Centre for WTO Studies
विश्व व्यापार संगठन अध्ययन केन्द्र

INDIA, WTO AND TRADE ISSUES

Quaterly Newsletter of Centre for WTO Studies

VOL.2 2012 April - June

Lead Article

Currency Misalignment & the International Trade Law Regime

Rachit Ranjan

1. Introduction

Amidst the global economic crisis and governments trying to ascertain solutions to combat the slowdown, an important issue that has captured the fancy of economists, legislators and trade practitioners is that of currency misalignment.

Currency movements are a common occurrence and they entail both economic and legal implications. Conventional economic theory suggests a close relationship between trade flows and exchange rates of countries. As a country exports more than it imports, its trade surplus increases. In turn, this leads to an increased demand for the domestic currency among residents (as they seek to convert their foreign currency export earnings). In the absence of any other impacts, this increased demand will cause an appreciation of the domestic currency, which in turn increases the cost of the country's exports for foreigners (who now have to pay more in their own currency for the same goods) and increases the attractiveness of imports (which now cost less in the local currency). This will reduce exports and increase imports, bringing about an adjustment in the trade surplus. The negative impact of an appreciating currency on the trade surplus is a strong motivation for central banks in export-dependent countries to manage their exchange rate. To do this, central banks usually intervene in currency markets, by selling domestic currency and buying foreign currency, thereby offsetting the increased demand for domestic currency and restricting its appreciation.

A 1984 IMF study (discussed in the Report on "Exchange Rates and Impact on International Trade" of the WTO's Working Group on Trade, Debt and Finance (WGTDF) – WTO document WT/GC/44) clearly laid down the channels by which such increased volatility could affect trade. It described, for example, how sustained misalignment of exchange rates away from levels that reflected inflation or cost differentials sent incorrect price signals which could destabilize international trade flows; how misalignment could inflict adjustment and resource misallocation costs on an economy if it changed investment decisions and resulted in shifts in resources between the sectors of an economy that were not justified by

New Faculty Member : Dr Pralok Gupta

The Centre for WTO Studies welcomes a new faculty member, Dr Pralok Gupta, who has joined the Centre as Consultant (Assistant Professor) – 'Services and Investment' in May 2012. Dr Gupta has a PhD in Economics and Social Sciences from IIM Bangalore. Prior to joining the Centre, Dr Gupta was working in the financial services sector. He has also served in the State Audit Services of the Government of Uttar Pradesh. Dr Gupta has been associated with consultancy and research projects for corporate bodies, the government and international organizations. His research interests include Economics of Services Trade, FDI in Services, Regulatory Environment & Trade Policies, WTO, Trade & Environment, and International Migration.

In this issue

1. Lead Article - "Currency Misalignment & the International Trade Law Regime: Is there a Solution? 1
2. New Faculty Member : Dr Pralok Gupta 1
3. WTO Dispute Analysis 3
4. Activities & Events (April-June 2012) 7
5. Faculty Participation in Outreach Programmes (April - June 2012) 11
6. News Roundup 12
7. Forthcoming Events (July - September 2012) 24

relative cost and productivity differentials; and how misalignment might destabilize levels of protection against foreign competition provided by price-based trade restrictions, generating pressure for compensating trade restrictions to protect current patterns of supply. This analysis affirms that the problem of currency misalignment is indeed real and that it results in global trade imbalances.

Given this backdrop, this paper examines the existing legal framework by analyzing the Articles of Agreement of the International Monetary Fund (IMF) and the World Trade Organization (WTO) provisions on currency devaluation.

2. The IMF Articles of Agreement

The IMF Agreement was drafted with the intention of maintaining a vigil over international monetary law and its practices across the globe. Amongst its most important objectives was that of monitoring the impact of competitive misalignment and its effect on interests of other countries during the Great Depression.

Article IV of the IMF Agreement was drafted with the intention of giving the organization, direct authority to maintain surveillance over each member's exchange rate policies. Article IV, Section 1 mentions that the *raison d'être* of IMF is to facilitate exchange of goods, services and capital among nations and sustain economic growth. It also mentions that the primary task of the body is to develop underlying condition in a manner so as to sustain financial and economic stability. Article IV further establishes specific obligations for member states requiring the members to engage in capacity building with the IMF to promote a stable system of exchange rates. Article IV, Section 1(iii) specifically imposes an obligation on member states to: "avoid manipulation of exchange rates in order to gain an unfair competitive advantage over other members."

While the IMF Agreement nowhere defines what constitutes 'manipulation', the 2007 Executive Board Decision on Bilateral Surveillance throws some light on the issue. It stated that (i) protracted large-scale intervention in one direction in the exchange market; (ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes; (iii)(a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital; (iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows; (v) fundamental exchange rate misalignment; (vi) large and prolonged current account deficits or surpluses; and (vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows shall be indicators of a member's manipulation of exchange rates[1]. Further, in the 2007 Decision the Executive Board under Section 2 of the Annex stated that a member would be in violation of Article IV, Section 1(iii): "If the Fund determined both that: (a) the member was manipulating its exchange rate or the international monetary system and (b) such manipulation was being carried out for one of the two purposes specifically identified in Article IV, Section 1(iii)."

The underlying problem with this interpretation is that even if a member's currency exchange practice fits into one aforementioned indicators, it only violates Article IV, Section 1(iii) if it devalues its currency with a 'forbidden intent', i.e. when the intentional misalignment occurred with the intention to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. The Executive Board also stated in its 2007 Decision that an assessment of any member's representation on the issue has to be based on all available evidence. It goes further in stating that such representation shall be accompanied with a benefit of reasonable doubt against the member. This subjective standard of determination of intent is not readily demonstrable and would be "politically very delicate for the IMF to officially find one of its members in breach of that provision" (Zimmermann, 2010).

---

[1] International Monetary Fund, Executive Board's 2007 Decision on Bilateral Surveillance. June 15, 2007. The Board further explained that:

(a) 'Manipulation' of the exchange rate is only carried out through policies that are targeted at—and actually affect—the level of an exchange rate. Moreover, manipulation may cause the exchange rate to move or may prevent such movement.

(b) A member that is manipulating its exchange rate would only be acting inconsistently with Article IV, Section 1(iii) if the Fund were to determine that such manipulation was being undertaken "in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." In that regard, a member will only be considered to be manipulating exchange rates in order to gain an unfair competitive advantage over other members if the Fund determines both that: (A) the member is engaged in these policies for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate and (B) the purpose of securing such misalignment is to increase net exports.

WTO Dispute Analysis

Since December 2011, the Centre for WTO Studies has been disseminating the WTO Dispute Analysis, summarizing the Panel and Appellate Body reports. The aim of the Dispute Analysis series is to analyze the key arguments of the parties and the findings of the Panel or the Appellate Body. Some of the recent disputes covered are China - GOES (Panel), US-Tuna II (AB) and US - Large Civil Aircraft (AB). To subscribe to the Dispute Analysis series, send an e-mail to: disputes_cws@iift.ac.in. Alternatively, it can also be accessed online at : http://wtocentre.iift.ac.in/DisputeAnalysis.asp

Even if an 'effect test' is conducted to determine the result of a member's alleged undervaluation it would not contravene Article IV, Section 1(iii) because whether the member gains unfair advantage or not is a matter of interpretation (Mercurio & Leung, 2009). Mercurio & Lueng also opine that many economists just align this unfair advantage to Adam Smith's theory of absolute advantage or David Ricardo's theory of comparative advantage. They further claim that the mere fact that a member has adopted a currency peg does not necessary imply that its exports and imports must deviate from what the Smith and Ricardo models envisage, to such an extent that it amounts to an 'unfair disadvantage'.

Moreover, if we rely on history the revaluation of the Japanese currency in the 1990s did not lead to any significant deterioration in its trade surplus. Therefore, there cannot be a direct correlation between a fixed peg and favourable balance of payment. More importantly, no country is under an obligation to correct balance of payment disequilibrium; therefore, evidence of the same will not be sustainable to prove any country's breach of IMF articles. These arguments make it even tougher for the IMF to establish the requisite intent needed to confirm a member's violation of Article IV, Section 1(iii).

Where the IMF falls short as a regulatory institution in such matters is the absence of dispute settlement procedure. Even though Article VIII Section 3 establishes a general obligation on Members not to engage in discriminatory currency practices, the Chapeau uses the term 'avoidance of discriminatory practices' downplaying its enforceability. Further, Article XXIX only stipulates that the Executive Board may settle any issue of interpretation that arises with respect to the provisions of the Agreement. This restricts the authority of IMF to enforce any decision it makes as they themselves are not binding on any member.

Even the solutions proposed are coupled with caveats. Sanford suggests changes to the IMF's Articles of Agreement to give the fund more authority over international exchange and more authority to require that countries comply with its rules (Sanford, 2010). The problem with this solution as Sanford points out is that an amendment to the IMF agreement would require 85% majority vote of the member countries. Many members may not be willing to vote in favour of such a change as they feel that the current exchange rate system is working reasonably well and very few countries would want to IMF to have such authority over their exchange rate policies.

3. 'Solutions' under the WTO

Mattoo and Subramanian suggest that the WTO is the proper institution to deal with the issue of currency manipulation, considering the obligations and commitments that a member nation must comply with and the presence of a dispute resolution mechanism under its framework (Mattoo & Subramanian, 2008). Moreover, since a unilateral measure to curb intentional devaluation is aimed at imposing countervailing duties and anti-dumping duties, it is pertinent to analyze the tenability of the same within the structure of WTO and the agreements therein.

