labour market opinion) visa. In this, Canada has mandated companies to certify that they would not displace any local workers in the two years following the award of an IT contract. "Companies are not comfortable providing such certificates," Sabharwal said.

Canada and US have been tightening visa programmes under pressure from sections locally that are worried about high unemployment rates in these countries. But many others say that the countries do not have the skills that India provides, and the move will ultimately be detrimental to those countries.

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India's Q1 oilmeal exports fall by 31%
PTI

New Delhi, 7 July 2014: Oilmeal exports fell by 31% to 5.92 lakh tonnes during the April-June period of the current fiscal due to sharp decline in soyabean shipments to Iran, South Korea and other countries.

Export of oilmeal, used as animal feed, were 8.56 lakh tonnes in the same period of 2013-14.

According to the Solvent Extractors Association (SEA), soyabean meal exports have declined sharply in the last two months due to poor supply of soybean coupled with high price led to total disparity in international market.

In June, soybean meal exports fell to 2,637 tonne, the lowest level, SEA said in a statement.

As per SEA data, total soyabean exports fell to 1 lakh tonnes in the first quarter of 2014-15, as against 4.09 lakh tonnes in the year-ago period.

Similarly, castor seed meal shipments fell to 1.61 lakh tonnes from 1.89 lakh tonnes and ricebran extraction declined to 10,111 tonnes from 30,410 tonnes in the review period.

However, the export of rapeseed meal rose to 3.20 lakh tonnes during April-June of this fiscal from 2.26 lakh tonnes in the year-ago period, the data showed.

Oilmeal exports to Iran fell by 61% to 1.02 lakh tonnes in the first quarter of this fiscal, while shipments to South Korea declined marginally by 3.12% to 2.95 lakh tonnes in the same period.

The shipments to other countries such as Thailand, Vietnam, Taiwan, Indonesia and Europe remained remained below 50,000 tonnes, SEA added.

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Vegoil imports down 4% on weak demand
Business Line (The Hindu)

Mumbai, 15 July 2014: Vegetable oil imports dipped four per cent in June to 883,679 tonnes compared with 947,591 tonnes recorded in the same period last year.

The weak demand coupled with inverted duty structure followed by exporting countries such as Indonesia and Malaysia led to the drop in imports.

Edible oil imports were down five per cent at 860,736 tonnes (911,091 tonnes), while that of non-edible oils were down 37 per cent at 22,943 tonnes (36,500 tonnes).

The overall imports in the first eight months of the oil year (November-June) were down at 7,082,220 tonnes (7,145,060 tonnes).

Edible oil, as on July 1, at various ports is estimated at 525,000 tonnes and it consists of 260,000 tonnes of crude palmolein, 60,000 tonnes of refined palmolein, 65,000 tonnes of degummed soyabean oil and 140,000 tonnes of crude sunflower oil. Another 960,000 tonnes of edible oil is in the pipeline.

Total stock, both at ports and in pipelines increased to 1,485,000 tonnes from 1,420,000 tonnes in the previous months.

Refined palmolien prices were down in June at $833 a tonne against $866 in May, while crude soyabean oil increased to $951 from $934 in the same period. Crude palmolien and sunflower oil prices dipped to $841 ($876) and $936 ($942) , respectively.

The rupee depreciated against the dollar to 59.74 in June against 59.28 in May.

Import of non-edible oil in June was at 22,943 tonnes (36,500 tonnes).

The overall import of non-edible oil between November 2013 and June were at 126,388 tonnes (203,140 tonnes), down by 38 per cent. Major non-edible oils that were shipped include palm fatty acid distillate and crude palm kernel oil.

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Govt lifts quantitative ceiling on organic sugar exports
PTI

New Delhi, 5 July 2014: In a move expected to help the cash-starved industry, the government has removed the quantitative ceiling on exports of organic sugar.

Earlier, the government had kept a ceiling of 10,000 tonnes on organic sugar exports.

"The quantity ceiling for export of organic sugar has been removed till the time export of sugar is permitted freely," Directorate General of Foreign Trade (DGFT) said in a notification.