(a) *Article II:6 of the GATT 1994*

Article II: 6 of GATT 1994 recognizes the possibility of currency fluctuations and gives the members flexibility to make suitable changes in their bound rates, in view of such fluctuations.

(b) *Article XV of the GATT 1994*

Article XV of GATT 1994 specifically introduces a link between IMF and GATT. Although it generally stipulates circumstances under which members can impose trade measures for balance of payment purposes, Article XV (4) imposes an obligation on members not to frustrate the intent of GATT by exchange action or the intent of IMF Articles by trade action. It is imperative here to analyze the meaning of 'frustrate'.

The GATT Interpretative Note to Article XV (4) states that: "The word 'frustrate' is intended to indicate, for example, that infringements of the letter of any Article of this Agreement by exchange action shall not be regarded as a violation of that Article if, in practice, there is no appreciable departure from the intent of the Article. Thus, a contracting party which, as part of its exchange control operated in accordance with the Articles of Agreement of the International Monetary Fund, requires payment to be received for its exports in its own currency or in the currency of one or more members of the International Monetary Fund will not thereby be deemed to contravene Article XI or Article XIII. Another example would be that of a contracting party which specifies on an import license the country from which the goods may be imported, for the purpose not of introducing any additional element of discrimination in its import licensing system but of enforcing permissible exchange controls."[2]

Therefore, to establish that the intent is frustrated it must be proven that such infringement violates the spirit of GATT or a specific article. While the interpretative note provides us some guidance about the meaning of 'frustrate' under Article XV (4), it does not lay down unequivocally as to what sort of exchange practices might frustrate the intent of GATT. Perhaps a sustainable argument for infringement of Article XV is that intentional currency devaluation amounts to violation of market access commitments under Article II. However, even to establish the same, Article XV(2) sets out a principle of deference where the WTO members shall rely on IMF in all cases addressing "problems concerning monetary reserves, balances of payments or foreign exchange arrangements," and that GATT contracting parties must consult with the IMF and "shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments, and shall accept the determination of the Fund as to whether action by a contracting party in exchange matters is in accordance with the Articles of Agreement of the International Monetary Fund". Till date there has been no positive evidence or statistical finding which points towards any 'manipulation' by a member which is not in accordance with IMF Articles of Agreement. Even if an IMF study suggests intentional devaluation in violation of its Articles of Agreement, the fact that a WTO dispute would take considerable time to resolve the real effect of the member's foreign exchange policies will wither away as and how the case progresses.

Currency exchange policies are generally outside the framework of GATT but the historical background of GATT suggests that it was formulated to tackle situations where countries resorted to exchange actions to boost exports and discourage imports (Bhala, 2007). However, the lack of specific legal provisions and little jurisprudence with respect to the meaning of frustration of intent will make it extremely difficult for any panel to establish violation of Article XV (4) on these lines. Furthermore, Article XV (9) GATT provides immunity to a nation in the sense that it considers exchange rate restrictions and control legitimate if it is in accordance with IMF Articles of Agreement. This establishes supremacy of IMF over WTO in the event of a conflict relating to exchange policies and shields the member's exchange policy from any GATT inconsistency provided it is compliant with IMF norms.

(c) *Nullification, Non-violation or Impairment of Benefits.*

The doctrine of non-violation stipulates that a member nation may bring claims that a foreign practice frustrates market access expectations associated with tariff concessions. Even if a member's policy led to increase in tariffs on imports, it may claim that the same are properly adjudicated under Article XV of GATT. Moreover, the utility of non-violation doctrine has been restricted to new subsidy practices or changes in tariff classifications. Extending the ambit of the doctrine to currency exchange would result in misuse of the doctrine (Staiger & Sykes, 2010).

(d) *Whether intentional currency devaluation qualifies as prohibited export subsidy under Agreement on Subsidies and Countervailing measures (ASCM)?*

Article 1 of the ASCM sets out the legal definition of a subsidy as a 'financial contribution' by a government or public body through which a 'benefit' is conferred on the recipient. Generally, governments are said to provide subsidies to industries when they provide financial assistance to benefit the manufacture, production, or exportation of goods. Companies can be subsidized through receiving direct cash payments, loans at non-market terms, and credit against taxes. If the aggrieved nation feels that its domestic industry is getting injured on account of such subsidization for a foreign product, it imposes countervailing duties computed on the basis of the amount of subsidies a foreign producer receives from its government This raises two questions, *firstly*, whether intentional currency undervaluation actually amounts to a 'financial contribution' and *secondly*, if

[2] GATT, Interpretative Note to XV (4), October 30, 1947, 61 Stat. A-11, 55 U.N.T.S 194.

there is a 'financial contribution', whether it actually confers any 'benefit' to the recipient. However, to be countervailable it is also imperative to prove that such subsidy is 'specific' within the meaning of Article 2 ASCM. The specificity requirement that may be used here is mentioned under Article 2.3 and 3.1(a) ASCM which prohibits a subsidy contingent upon export performance.

(i) Whether currency undervaluation amounts to 'financial contribution'?

Article 1.1 of the ASCM specifically sets out conditions for a government action to qualify as a 'financial contribution' with respect to subsidies. As per the Panel report in *United States-Measure Treating Export Restraints as Subsidies*[3], it was held that Article 1.1 sets outs an exhaustive list of any other economic benefit provided by the government shall not constitute financial contribution for the purposes of ASCM. Therefore the panel observed that government restriction on exports in this instance could not qualify as a subsidy because it did not involve a direct transfer of funds or represent revenue foregone or entailed government provision of goods or services. Staiger & Sykes point out that 'financial contribution' may exist through undervaluation as it makes imports more expensive and thus results in tariff revenues being foregone when imports are elastically demanded.[4] However they attach a caveat to this reasoning since this suggestion is not beyond contestation through an economic analysis. The issue of rise or fall in tariff depends more on the elasticity of import demand, as if the demand is inelastic for an imported product devaluating country may earn more tariff revenue (Staiger & Sykes, 2010).

(ii) Whether intentional currency undervaluation confers a 'benefit' upon the member's exporters?

Even if we assume for the sake of argument that there is indeed a 'financial contribution', we must still prove that a 'benefit' is conferred upon the recipient (i.e. exporters in this case) under Article 1.1(b) ASCM. Members who support countervailing measures to combat intentional devaluation contend that the undervalued currency plays a role in lowering labour costs for exporters belonging to the devaluating member, thereby making them better off in the open market. Moreover since these exporters don't need to hedge risks on account of currency fluctuation further benefit is conferred. However lack of a conclusive economic analysis in favour of such an argument or data which implies the same, makes it difficult to establish that a benefit is conferred through such a practice. Moreover, in a fixed exchange regime exporters will still need to hedge against inflation and interest rate risks.

(iii) Whether intentional currency undervaluation amounts to a specific subsidy?

Even if a member's exchange regime policy constitutes a subsidy under Article 1 ASCM, it will still require passing the test of specificity. Under Article 2 ASCM, a subsidy must be explicitly limited to certain enterprises for it to be countervailable. In this case, sectors become automatically eligible for such 'subsidy' upon fulfilment of an objective criterion (i.e. export). Article 2.1(b) stipulates that such subsidies are non-specific and therefore not countervailable. However, there is support for the view that this is case of a subsidy contingent upon export performance and therefore prohibited under Article 2.3 & 3.1 (a). It is pertinent here to observe that the 'benefit' conferred through undervaluation is not limited to export oriented sectors but to any person holding foreign exchange. Moreover the exchange regime usually operates in a manner to provide a stable currency for curtailing inflation, enhancing foreign investment etc. and not just to boost export performance. The conditionality upon export performance is merely incidental and not intentional (Mercurio & Leung, 2009).

(e) Antidumping Measures

As per Article 2.1 of the WTO's Anti-Dumping Agreement[5] (ADA) "a product can be said to be dumped by an exporter if it is being introduced into the commerce of another country at less than its normal value, or more particularly, if export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country."

In order to impose anti-dumping measures it is merely not enough that the act falls within the definition given under Article 2.1 of ADA. The first step towards investigating any dumping action is establishing that the product being dumped is a like product. Like product has been defined under Article 2.6 of the ADA as product which is identical or bears similar characteristics in comparison to the domestic product.

[3] WT/DS194/R.
[4] This is an argument given by U.S. producers of flexible magnets in a recent CVD petition against China.
[5] WTO Agreement on Implementation of Article VI of the GATT 1994.

Once the like product criterion is fulfilled, an objective examination is required to analyse the existence of dumped imports and whether the same are causing or threatening to cause material injury to the domestic industry. It is imperative to show in such investigations that there exists a direct causal link between the injury and the dumping practice. In order to establish material injury, an examination is carried out under the following broad headings:

- Volume of dumped imports (whether there has been significant increase in dumped imports either in absolute or relative terms in the country?).
- Price effect of dumped imports (whether there has been significant price undercutting or a restriction on price increase of domestic like products on account of such imports?).
- Impact of such imports on domestic producers (whether there has been loss in productivity, sale, profit etc.[6] of the domestic producer?).

However, with regard to competitive devaluation of currency there is a great deal of ambiguity on how the price will be adjusted to establish export price for a fair comparison, "...presumably, the export price would be adjusted downward by the amount of misalignment, so that when it is compared to the normal value for purposes of calculating a dumping margin, any margin of dumping would automatically increase by the amount of misalignment. This adjustment would apparently be made regardless of how the exports are priced (in producer currency or local currency, for example), and regardless of the basis for establishing normal value (whether home market price, third-country price, or constructed value)." (Staiger & Stykes, 2010).