However, it said the export of organic sugar would be permitted subject to registration of quantity with DGFT and certification by Agricultural and Processed Food Products Export Development Authority (APEDA).

In a public notice, the DGFT has also permitted export of 8,100 tonnes of raw sugar to the US under tariff rate quota (TRQ) by Indian Sugar Exim Corporation Ltd.

The TRQ is a quota for a volume of exports that enter the US at relatively low tariffs. After the quota is reached, a higher tariff is applied on additional imports from India.

Sugar production of India, the world's second largest sugar producer and biggest consumer, is expected to be at 23.8 million tonnes in 2013-14, as against 25.1 million tonnes last year.

Last month, the Centre had decided to provide additional interest-free loan of up to Rs 4,400 crore to cash-starved sugar industry for paying cane arrears.

The sugar industry has been facing a cash crunch due to higher cost of production and lower selling prices in the wake of surplus output over the past few years.

Currently, sugarcane arrears stand at about Rs 11,000 crore across the country, with the maximum of Rs 7,200 crore in Uttar Pradesh.

Mills are facing a cash crunch as domestic prices have slipped below the cost of production, hurting their profits.

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June gold imports at 12-month high
Rajesh Bhayani, Business Standard

Mumbai, 9 July 2014: Gold imports surged in June to a 12-month high, at an estimate of 52 tonnes. This follows the Reserve Bank of India's relaxation in May of import norms, when premium and star trading houses were allowed to import under the '80:20' rule.

Meanwhile, it also appears traders have been destocking gold ahead of Thursday's Union Budget, in which they expect a tariff cut. On Wednesday, they were said to have sold at a discount to the market price, which brought down premiums for physical delivery to $3 an ounce.

Following the 150 tonnes of import in May 2013, the central bank had imposed stringent restrictions and also said 20 per cent of any import consignment should be re-exported, while the Union government raised the import duty to 10 per cent. Following this, the average monthly import came down to 30 tonnes. It has, as noted earlier, picked up since, with the widespread expectation of a cut in import duty. As a result, the premium for physical delivery, once as high as $180 an ounce, has fallen below $10.

RBI has also allowed gold importing banks to lease it to jewellers. Sources said the lease rates quoted are 4-4.25 per cent.

Following a surge in international prices, the price at Zaveri Bazaar here closed Rs 270 higher at Rs 28,170 per 10g on Wednesday.

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Budget 2014: Import duty on stainless steel up 7.5%, to help domestic firms
PTI

New Delhi, 10 July 2014: In a major relief to domestic stainless steel industry, reeling under severe under- utilisation of capacity, the government today increased import duty on flat-rolled products from 5 per cent to 7.5 per cent.

Presenting his maiden Budget, Finance Minister Arun Jaitley said this was done to provide an impetus to domestic stainless steel industry.

"The domestic stainless steel industry is presently suffering from severe under-utilisation of capacity. "To give an impetus to the stainless steel industry, I propose to increase the basic customs duty on imported flat- rolled products of stainless steel from 5 per cent to 7.5 per cent," he said.

The domestic stainless industry has been facing a threat in the form of a sudden and immense surge in imports from various countries, especially China, primarily because of the current import duty which is considered to be on the lower side in comparison to other nations.

China has an average customs duty of 10 per cent and Brazil, 14 per cent.

Taking opportunity of lower customs duty, imports from these countries were on the rise in recent times.

India's imports of stainless steel surged to 307,226 tonnes in 2013-14 from 239,136 tonnes in 2011-12, reporting a growth of nearly 30 per cent.

Domestic makers have been demanding 15 per cent duty. They were also demanding removal of the basic customs duty on key raw materials and on scraps to ensure the domestic stainless steel industry can manifest itself as a globally competitor.

India now ranks as the third largest consumer and producer of stainless steel.

Industry sources said country's stainless steel consumption was expected to grow at 8-9 per annum annually to reach around 3.5 million tonnes by 2015.

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Budget 2014: Arun Jaitley imposes tax on imports of telecom, IT products
PTI

New Delhi, 10 July 2014: In a move to give level-playing field to domestic electronics manufacturing sector, Finance Minister Arun Jaitley today imposed tax on imports telecom and IT products.