The intentional currency devaluation may lack WTO consistency as even if the export price and normal value are identical it will invariably account for the export price to be lower than the normal value. This violates the principle of fair comparison between export price and normal value under Article 2.4 of ADA. Moreover as is the case with countervailing duty, there is no method to quantify misalignment objectively, which will create further legal hassles.

On a separate note, it should also be noted that the ADA seeks to address the issue of currency fluctuation through Article 2.4.1, by providing that in case of anti-dumping investigations; exporters are given at least 60 days to adjust their export prices to reflect currency fluctuations.

4. Conclusion

While some countries are aggrieved about currency alignment of their trading partners, this in itself is not a sufficient ground for addressing issues of currency devaluation at the WTO. It cannot be denied that currency issues have an effect on international trade and may be an important concern for some countries. However, not all issues that impact or affect trade can be covered by the legal framework of the WTO, since the WTO has a specific agenda as enshrined in its various agreements, which cannot be overlooked.

Perhaps an unexplored area or rather an underutilized one in tackling the issue is that of the 1996 Coherence Mandate between IMF, WTO and World Bank, which was executed with the intention of introducing greater cooperation in economic policy making particularly aimed at ensuring exchange rate stability. Recognition of competitive devaluation as a practice, which is detrimental to growth of global trade and close monitoring by such institutions along with greater exchange of information may assist the international trade regime in tackling this issue. Given the complexities of international relations and concerns relating to sovereignty of nations, this appears to be the only sound approach to ensure that there are appropriate remedies to deal with such volatility, thereby maintaining the global trade balance.

Select Bibliography

a. Bhala, Raj, *Modern GATT Law: A Treatise on the GATT,* 1172, 2005.

b. Lindsey, Brink & Ikenson, Dan, "Coming Home to Roost: Proliferating Antidumping Laws and Growing Threat to U.S. Exports", Cato Institute, Trade Policy Analysis, No.14, 2001.

c. Mattoo, Aaditya & Subramaniam, Arvind, *Currency Undervaluation and Sovereign Wealth Funds: A New Role for the World Trade Organization* (Peterson Institute Working Paper WP 08-2), January 2008.

d. Mercurio, Bryan & Leung, Celine Sze Ning, "Is China a Currency Manipulator?: The Legitimacy of China's Exchange Regime Under the Current International Legal Framework", The International Lawyer, Vol. 43, No.3, 2009.

[6] Other relevant economic factors such as market share, return on investments, employment, wages, inventories, diminished demand, change in consumption pattern, use of technology, ability to raise capital, effects of cash flow, utilization, output and capacity. See also Lindsey and Ikenson (2001).

e. Sanford, John, *Currency Manipulation: The IMF and WTO*, CRS Report for Congress, September 27, 2010.

f. Staiger, Robert W. & Sykes, Alan O.' *Currency Manipulation and World Trade, World Trade Review*, Cambridge University Press, Vol. 9(04), pages 583-627, October 2010.

g. Zimmermann, Claus. D, "Congress Continues to Attack Currency Manipulation as China Defuses G-20 Pressure For Now: the International Law Issues", American Society of International Law Insight, International Legal Materials, Vol. 14, No. 19, June 30, 2010.

Activities & Events (April-June 2012)

1. Seminar on WTO Accession with focus on Trade in Services, Addis Ababa, Ethiopia

L to R: Prof. Sajal Mathur, CWS, IIFT, H.E. B.S. Bishnoi, Ambassador of India, H.E. Mr. Yaekob Yalla, Minister of State, Ministry of Trade, Ethiopia, Prof. Shashank Priya, CWS, IIFT

A four-day seminar, from 17-20 April 2012, on WTO Accession with focus on Trade in Services was held in Addis Ababa, Ethiopia. The programme was organised by the Centre for WTO Studies (CWS), Indian Institute of Foreign Trade (IIFT), with support from the Indian Technical and Economic Cooperation Programme of the Ministry of External Affairs, Government of India. The objective of the programme was capacity building and to provide technical inputs to the Ethiopian authorities on WTO accession and the General Agreement on Trade in Services (GATS). The inaugural session of the Seminar was attended by senior functionaries, including H.E. Yaekob Yalla, Minister of State, Ministry of Trade, Mr Ato Geremew Ayalew, Director, Trade Relation and Negotiations, Ministry of Trade, and H. E. Bhagwant Singh Bishnoi, Ambassador of India to Ethiopia and Djibouti. Professors Shashank Priya and Sajal Mathur from the Centre for WTO Studies were the resource persons for the Seminar.

The Seminar was attended by over 25 senior government officials from the relevant line ministries, institutions and other regulatory bodies dealing with trade in services in Ethiopia. The programme was highly appreciated by the Ethiopian authorities and included an 'Introduction to the WTO'; 'An Overview of

Participants at the Seminar on WTO Accession, Addis Ababa, Ethiopia

the WTO Accession Process with special emphasis on LDC accessions'; 'Basics of GATS'; 'The Art of Scheduling Specific Commitments on Services'; 'An Overview of the Specific Commitments by Recently Acceded Members and LDCs'; the "Doha Negotiations and Dispute Settlement Process with focus on trade in services'; and sessions on 'Financial Services' and 'Telecommunication Services'. Hands-on experience on scheduling services commitments was also provided through a simulation exercise.

2. WTO Training Programme on Trade and Development Issues, AALCO, New Delhi

A five-day training programme (21-25 May 2012) on Trade and Development Issues was organised by Asian-

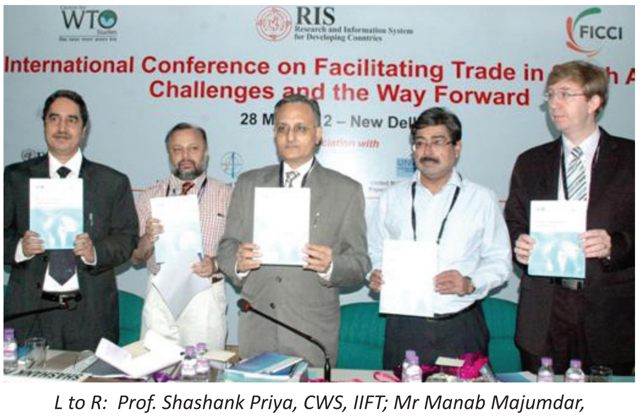
Group photograph: Participants with AALCO, RIS, CWS, IIFT and WTO Secretariat officials

African Legal Consultative Organization (AALCO) in collaboration with the WTO Secretariat and the Centre for WTO Studies. About 30 participants, including diplomats from Asia, Africa and law students enrolled for the programme. The inaugural session was attended by Dr Rahmat Mohammad, Secretary General, AALCO; Mr Shishir Priyadarshi, Director, Development Division, WTO; Dr Xu Jie, Deputy Secretary General, AALCO; Dr. Biswajit Dhar, Director General, Research and Information Systems for Developing Countries, and Prof. Abhijit Das, Head, Centre for WTO Studies. The training programme was in the form of sessions conducted by Mr Shishir Priyadarshi, WTO and Professors Abhijit Das, Madhukar Sinha, Sajal Mathur and Shashank Priya of the Centre for WTO Studies.

The sessions covered various trade and development issues, including Trade and its Linkages with Development; Role of South-South Co-operation in Trade and Development; Special and Differential Treatment in GATT/WTO; Aid for Trade; and the Development Dimension in the Doha Round including in the negotiations on agriculture, non-agricultural market access, services and IPRs.

3. International Conference on Facilitating Trade in South Asia: Challenges and the Way Forward, India Habitat Centre, New Delhi

An international conference on "Facilitating Trade in South Asia: Challenges and the Way Forward", was organised by the Research and Information System for Developing Countries (RIS), CWS, Indian Institute of



L to R: Prof. Shashank Priya, CWS, IIFT; Mr Manab Majumdar, Asst Secy General, FICCI; Mr S.K. Goel, Chairman, CBEC; Dr Biswajit Dhar, DG, RIS; Mr Yann Duval, UNESCAP.

Foreign Trade and the Federation of Indian Chambers of Commerce and Industry (FICCI) on 28 May 2012 in New Delhi. The event was organized in association with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok; Asia-Pacific Research and Training Network (ARTNeT); UN Network of Experts for Paperless Trade (UNNExT) in Asia-Pacific; and the Federation of Freight Forwarders' Associations in India (FFFAI). Over 150 participants representing government, private sector and academia attended the Conference, including participants from Bangladesh, Nepal and Sri Lanka.

The keynote address was delivered by Mr S. K. Goel, Chairman, Central Board of Excise and Customs (CBEC), Government of India. Two flagships studies entitled "Trade Facilitation in Asia and the Pacific: An Analysis of Import and Export Processes", authored by experts of RIS and UNESCAP, and "Trade Facilitation Gap Analysis for Border Clearance Procedures in India", authored by experts of the CWS, IIFT, were released by Mr Goel at this conference. Both the studies focus on the various procedural and customs related challenges/obstacles faced when transacting cross-border trade both in India and in the South Asian region; corrective measures taken by the Governments and the possible way forward.

The main objective of the conference was to deliberate upon the findings of the studies, discuss the reforms required to streamline trade procedures and processes and to identify other critical infrastructural

L to R: Mr S.K. Goel, Chairman,CBEC; Mr Manab Manjumdar, Asst Secy General, FICCI; Prof. Shashank Priya, CWS, IIFT; Dr Biswajit Dhar, DG, RIS; Mr Yann Duval, UNESCAP.

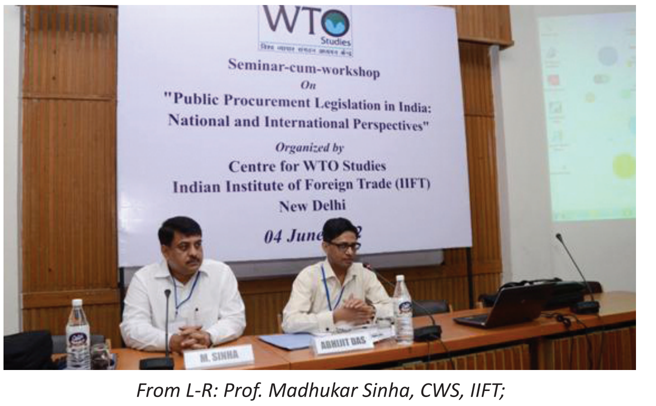
bottlenecks that affect trade in the region. Another objective was to review the performances of India and other South Asian countries in simplification of documentary requirements and their alignment with international (and regional) standards, and automation of international trade transactions and its associated electronic documents for single window and paperless trade systems. The conference had three working sessions devoted to export/import processes and procedures, approaches and achievements in reforming trade processes and procedures and the agenda for the trade facilitation reforms. Some recommendations that emerged from the conference, include:

- Implementation of basic trade facilitation measures to be consistently enforced and re-enforced nation and region-wide.

- Full and inclusive representation of the private sector in trade facilitation initiatives is essential. Chambers of commerce and industry must play a proactive role in these initiatives. More coordination is required among key stakeholders, including the various ministries dealing with import/export.
- Paperless trade, including development of national and regional single windows, need to be encouraged to facilitate trade. A paperless environment would not only save cost in terms of documentation charges but also time and energy.
- There should be an apex body with proper mandate on trade facilitation.
- Physical inspections should be minimized whenever possible, in particular through adoption of risk management techniques by all organizations involved in the process.
- All border points should be equipped with adequate infrastructure necessary for smooth conduct of trade procedures, without which trade facilitation cannot be achieved properly. Inter-agency cooperation at the border is necessary.
- There should be harmonization of working days and timings of various agencies (customs, banks, health and quarantine authorities etc.) engaged in trade facilitation.
- Sectoral focus is important for more effective trade facilitation measures. At the same time, concrete trade facilitation measures require us to look at micro-level trade facilitation monitoring and performance measures. Thus, industry specific trade facilitation programmes should be considered, in particular for agricultural products.
- Countries should conduct standardized Business Process Analysis studies on trade process on a regular basis. Customs should regularly carry out and publish dwell time analysis based on WCO Guidelines for major Customs Stations to help tackle major bottlenecks in goods clearance.
- Bilateral and regional FTAs should address trade facilitation issues more elaborately.
- There is an urgent need for capacity building in South Asian countries given the human resource capacity constraints.
- India may offer to host the 2014 Asia-Pacific Trade Facilitation Forum (APTFF). RIS, CWS, and FICCI should continue to work together on cross-cutting issues of trade facilitation and keep policy makers and stakeholders apprised of the developments taking place in this area.

4. Seminar-cum-Workshop on "Public Procurement Legislation in India: National and International Perspectives" India International Centre, New Delhi

A seminar-cum-workshop was organised by the Centre for WTO Studies on 4 June 2012 on the subject of "Public Procurement Legislation in India: National and International Perspectives" to discuss the contours of the Public Procurement Bill 2012 as introduced in the Parliament in the context of domestic and international imperatives.



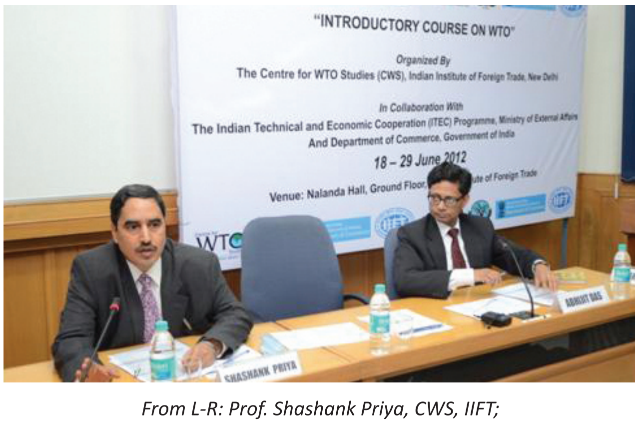
From L-R: Prof. Madhukar Sinha, CWS, IIFT; Prof. Abhijit Das, Head, CWS, IIFT.

Professor Abhijit Das started the proceedings by welcoming the participants and outlining the main intent behind the Seminar. He stated that India was an observer at the WTO Government Procurement Agreement but not a formal party to it. Professor Madhukar Sinha mentioned that the effort behind the Seminar was to bring major Government and Public Sector stakeholders in public procurement together and build an understanding of the provisions of the Bill as well as of other issues that existed in the national and international contexts.

Technical sessions followed. In the first technical session, Mr Keshav Prasad Varma made a presentation on the contours of the Public Procurement Bill 2012. He highlighted the focus of the Bill on clarifying the procurement processes, on need for anti-corruption practices for which both the contractor and the public procurement officer are responsible, as well as specific transparency related provisions. In addition, the Bill reiterated the need to support the MSME sector through public procurement policy. Representing the MSME sector, Mr Anil Bhardwaj, mentioned the systemic bias in favour of larger suppliers. He also stated that without policy interventions MSMEs were likely to be crowded out in public tenders. In the second technical session, Professor Madhukar Sinha made a presentation on the structure of the Government Procurement Agreement (GPA) and various provisions in RTAs of India and other developing countries on the one hand and developed countries on the other. He stated that the decision to join any multilateral or bilateral agreement with public procurement provisions would necessarily be based on the market access India would yield and receive by entering into such an agreement. In the third technical session, Professor Abhijit Das presented the result of a study on the size of US and EU public procurement markets accessible to non-nationals conducted by Jadavpur University at the behest of the CWS. The study found that there seemed to be a major obstacle in market access to the public procurement markets of these two economies by non-nationals. The last technical session was to elicit responses from participants on various issues related to the Bill and the GPA. During the session, issues such as role of the Central Vigilance Commission, the need for effective subordinate legislation, the role of working rules to implement regulations, changing role of procurement officers were discussed.

5. Introductory Course on WTO, IIFT, New Delhi

The Centre for WTO Studies conducted an "Introductory Course on WTO" from 18-29 June 2012 at the Indian Institute of Foreign Trade, New Delhi. The training



From L-R: Prof. Shashank Priya, CWS, IIFT; Prof. Abhijit Das, Head, CWS, IIFT

programme was organised by the CWS, IIFT in collaboration with the Indian Technical and Economic Cooperation Programme of the Ministry of External Affairs and the Department of Commerce, Government of India.

The inaugural session was attended by Professor Abhijit Das and Professor Shashank Priya of the Centre for WTO Studies. The participants were introduced to the work of the Centre and the basic contours of the training programme. The twelve-day programme comprised of classroom sessions focussed on various WTO Issues with a strong emphasis on experience sharing. The issues covered included: 'International Trade Relations: The Theoretical Underpinnings'; 'An Overview of WTO Agreements: Their Coverage and Scope'; 'WTO Agreement on Agriculture'; 'General Agreement on Trade in Services'; 'NAMA Negotiations in WTO'; 'WTO and Trade Related Intellectual Property Rights'; 'Special and Differential Treatment in WTO'; 'Development Needs, Aid for Trade and India's Duty Free Tariff Preference Scheme for the Least Developed Countries'; 'SPS and TBT Agreement'; 'Negotiations on Trade Facilitation'; 'WTO and the Dynamics of Regional Trade Agreements'; 'Dispute Settlement Understanding'; 'Emerging trends in Mega RTAs'; and the 'Present State of Doha Round Negotiations in the WTO'.

The programme was targeted at senior and middle level Government officials working in the Trade or

Group photograph: CWS Faculty and Participants of the Introductory Course on WTO

Commerce Ministries in developing and least developed countries. Fourteen countries participated in the training programme: Bangladesh, Benin, Fiji, Ghana, Laos, Lesotho, Myanmar, Nepal, Serbia, Sudan, Tanzania, Uzbekistan, Yemen and Zimbabwe.

In addition to the faculty of the Centre for WTO Studies and IIFT, experts specialising in the identified areas were especially invited as resource persons for the training. These included Mr Sumanta Chaudhuri, Joint Secretary, Department of Commerce, Mr Atul Kaushik, Joint Secretary, Department of Justice and Mr Rajeev Kher, Additional Secretary, Department of Commerce. During the valedictory function, all the participants were awarded certificates handed over by Mr Rajeev Kher, Additional Secretary, Department of Commerce and Mr K.T. Chacko, Director, IIFT.