"To boost domestic production and reduce our dependence on imports I intend to take following steps. Impose basic customs duty (BCD) of 10 per cent on import of specified telecommunication products that are outside the purview of Information Technology Agreement," Jaitley said in Parliament.

India is signee of Information Technology Agreement 1 as a member of World Trade Organisation. Under ITA1 agreement, member countries should allow duty free import of products falling under eight categories covering telecom, computers and semiconductors like mobile phones and electronic chips.

"The Government signed ITA 1 on 25th March 1997 and committed import of duty free on 217 items. However, several items which were not covered under ITA 1, were also imported Duty Free. So now this has been corrected by levy of import duty on non ITA-1 items," Telecom Equipment Manufacturers Association Chairman Emeritus NK Goyal said.

He added that the Budget gives a positive signal that while India will meet all its WTO commitments and will also support domestic manufacturing.

The move is expected to encourage production of VoIP phones and some telecom network equipments for which demand is increasing with rapid change in technology.

While ITA allowed import of finished product duty free, domestic manufacturers paid taxes on import of components used for making a complete unit which made indigenous production of electronic products expensive and wiped out almost entire hardware production in India.

The Finance minister proposed to "exempt all inputs/ components used in the manufacture of personal computers from 4 percent special additional duty (SAD)" and "Impose education cess on imported electronic products to provide parity between domestically produced goods and imported goods." Industry bodies linked to electronics manufacturing hailed measures announced in the Budget.

"While this is a welcome step as it will encourage telecom products manufacturing, it is not clear why SAD has not been removed from all electronic components and ICT products. SAD is a regressive tax and does not serve any purpose. SAD should be removed from all electronic components and ICT equipments," ELCINA President Subhash Goyal said.

The Finance Minister exempted import of colour picture tubes to boost local production of finished products like old models of colour television, technically known as cathode ray TVs (CRT), which cost less compared to flat panel TVs (FPT).

"Cathode ray TVs are used by weaker sections who cannot afford to buy more expensive flat panel TVs. I propose to exempt colour picture tubes from basic customs duty to make cathode ray TVs cheaper," Jaitley said.

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Anti-dumping duty on solar gear unlikely to reduce imports
Shreya Jai, Business Standard

New Delhi, 14 July 2014: In a setback to the government's bid to encourage domestic solar cell industry, solar power project developers have told the government that they would continue to import solar cells from different countries and would not source domestically, if an anti-dumping duty on solar gears is imposed.

In May, the Directorate General of Anti-Dumping had recommended imposing high anti-dumping duty on solar imports coming from China, the US, Malaysia and Taiwan. To circumvent the anti-dumping duty, manufactures say they will now import from countries that don't attract the duty, such as Japan and South Korea, which manufacture "better quality solar cells" than Indian manufacturers.

"The power producers have conveyed that they have an option of buying solar cells from Japan, South Korea, Singapore, Canada, Germany, Italy and France, which cumulatively manufacture around 6,000-8,000 Mw a year. Indian manufacturers don't have the capacity to meet the demand of the growing solar power production industry," said a senior official with the Ministry of New and Renewable Energy (MNRE).

According to the recent MNRE data, out of the installed manufacturing capacity of solar cells of 1,260 Mw, only 240 Mw is operational, while India's annual demand is 3,000 Mw. This is slated to go up with about 4,000 Mw of solar power projects tendered recently across the country. According to the data shared by the solar power producers, the cost of Chinese solar cells is 58-61 cents per watt, which is set to go up to $1.20 per watt, once the anti-dumping duty is imposed. Indigenously-manufactured cells cost 44-48 cents per watt. Power producers say the cost of cells coming from Singapore, the US, Canada, Japan and European Union countries would cost between 75 and 90 cents.

"Even though they (imported solar cells) cost more, their quality is better. The whole issue being racked up by domestic manufacturers stands wasted then because the power producers would prefer imports as the domestic industry cannot meet their growing demand," said a senior executive of solar power production company.