Faculty Participation in Outreach Programmes (April – June 2012)

	Participating Faculty	Outreach Activity/Topic	Date	Location
1.	**Prof. Abhijit Das**	UNCTAD-ADB-Commonwealth Secretariat Project on "Development-Oriented Regional Integration in South Asia". Presentation on "Potential for Regional Agricultural Trade in India".	28 May	Dhaka, Bangladesh
2.	**Prof. Shashank Priya**	Participant at the International Conference on Facilitating Trade in South Asia: Challenges and the Way Forward	28 May	India Habitat Centre, New Delhi
		Stakeholder Consultation on India-Bangladesh Bilateral Trade and Non-Tariff Barriers	31 May	Kolkata, West Bengal
3.	**Prof. Madhukar Sinha**	Resource Person at the Training Programme on International Trade for Indian Revenue Service Probationers	6 April	NACEN Complex, Faridabad
		Speaker at Workshop on WTO Perspective on Sustainable Development Issues	11 April	TERI University, New Delhi
		Resource Person at the Customs Workshop on IPR organized by NACEN, Faridabad	24 April	Nehru Place, New Delhi
		Participant at the Review Group Meeting on "Anti-Corruption in the Business Sector – Legislation, Policy and Practice" organized by United Nations Office on Drugs and Crime.	29 May	UNDP Conference Hall, Lodhi Road, New Delhi
		Resource Person at the Training Programme on "International Trade" for Indian Revenue Service Probationers	5 June	NACEN Regional Training Institute, Mumbai
4.	**Prof. Sajal Mathur**	Lecture on WTO and Developing Countries: Impact of the current global economic crisis organized by the Academy of International Studies.	9 April	Jamia Milia University, New Delhi
		Resource Person at Training Programmes on "International Trade" for Indian Revenue Service Probationers.	13 April	NACEN Complex, Faridabad
			5 June	NACEN Regional Training Institute, Mumbai
5.	**Dr Sachin Kumar Sharma**	Presentation of paper titled "GTAP Analysis of the Proposed BRICS Free Trade Agreement"	27-29 June	Geneva, Switzerland

Trade Figures

1. FY12 merchandise exports up 21%, services exports up 4 %

Merchandise exports reached $303.7 billion in 2011-12, a rise of 21% over $251.1 billion in 2010-11, while imports stood at $488.6 billion, rising 32.1% compared with $369.8 billion in the previous financial year. Thus, though exports surpassed the government's target of $300 billion for 2011-12, the surge in imports led to the highest-ever trade deficit of $184.9 billion, and this is expected to raise the current account deficit (CAD) to 4% of the gross domestic product, against the forecast of 3.6% by the Prime Minister's Economic Advisory Council. Swelling of the trade deficit to record levels was primarily attributed to a huge surge in the import of petroleum products and gold.

"What has primarily driven trade deficit is petroleum and gold. In these, imports were higher by about $69 billion, compared to 2010-11, and that almost entirely accounts for the rise in the trade deficit from $118 billion in 2010-11 to $185 billion in 2011-12," Rahul Khullar said, while releasing the initial numbers in April. Exports in March topped $28.7 billion, the highest monthly figure in the entire previous financial year. Ironically, this was a 0.71% fall compared to March 2010, when exports stood at $30.9 billion. Imports in March stood at $42.6 billion, propelling the trade deficit to $13.9 billion. "The year-on-year growth is irrelevant. Last year was a boom period for exports. Comparison should be done on a month-on-month basis. The export market had effectively collapsed from September in the previous financial year....The first six months were almost schizophrenic, while the remaining six months saw a marked deceleration." On the outlook for the current financial year, Khullar said exports would face a slowdown, while imports might taper slightly, as he expected petroleum prices and the consumption of gold to moderate. "The silver lining in the cloud is hopefully, while our import bill may increase this year, it would not increase 40% compared to 2011-12. In 2012-13, there would be some rein on gold imports," he said, while maintaining trade deficit had become a major "cause of worry" for the government. He also said that it was time nodal ministries such as those of coal, fertilisers and agriculture addressed policy issues to reduce the dependence on imports. Imports of coal, fertilisers and edible oil have added an additional $16 billion to the country's import bill.

Global uncertainties, especially in the euro zone, have taken a severe toll on India's services sector as well. It ranges from information technology (IT) to services provided by Indian doctors and nurses abroad. RBI's classification includes transport, travel, construction, insurance and pensions, financial services, telecommunications, computer and information services, and personal, cultural and recreational services, among others. Services are critical to India's economic well-being as they constitute more than half the country's gross domestic product (GDP), having risen from a 33.5% share in 1950-51 to 56.3% in 2011-12. In terms of size, software is a key category, accounting for 41.7% of total services exports in 2010-11. In the year ended March, services exports grew at the slowest pace in a decade, barring the crisis year of 2009-10. The single-digit growth pace was surprising as merchandise exports expanded at nearly 20% in the same year.

According to provisional Reserve Bank of India (RBI) data released in May, services exports grew 4% to $137 billion (around Rs. 7.5 trillion today) in the last fiscal year, while services imports contracted 3.8% to $81.1 billion. While the year started off well, with such exports registering a robust 24.9% growth in the first quarter, the second quarter saw a sharp slowdown to 4.1%. In the third quarter, they contracted 5.4% and remained flat in the fourth. Data till the third quarter shows software services exports growth declined to 9.4% in the third quarter from 21.3% in the first quarter. Non-software miscellaneous services contracted 34% in the third quarter, while it grew 24.4% in the first quarter. Other key services export sectors such as travel and transportation decelerated, but still grew at robust rates of 14.4% and 23.4%, respectively, in the third quarter. Indian IT and business process outsourcing services lobby group Nasscom estimates that onsite and offshore software exports grew 16.3% to $69.6 billion, said Som Mittal, its president. Nasscom has projected a growth rate of 11-14% for the current year, which may be too optimistic, according to companies and analysts. Nasscom will review its growth projection in October when more industry data is available, he said. The Economic Survey for 2011-12 said the outlook for the services sector in the domestic economy is linked to its prospects externally. "While software services exports have continued to be steady, the unfolding events in the euro area could lead to some sluggishness in this sector," it said. "The fair-weather business services exports, which have already shown signs of deceleration, may not get better."

Business Standard (20 April 2012) *and Mint* (22 May 2012)

2. Trade data for the period March-May 2012

March 2012:

In March 2012, exports dropped 5.7 per cent to $28.6 billion from the same period a year earlier. The then Commerce Secretary Rahul Khullar had warned in January that exporters in India faced a "difficult year", pointing to economic and financial weakness in the European Union, India's largest trade partner. The current account deficit was $19.6 billion in the December quarter, higher than $9.7 billion a year earlier. Rising global oil prices pushed up import bills for the country, which buys 80% of its oil from overseas. The deterioration in the current account deficit is expected to pile pressure on the rupee, which fell nearly 16% against the dollar in 2011.

According to data released by the government in March, imports rose 24.3% to $42.6 billion in March. Oil imports rose 32.5% to $15.8 billion. The trade deficit was $13.9 billion. Exports rose an annual 21% to $303.7 billion for the financial year 2011-12, while imports rose 32.2% to $488.6 billion, figures released by the trade ministry showed. The trade deficit for the full financial year was $184.9 billion.

Economists warned against reading too much into monthly figures and suggested any dim interpretation should not overlook the fact exports surpassed the target of $300 billion in 2011-12 even as the world was crawling on the path of economic recovery.

The scenario in the US and the euro zone impacted engineering exports, as they fell 19% short of the target of $72 billion set for the last financial year and only reached $58.2 billion. The US and Europe together account for over 60% of India's total engineering exports. The ministry, in a strategy paper, has set a target of $125 billion for engineering exports for 2013-14. The overall export target has been set at $500 billion by then.

Business Standard (2 May 2012)

April 2012:

In an indication of tough times ahead, the Indian exports have been hit by the poor global economic conditions registering a growth of 3.2% in April at $24.5 billion. Significantly, imports also witnessed sharp deceleration resulting in trade deficit narrowing to $13.2 billion. The drop in the balance of trade (BoT) is expected to reduce pressure on the rupee which has lost value by about 15% against the US dollar since September, 2011.

According to provisional figures released by the Dr. Rahul Khullar, exports in April, the first month of the fiscal 2012-13 amounted to $24.5 billion. Imports for the month grew by 3.8% to $37.9 billion. Speaking about the entire fiscal as a whole, Khullar said: "we should be lucky to get a growth rate of 10-15 per cent. The situation in Europe is disheartening. Export data shows there are serious demand problems and constraints in the Western markets.'' He added, if deceleration in imports continues, the BoT pressure will be lower than last year and if it will stay at $13 billion for the remainder period of the year, then we will end the year with $156-160 billion. In 2011-12, the country's trade deficit jumped to $185 billion, the highest ever in history.

Reacting to the foreign trade data, Federation of Indian Exporters Organisation (FIEO) president, Rafeeque Ahmed said the impact of global contraction in trade is now being felt by India as well. The slowdown in new markets will be more obvious in next few months. He said the most disturbing news is the sharp decline in exports of labour intensive sectors like gems and jewellery (-25.7%), readymade garments (-9%), leather (-3.2%), electronics (-5.4%), plastics (-2.7%). "This will have serious implications on employment and may lead to sharp reduction in additional job creation and even layoffs,'' he warned.

The Hindu (10 May 2012)

May 2012:

India's exports contracted by 4.16% year-on-year to $25.68 billion in May, for a second time this year after a fall of 5.7% y-o-y in March, the result of a slowdown in the world economy and a consequent slump in demand from overseas markets. Imports too dropped, by a sharper pace of 7.36% y-o-y, to $41.9 billion, signalling a weaker domestic economy. As such, the trade deficit — the difference between exports and imports — narrowed to $16.3 billion in May from $18.5 billion a year ago.

Data released by the commerce ministry showed exports contracted despite sharp depreciation in the rupee, that should have made domestic products more competitive. Exports growth had contracted 5.7% in March due to global developments but during the month imports had surged by 24.3% on account of high oil imports. Decline in exports in May was particularly witnessed in top export commodities like petroleum products (-26.07%), engineering goods (-15.67%), gems and jewellery (-9%) and readymade garments

(-15.82%). On the import front, gold and silver was down by about 51%, while plant and machinery dropped 8%. However, import of crude oil was up 14%.

Global trade slowdown and deceleration in domestic manufacturing has contributed to contraction in exports. Many countries in the world are facing huge setback in exports and India is no exception to it, said Federation of Indian Export Organisations (FIEO) president M Rafeeque Ahmed. However, the growth shown by the apparel and pharmaceutical sectors, both dominated by MSMEs, is an encouraging sign and augurs well for other sectors of exports. The softening of crude and metal prices also have their share in reduced value-wise exports of petroleum products, gems & jewellery and engineering.

Financial Express (15 June 2012)

3. $500 bn export target looks difficult to hit

In May, with the economic growth continuing its downward slide and the global situation remaining grim, Commerce and Industry Minister Anand Sharma said given the present circumstances it would be difficult to achieve the $500 billion export target set for 2013-14. This assessment by Minister Sharma came soon after exports registered a meagre 3.2% year-on-year rise to $24.4 billion in April 2012. The continued slowdown and worrying export situation has sent the government into the consultation mode with sops likely to be announced for labour-intensive sectors.

Despite heavy odds facing the economy, he was hopeful that exports would be able to register a 20% growth. "It is a question of supporting labour-intensive sectors. We have to take a holistic view to ensure that we should remain competitive globally. It is important for India to have a sustained thrust on exports," he said. The sharp deceleration in import growth to 3.8% to $37.9 billion resulted in trade deficit narrowing to $13.2 billion, the lowest in the last seven months. Reduction in trade gap would at least lessen worries arising out of sharp decline in rupee against the U.S. dollar.

The Hindu (2 June 2012)

Foreign Trade Policy/ Strategy

4. Trade policy seeks to prop up exports

At a time when domestic growth sentiments have weakened dramatically while global uncertainty has increased with talk of Greece exiting the euro zone, the government announced several fiscal measures for exporters and manufacturers that were cheered by the industry. As a part of the supplement to the Foreign Trade Policy (FTP) 2009-14, commerce, industry and textiles minister Anand Sharma extended the interest subsidy scheme and the export promotion capital goods (EPCG) scheme by another year till 31 March 2013.

In order to facilitate import substitution and curb the galloping trade deficit, the commerce ministry has allowed exporters to use the various scripts available to them for payment of excise duty for domestic procurement. Such instruments under the "focus product scheme" and "focus market scheme" have so far been allowed only for payment of customs duty during imports. The commerce ministry said in a statement that the move is also expected to save foreign exchange. "This decision has been taken to promote domestic manufacturing and value-addition and employment, and will be a significant measure of import substitution," Sharma said.

While recognizing that the difficult economic situation in the euro zone poses a real risk of sinking the world into yet another recession, the minister said he expects a turnaround in exports later this year. "Coming few months can be very testing. Things will start turning around by August or September," he said. Outgoing commerce secretary Rahul Khullar had, however, said last month that export growth may come down to 10-15% in the current fiscal year given the not-so-encouraging news from the US and the European Union. "We will be lucky to achieve 10-15% export growth this year," he had said.

The "forward-looking measures" will help boost exports and achieve this year's target of 20% export growth, said R.V. Kanoria, president of the Federation of Indian Chambers of Commerce and Industry, welcoming the announcement. Confederation of Indian Industry president Adi Godrej said the measures would boost exports and help the country achieve its export target of $500 billion by 2013-14. He pointed out that there is a need to work on port infrastructure and freight, which continue to be a hindrance for exports. "Revision of SEZ (special economic zone) and 100% EoU (export-oriented unit) schemes, which have (been) deferred, should be addressed soon," he said.

In order to boost e-commerce, export shipments from Delhi and Mumbai through post will now be entitled to export benefits. FIEO president Rafeeque Ahmed said the support given to e-commerce has great potential and can provide a direct selling platform to micro, small and medium enterprise exporters.

Under the interest subsidy scheme, which has been extended by a year, credit is made available to labour-intensive sectors at a 2% cheaper rate. While the scheme, so far, has been available to just four sectors—handlooms, handicrafts, carpets and small and medium scale enterprises—additional sectors such as toys, sports goods, processed agricultural products and garments have been added to the scheme from the current fiscal year. Under the EPCG scheme, manufacturers and exporters are allowed to upgrade their machinery through imports of capital goods at zero duty under the obligation to export eight times the value of the duty saved.

To promote manufacturing activity and employment in the north-eastern region of the country, export obligations under the EPCG scheme have been cut to 25% of the normal export obligation. In order to boost exports of environment-friendly products, the EPCG export obligation has been reduced to 75% of the normal obligation for 16 green technology products such as electrically operated vehicles, solar cells and bio-mass gasifiers, among others.

To promote market and product diversification, seven new markets have been added to the focus market scheme (FMS) and an equal number of new markets to the special FMS. While countries such as Algeria, Aruba, Austria, Cambodia, Myanmar, the Netherland Antilles and Ukraine have been added to FMS; countries such as Belize, Chile, El Salvador, Guatemala, Honduras, Morocco and Uruguay have been added to special FMS. Sharma said income-tax benefits for 100% EoUs that expired 31 March 2011, are being revamped.

Mint (5 June 2012)

5. Indian Government to announce new guidelines to revive SEZs

The government will come out with new guidelines to revive export hubs, special economic zones (SEZs), which have lost sheen after imposition of certain levies and proposal to take away tax incentives. The government had imposed Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT) on SEZs in 2010-11, which were earlier exempted from almost all levies. Admitting that due to imposition of MAT and DDT, there has been a "visible slowdown" in growth of export from SEZs, commerce and industry minister Anand Sharma said in June, a new set of guidelines would be announced to make the SEZ policy more buoyant. "We have undertaken a comprehensive assessment of the SEZ scheme to re-visit certain aspects of the policy and operational framework and after concluding the inter-ministerial consultations, we will be able to come out with new guidelines to make the operation of the SEZ policy more buoyant," he said, while announcing the supplementary Foreign Trade Policy.

The Direct Tax Code (DTC) being considered by Parliament proposes to do away with the income tax exemption given to them and instead link tax sops to investments made in them. Profit-linked benefits were the main attraction of the SEZ scheme. The initial phase of SEZ scheme, launched in 2006, saw developers lining up in big numbers for projects. It was also seen as a real estate opportunity. At present, over 100 developers are seeking more time from the government to execute their projects and over 50 developers have surrendered the projects. Exports from SEZs stood at Rs 3.65 lakh crore in 2011-12. With investment of Rs 2.02 crore, these zones provide employment to over 8.45 lakh. Overseas shipments from the 153 operational tax free havens have come down to 12% in the country's total exports from about 30% in the previous years.

PTI (5 June 2012)

6. Commerce Ministry preparing new action plan to double exports to $500 bn

With merchandise demand slowing down in global markets, the Commerce Ministry announced in June that it is drawing up a new strategy for achieving exports of $500 billion by the end of 2013-14. The focus will be on reducing transaction costs of exporters, ensuring they do not face non-tariff barriers in the importing countries," a senior Commerce Ministry official said. While the ministry had drawn a strategy paper in May last year on doubling exports in three years from $251 billion in 2010-11, deteriorating conditions in the global economy require a fresh look at the game plan, the official said.

The African continent, which has shown resilience along with Asia despite turmoil in the European markets and slowdown in the US, would be the main plank for the action plan being worked out by the Commerce Ministry. It has identified 25 African countries, including South Africa, Nigeria and Egypt to achieve increased shipments for about 200 Indian products including pharmaceuticals, fruits and vegetables and textiles. The final strategy will be prepared after the government-industry interface. "We will consult exporters for the feedback. They know what is the potential and where are the issues." Africa is growing by about 4.5% per annum. Although, India's total merchandise exports to this region stood at only $16.28 billion in 2010-11, there is huge demand for Indian goods. Besides, Latin American and Asian markets are also emerging as major export destination for Indian products after demand slowdown in the traditional markets of Europe and the US. India's exports grew by 21% to $303.7 billion in 2011-12. However, according to officials, this year would be more difficult for exporters. In April, the shipments declined by 4.16% year-on-year.

PTI (24 June 2012)

Bilateral Trade Matters

7. India-Brazil:

During a four-day visit to Brazil in June, Commerce and Industry Minister Anand Sharma said businessmen of both the countries can cooperate in sectors like agriculture, textiles, IT, infrastructure and pharmaceuticals. India has sought investments from Brazil, mainly in the infrastructure sector for which it needs $1 trillion over the next five years, as the two countries set bilateral trade target of $15 billion by 2015. Brazilian industry also sought investments from India in infrastructure sector in the wake of Olympics game being hosted by Brazil in 2016. "Huge opportunities are available in both the countries. Currently the bilateral trade is at $10 billion. Both the sides have fixed the target of $15 billion by 2015. Trade is increasing but huge potential is there to further boost it," Sharma said. He has sought investments from Brazil in setting up of the National Manufacturing and Investment Zones (NMIZs). They will be mega industrial zones with world-class supporting infrastructure. The government is taking several steps to increase the share of the manufacturing sector in the GDP to at least 25% by 2020 from 16% at present. For this, a new National Manufacturing Policy was announced recently, which envisages setting up of NMIZs. FICCI President R. V. Kanoria said education is one of the important sectors for both the countries for increasing engagement. "Several Indian companies can help in this sector. We have expertise in distant education field. Our present trade is concentrated in oil and its by-products. The potential between the two countries allows us to expand and diversify our trade," Kanoria added.

PTI (14 June 2012)

8. India-China:

In their 13th meeting in eight years, Prime Ministers Manmohan Singh and Wen Jiabao met on the first day of the Rio+20 conference in Rio de Janeiro in June. They decided to take the India-China relationship to the next level by giving a boost to trade and priority to resolving the border dispute between the two countries. They agreed to take steps to ensure that the bilateral trade between the two emerging economies reaches $100 billion (about Rs 5,60,000 cr) by 2015. The two-way trade between the two countries reached $74 billion in 2011, with China becoming one of the largest trade partners of India and vice versa.