The domestic manufacturers are, however, of the view that the cost of solar power would remain at Rs 7.5 a unit by 2020 if indigenous solar cells are used. The current cost of solar power in the country is the Rs 6.5-8 a unit.

Earlier, MNRE had raised concerns that the cost of solar power would double if high anti-dumping duty on imports of solar cells was imposed. Piyush Goyal, minister for coal, power and renewable energy, also on several occasions had issued statements against the imposition of dumping duty on imported solar cells. He also urged the finance ministry to review the decision on dumping as it would "escalate the cost of solar power".

He also said that India needs to promote its own manufacturing capabilities as domestic equipment capacity is inadequate to meet the demands of the country's ambitious solar power mission.

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WTO raises question on sugar subsidy
Nayanima Basu, Business Standard

New Delhi, 11 July 2014: Geneva-based World Trade Organization (WTO) has raised questions over India's move to subsidise export of sugar. WTO member countries such as Brazil, Columbia, Australia and the European Union (EU) have especially expressed concerned at the WTO's Committee on Agriculture.

The issue was raised in the successive meetings of the WTO Agriculture Committee in March and June. But none of the members have threatened to take it up with the Dispute Settlement Body of the WTO. "India has been questioned in the WTO's Committee on Agriculture but no penal action has been initiated. India explained in the WTO that the aim of the government intervention is to facilitate payments of outstanding arrears to farmers by the sugar mills and product diversification by incentivizing raw sugar production," minister of state (independent charge) for commerce and industry Nirmala Sitharaman told the Lok Sabha today.

She said the scheme, which was notified in March this year, provides an incentive on marketing and promotion services of raw sugar production and that it will be reviewed before the commencement of the next sugar season 2014-15.

She added that Brazil, Columbia, Australia and EU have also sought information on various tenets of the scheme under which the government had notified an export subsidy of Rs.3,300 a tonne on export of raw sugar of up to 4 million tonnes during the period February - March 2014.

Under the global trading rules, offering additional support in the form of the subsidy to the export of a particular commodity is prohibited as it results in price distortion in the international markets.

Apparently, the food ministry has moved a cabinet note to discontinue the scheme by September this year since only a handful of sugar mills are utilizing the scheme.

During the first six months of the marketing year 2013-2014, India is recorded to have exported 17.5 lakh tonne of raw sugar.

In a written reply to the Lok Sabha, Minister of State for Food and Consumer Affairs Raosaheb Patil Danve, stated that India exported 17,53,840 tonnes during the October 2013 and March 2014 period.

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WTO rules against US duties on Indian steel products
Business Line (The Hindu)

New Delhi, 15 July 2014: The World Trade Organization (WTO) has ruled against the US in a case filed by India over imposition of high import duties on Indian steel products.

Commerce Secretary Rajeev Kher said: "The ruling has been in our favour in the way 'public body' has been defined. There are smaller procedural issues where it is against us."

As the US might appeal against the ruling, the impact on Indian steel companies such as Tata, Essar and Jindal will be clear only after the Appellate Body of the WTO gives its decision, a Commerce Ministry official told *Business Line*.

The panel also rejected some of the claims made by India in its complaint, which New Delhi, too, may appeal against, the official added.

Both countries have the right to appeal against the report within 60 days of its circulation.

Steel companies have been hit hard by countervailing duties (CVD), ranging from 18 per cent to 500 per cent, which the US has been imposing on carbon steel from India for the last one decade. This has reduced Indian exports of the product to almost zero.

The CVD, which is a levy to neutralise Government subsidies, have been imposed by the US on the ground that iron ore sourced by Indian steelmakers from public sector NMDC is supplied at subsidised rate because it is government-owned. In a case filed before the WTO in 2012, India rejected the claim and argued that NMDC always sells at the prevailing market prices which are determined by their exports to Japan and South Korea.

The WTO panel, in its judgment on July 14, rejected Washington's argument that supply from state-owned iron ore and coal miners allowed Indian steel exporters, like Tatas, to be treated as public bodies. In a statement posted by the US Trade Representative on its website, it claimed that the WTO panel had rejected most of the challenges brought by India against the US Department of Commerce's case-specific determinations.