Speaking to media after the meeting, India foreign secretary Ranjan Mathai said that the Indian prime minister invited Chinese investment in infrastructure in India. "The two leaders also decided to start the export of Indian rice to China soon," the foreign secretary said, adding that the issue of trans-border rivers flowing in India and China also figured in the talks. Though it was not immediately clear in which sectors of infrastructure the Chinese would be allowed to invest, Indian diplomats said it was a major turning point in India-China relationship.

On the question of boundary dispute between the two countries, the two leaders said the Special Representatives of India and China have been asked to prepare details of the joint work done so far. China also agreed to look into the issue of balance of trade which is heavily in its favour. "The Prime Minister raised the issue of Indian trade deficit and the Chinese agreed to work with India in addressing the fact that India has a large trade deficit. They mentioned in fact specifically that they are arranging trade missions to India to improve access of Indian exports into the Chinese market. They are organizing commodity fairs. And they noted for example one of the changes which has happened recently is that rice exports from India to China will now be commencing," Mathai said. Now, Indian exporters can soon begin sending basmati rice to China after both countries agree on a mutually satisfactory quarantine protocol. China has already cleared Indian exports of basmati rice following a six-year process during which many hurdles that bar the entry of Indian rice into the Chinese market were overcome.

Times of India (22 June 2012)

9. India-EU

The FTA between India and the European Union (EU) – officially known as Bilateral Trade and Investment Agreement (BTIA) – is likely to be signed during the next India-EU Summit, expected to be held in November. At the meeting with the European Trade Commission on June 26 in Brussels, the Indian delegation, headed by commerce minister Anand Sharma, will focus on the government's achievements including opening up single-brand retail to foreign direct investment (FDI). The agenda note prepared by the delegation says the FDI policy for multi-brand retail was likely to be introduced shortly and reforms in insurance and civil aviation sectors were being considered. The Commerce, Industry and Textiles Minister, Mr Anand Sharma, said, "After a number of rounds of negotiations, issues of concern to both sides have been identified. We must devote our energies to addressing these issues as expeditiously as possible." He stated this after meeting the EU Trade Commissioner, Mr Karel De Gucht, here and taking stock of the progress of the negotiations. The ministerial-level meeting followed the talks between the Commerce Secretary, Mr S.R. Rao, and his counterpart as well as between the Chief Negotiators from both sides. This was the 15th round of FTA negotiations. According to a commerce ministry official by opening up single-brand retail to FDI, "we are hopeful that multi-brand retail will also be opened shortly. This will give us a strong footing to negotiate on issues related to Mode-4 quota." Mode-4 quota relates to temporary stay in the EU of highly skilled service providers from India.

Some of the areas of concern were the security of data in India; freer movement of Indian service professionals, including from the IT sector, through the FTA; more market access for Indian agricultural products and greater market access in wines and spirits and the automobile sectors for EU. The EU also raised protection of Intellectual Property Rights, including Geographical Indications and patents. On intellectual property rights, India plans to stick to its commitment to the existing laws under the trade related aspects of intellectual property rights, or TRIPS, agreement. The EU had expressed concerns over India's decision to provide compulsory licence for making a generic version of the cancer drug produced by German firm Bayer to Natco Pharma. The Indian side also conveyed to the EU trade commission that it may not be possible to introduce reforms in sectors like banking, postal & courier and legal services within the time frame for concluding this agreement. Despite the euro zone crisis and the slowdown in the Indian economy, trade between India and EU in 2011 increased to $108.8 billion from $83.46 billion in 2010. Trade between India and EU stood at $91.3 billion in 2010-11. Under the FTA, India and EU have an ambitious target of slashing duties on over 90% of the trade under the pact.

Business Line (26 June 2012) *and DNA* (26 June 2012)

10. India-Pakistan

In a significant step, India would soon allow foreign direct investment from Pakistan by amending the Foreign Exchange Management Act. Though the government had already given its in-principle nod to the proposal in April, the formalities are still being worked. The ministries of home, defence and finance, which had earlier expressed reservations on the move, are now on board and it is expected the Reserve Bank of India would notify the rules soon. Both countries have also agreed to try and increase bilateral trade from the current $2.7 billion a year to $6 billion by 2013-14.

An integrated checkpost at the Wagah-Attari border was also opened earlier in May. Through this second gate at the border, commercial trucks will cross carrying goods from both countries. As a result, trading hours would now be increased and infrastructure for large container vehicles would be set up. The new gate will have the capacity to handle about 600 trucks a day and is expected to increase trade from the present $2.7 billion (Rs. 13,880 crore). The opening of the new gate is expected to reduce "processing time, paving the way for enhanced people-to-people contact and expansion of trade between the two countries", the government said in a release. The check post at the border was opened days after Pakistan President Asif Ali Zardari visited India and held extensive discussions with Prime Minister Manmohan Singh. External Affairs Minister S M Krishna said both leaders discussed significant changes in economic relations.

In June, however, talks between India and Pakistan on confidence-building measures to give a momentum to the trade hit a roadblock as larger "political issues" impacted the movement of negotiations and initiatives. "Things have suddenly slowed down from the Pakistan side on the trade issues. Pakistan negotiators are on the same page as their Indian counterparts but it seems trade is being linked to progress on bigger issues such as Siachen and Sir Creek talks. It is unfortunate but true," a senior official in the Commerce and Industry Ministry said. The case in point is the last-minute decision of the Pakistani side not to sign the liberal visa regime agreement in Islamabad last month after everything had been tied up for such an event. "Pakistan is yet to revert back to us for Commerce Secretary-level talks despite repeated reminders. There has been little progress from their side on expanding the list of items to be traded through the land route despite promises to do it in May itself. The experts' groups on electricity and petroleum are yet to meet, leading to re-scheduling of meetings twice in the last two months. Some tariff barriers need to be tuned in line with the SAFTA (South Asian Free Trade Area) agreement. It is a disappointing situation," the official said.

Officials said India had removed all restrictions on imports from Pakistan but the same was not being done on the other side of the border. "We need to finish negotiations and finalise the expanded list of items to be traded through the land route immediately. Then, we have to prune the negative list according to the SAFTA agreement requirement to give a new turn to bilateral trade. We are still waiting for a response from the Pakistan side," the Commerce Ministry official said. Experts' groups of India and Pakistan on electricity and petroleum were expected to meet earlier in June to work out the modalities for exporting power, petrol, diesel and petrochemicals to Pakistan. However, the meetings are still to happen. The progress on opening up of new land routes for trade in Rajasthan and Punjab has also been disappointing. Both sides have also agreed that software body National Association of Software and Service Companies (Nasscom) would co-ordinate with Pakistan Software Export Development Board to facilitate a road show for Pakistani IT companies in Bangalore, Hyderabad and other Indian IT hubs for extending co-operation in this sector. However, progress on this front has also been also slow and painful.

Mint (13 April and 28 May 2012), *Business Standard* (27 April 2012), *The Hindu* (18 June 2012), *and Economic Times* (13 April 2012)

11. India-Russia

India today asked Russia to "make headway" with the proposal for a comprehensive free trade agreement between New Delhi and Russia-Belarus-Kazakhstan customs union as it would help in boosting trade ties. The proposal came for discussion during the meeting of Commerce and Industry Minister Anand Sharma with Russian Minister of Economic Development Andrey Belousov and Russian Minister of Industry & Trade Denis Manturov in June. The Minister was in Russia to attend St Petersburg International Economic Forum 2012.

He said that "the first step for Comprehensive Economic Cooperation Agreement (CECA) with the customs union countries can be taken after Russia's accession to WTO by setting up of a Joint Study Group. The Customs Union between Russia, Kazakhstan and Belarus formally came into existence on January, 2010. The three countries took their economic integration with the implementation of the Common Economic Space which provides for free movement of goods, services, people and investments. Further, Sharma said that the level of bilateral trade and investment between India and Russia is below its potential."He put stress on making sincere and concerted efforts and to take specific measures including thrust areas, to achieve the target bilateral trade figure of USD 20 billion by 2015," the statement added. The bilateral trade between the countries stood at $ 9 billion in 2011.

PTI (22 June 2012)

12. India-South Africa:

Trade between South Africa and India will reach the target of $15 billion (Euro11 billion) per year before a self-imposed 2014 deadline, South African President Jacob Zuma said in early May. The two countries agreed to increase their commercial exchanges during Zuma's state visit to India in 2010. But they are on track to reach the mark ahead of schedule, Zuma said during a return visit from Indian President Pratibha Patil. "We set a target of 15 billion dollars of trade between South Africa and India, to be achieved by 2014. According to current trade statistics this could be reached earlier than anticipated," he told the South Africa-India business forum in the South African capital Pretoria. "The figure by the end of 2011 was close to seven billion dollars. We are on the right path indeed." Africa's largest economy grew 3.1% in 2011, but is dragged down by a 23.9% unemployment rate. Nigeria, the continent's most populous nation and largest oil producer, was India's largest trading partner at $10 billion in 2010. "Let me remind you that you are in the right continent at the right time. The African continent is the new frontier of economic growth and development," said Zuma.

AFP (3 May 2012)

13. India-South Korea

India and South Korea in March announced a series of steps, from commerce to defence to space cooperation, to deepen the strategic partnership between Asia's third and fourth largest economies. Buoyed by a substantial jump in trade—between 65% and 70% after a comprehensive economic partnership agreement was inked in January 2010—both nations have decided to scale up their bilateral target from $30 billion in 2014 to $40 billion by 2015, the leaders of the two countries said. Trade in 2011 topped $20 billion.