"The rejections include challenges to over 300 instances of the use of 'facts available', challenges to Commerce's benchmark calculations… and Commerce's inclusion of new subsidy programmes in countervailing duty review proceedings," the statement said.

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India says no trade facilitation pact without solving food security issue to WTO members
PTI

New Delhi, 3 July 2014: Deeply concerned over slow progress in finding a permanent solution to the food security issue, India in a stern message to WTO members said it would not be possible to agree on trade facilitation pact which is dear to the developed world.

"There is a growing disenchantment, anguish and anger in our domestic constituencies and a sense of deja vu as once again they see the interests of developing countries being subordinated to the might of the developed world," India has said in its statement at a meeting of WTO members in Geneva.

With the developed countries attempting to sideline the Bali package on food security programmes of developing nations and issues of the least developed countries (LDCs), the whole matter may now result in Doha type of stalemate.

India has made it clear that it would not agree to the Trade Facilitation Agreement (TFA) unless there is a "tangible and credible evidence of movement" on arriving at a permanent solution on safeguards to run food security programmes of developing nations without attracting any penalty and a package for LDCs. India has stated that the pace of implementation of the Bali decisions has been heavily skewed in favour of trade facilitation and virtually all other decisions have been relegated to the background. "This is unacceptable".

In the WTO's Ministerial meeting in Bali in December last year, members have agreed to finalise on TFA and find a permanent solution to unhindered implementation of food security scheme so that these programmes do not attract any multilateral scrutiny.

"We are deeply concerned that the (Bali) ministerial decision on public stockholding for food security purposes is getting sidelined," it has said.

A senior official in the Commerce Ministry said: "India will not be able to lend itself to the consensus on TF protocol unless there is a tangible, credible evidence of movement on other parts of the Bali package which includes primarily ours public stock holding and LDC issues".

The TFA, which aims at simplifying customs procedure, increasing transparency and reducing transactions cost, is being pushed by the US and other developed world as they seek to bolster their sagging economies through an unhindered international trade by way of a uniform and easy procedures at customs.

"Till we have an assurance and visible outcomes which convince developing countries that members will engage in negotiations with commitment to finding a permanent solution on public stockholding and other Bali deliverables, especially those for the LDCs, India will find it difficult to join the consensus on the protocol of amendment (for TFA)," India has said in its statement.

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China, Cuba back India for food procurement subsidies at WTO
Amiti Sen, Business Line (The Hindu)

New Delhi, 16 July 2014: India, China and Cuba have joined hands at the World Trade Organization (WTO) to demand inclusion of subsidies for food procurement and food-aid programmes in the list of permissible incentives.

New Delhi has refused to give its consent to a trade facilitation protocol being pushed by several developed WTO members, such as the US, Australia and the EU, till there is a permanent solution on public stockholding.

In an informal meeting of the WTO’s agriculture panel this week in Geneva, the three countries said a proposal by the G-33 developing countries in November 2012 should be the permanent solution, a Government official told *Business Line*.

The proposal calls for an amendment to the Agriculture Agreement of the WTO so that price support for public procurement and food aid in developing countries — to benefit low-income farmers or those who lack resources — is considered ‘Green Box’ and allowed without limits.

At present, food procurement subsidies are categorised as trade distortive subsidies, which could attract sanctions from other countries on breaching the cap of 10 per cent of value of agriculture production.

Taking a hard line

The position taken by India, China and Cuba on a permanent solution can be interpreted as a hard one, as the proposal to include price-support subsidies in the ‘Green Box’ was not entertained by several developed countries at the meeting of trade ministers of WTO member countries in Bali last December. The Bali Package, therefore, allowed developing countries “interim relief” against action by other countries on breaching subsidy limits till a permanent solution was found by the next Ministerial meeting in 2017.

In return, developed countries (and some developing ones such as Mexico and Hong Kong) got all members to approve a trade facilitation agreement to improve movement of goods across the border. India, however, is not happy with the ‘interim relief’ as it would need to submit numerous documents and still be open to challenge on the ground of trade distortion.

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