Prime Minister Manmohan Singh "underlined the desirability of balanced trade relations" and "ways to facilitate greater market access for each other's products and services," after wide-ranging discussions with President Lee Myung Bak, according to a joint statement. Mr Singh, was is in Seoul for the second nuclear security summit hosted by South Korea. The two countries have also signed an accord to simplify visa procedures aimed at boosting people-to-people contacts and business travel as Singh invited investments from South Korea into India's infrastructure sector—where the government is seeking investments to the tune of $1 trillion between 2012-17 to spruce up ports, airports, highways and power plants. The prime minister also invited small- and medium-scale companies from South Korea to invest in India. Vishnu Prakash, Indian ambassador in

Seoul said that approximately 99% of Korean industries are in the medium- and small-scale sector and are responsible for creating 88% of jobs in the country. There were also discussions on improving air connectivity between the two countries.

Mint (25 March 2012)

WTO Disputes

14. India-US disputes:

India is challenging a U.S. law that raised visa fees for high-skilled foreign workers as a violation of global trade commitments. To strengthen its case against the US, India has changed its stance on the issue of rise in visa fees, saying the higher professional visa fees were targeted only towards Indian technology firms, not those from other countries. India would now officially seek consultation with the US by sending a notification by the end of this week. A couple of months earlier, it had moved the World Trade Organization's Dispute Settlement Body (DSB) on this issue, but could not firm up the case due to its "technical and complex nature", a senior official in the commerce ministry said. India has said the US was using a particular law, Public Law 111-230 (Border Security Act), which substantially enhances fees relating to applications for L1 and H1B visas for companies (with at least 50 employees) for whom non-immigrants account for more than half their US workforce. As a result, Indian information technology (IT) giants like Tata Consultancy Services, Wipro, Infosys and Mahindra Satyam have come under the net. The Bill nearly doubles the fees for skilled-worker H-1B and L1 visas to $4,500 per applicant (from about $2,320), for such companies.

Commercial ties between India and the United States flourished after India's economic liberalisation in 1991, but in recent years each side has accused the other of erecting unfair barriers to trade and investment growth. India is also preparing to challenge a U.S. import duty on steel pipes. The US has been imposing CVD, a levy to neutralise government subsidies, on steel for the last decade. Duties on Indian companies range from about 18% on Essar to over 500% for companies such as Tata and Jindal. The United States Commerce Department in March set a preliminary import duty of nearly 286% on a certain type of steel pipe from India to offset government subsidies. A final decision on duty rates is expected by August. "They are in absolute and total breach of the WTO," the official said, referring to U.S. Commerce Department action. "There is no subsidy involved." The official said Washington has imposed the duty because a portion of the iron ore used to produce the Indian steel pipes is provided by state-run miner NMDC, the country's largest. It has also imposed antidumping duties, a penal levy on imports that are sold at higher prices in the home market of the exporter, of over 20%. India wants to challenge the US Department of Commerce's assumption that the iron ore sourced by Indian steel makers from NMDC is supplied at subsidised rate because it is a public body. India has argued that this is a wrong assumption as NMDC always sells at the prevailing market prices which is determined by their exports to Japan and South Korea.

The United States piled another layer of preliminary duties one month after New Delhi complained at the World Trade Organisation about an earlier US round. The US Commerce Department said it had determined that Indian companies were selling circular welded carbon-quality steel pipe in the United States at 48.43% below fair market value. The duties will require importers to post bonds or cash deposits based on the preliminary rates until a final decision on anti-dumping duties is made later this year. The department also set preliminary anti-dumping duties on this kind of pipe of zero to 27.96% for Vietnam, 5.59% for Oman and 3.29% to 11.71% for the United Arab Emirates. The United States in 2011 imported about $64.5 million of the steel product from India, $53.9 million from UAE, $50.1 million from Vietnam and $28.0 million from Oman.

India also plans to consult WTO on the James Zadroga Act, under which US authorities have the right to impose 2% tax on goods imported from non-government procurement countries. India is still not a party to the WTO's government procurement agreement, but the Indian government says imposition of this additional tax is a violation of the National Treatment Principle exercised under WTO trade laws.

India and the US, which have a trade relationship worth $100 billion, are also engaged in a bitter clash over poultry imports. The US will formally fight India at the World Trade Organization over import restrictions imposed by New Delhi on poultry products from countries reporting outbreak of low-intensity bird flu, hoping to grab the country's growing market for chicken legs. The dispute settlement body of the WTO has accepted Washington's request for a dispute settlement panel on India's restriction on poultry which the US says is "unscientific".

India had rejected US' attempt to establish a dispute panel in May on the ground that its restrictions were based on science and there was scope for more discussions between the two countries on the issue.

The US is keen to ensure predictable market conditions in India for its poultry exporters so that they can encash the big demand for chicken legs where they are hugely competitive. Although India lifted its ban on import of poultry products from the US after the country declared that it was free of avian influenza in September, but no exports have yet taken place as there is always a danger of outbreak of the low-intensity pathogens in some part of the country. The National Chicken Council, National Turkey Federation and USA Poultry & Egg Export Council have said that if India's 'trade barriers' were eliminated, the value of US poultry exports to the country each year would surpass $ 300 million. India is also getting more studies done to strengthen its case that the ban is backed by scientific evidence of risk.

Reuters (11 April and 25 May 2012), *Business Standard* (22 May 2012), *and Economic Times* (13 April, 21 May, 8 June and 26 June 2012)

15. Turkey agrees to remove penal duties on Indian cotton yarn

Turkey has agreed to remove penal duties 'wrongfully' imposed on Indian cotton yarn, spelling victory for Delhi that is fighting growing protectionism in several countries against its products. The two countries are likely to sign a memorandum of understanding on the issue soon, following which India would withdraw its complaint against Turkey filed with the World Trade Organization early this year, a commerce department official said. Global economic uncertainty has prompted a number of countries including the US, Egypt and Turkey to raise protectionist walls against imports from other countries including India to safeguard their domestic firms.

Industry body Texprocil, which has been working with the government on the legal aspects of the penal levies imposed by Turkey and Egypt on Indian cotton yarn, says all wrongful attempts to block exports have to be severely discouraged. Turkey imposed safeguard duties between 12% and 17% over and above the customs duty of 5% with effect from July 2011. This made Indian exports to the country costlier.

Safeguard duties are import levies imposed over and above the existing duties to protect domestic industry against a surge in imports. India contested Turkey's decision to extend safeguard duties after they expired last year, without carrying out a review to the WTO committee on subsidies and countervailing duties.

Economic Times (8 June 2012)

Also In The Press...

16. India has initiated 275 anti-dumping cases since 1992

India has initiated 275 anti- dumping investigations between 1992 and March 2012, involving 42 countries, Parliament was informed in May. "From 1992 till March 31, 2012, the Directorate General of Anti-Dumping (DGAD) has initiated 275 anti-dumping investigations into cases involving 42 countries/territories," Minister of State for Commerce and Industry Jyotiraditya Scindia said in a written reply to the Rajya Sabha. The DGAD is a nodal investigation agency under the Commerce Ministry. He said as on December 2011, measures in respect of 112 cases are in force."The countries prominently figuring in anti-dumping investigations are China, Korea and Singapore and the major product categories on which anti-dumping duty has been levied are chemicals and petrochemicals, pharmaceutical, steel and consumer goods," he said.

Unlike safeguard duties, which are levied in a uniform manner, anti-dumping duty varies from product-to-product and country-to-country. Countries initiate anti-dumping probes to check if their domestic industries are being impacted because of a surge in cheap, or below-normal-cost, imports. As a counter-measure, they impose duties as provided for under the multilateral regime of the WTO. Anti-dumping measures are taken to ensure fair trade and provide a level playing field to domestic players. It is not a measure to restrict imports or cause an unjustified increase in the cost of products.

PTI (2 May 2012)

17. Cotton export ban

Under pressure from the Congress party and some of its allies, the central government on 30 April allowed fresh cotton exports. "After a comprehensive review it was decided that suspension of new registrations for cotton exports be revoked and exports be permitted," a government statement said.

The government had banned exports of cotton on March 5, but relaxed it partially within a week, following political pressure, both from within the United Progressive Alliance, as well as Gujarat chief minister Narendra Modi. Following this, farmers had resorted to agitation in some parts of the country. The government then allowed exports of those quantities which had already been registered with the Directorate General of Foreign Trade, subject to revalidation by authorities. India's ban on cotton exports had been questioned by US, EU and Canada at the World Trade Organization, but India had said that its actions fully complied with multilateral trade rules that allowed temporary restrictions on imports. The countries had also raised concerns about the methodology used by India to classify marginal farmers and calculate domestic support to agriculture in a recent meeting of the WTO's Committee on Agriculture in Geneva.

To speed applications from interested cotton exporters, the Directorate General of Foreign Trade (DGFT), under the Ministry of Commerce, has modified the procedure for obtaining registration certifications (RCs). As against the earlier procedure of personal visits to the respective departments dealing in RCs, DGFT has mandated sending of all documents and associated papers through an e-mail. The purpose is to keep queries, if any, ready by the time an exporter sends hard copy of the applications and other relevant papers. According to the current practice, an exporter applies with all valid documents in physical form. After these papers are assessed by DGFT, queries are raised. An RC takes weeks and, sometimes, months to obtain. With the new format of application, the RC can be issued within a couple of days. The procedure is required to be speeded, especially when DGFT issued revised guidelines early this month for cotton exporters. As per the guidelines issued by the DGFT, an existing exporter can send only up to 10,000 bales and a novice 1,500 bales under one RC. A second RC would be issued only on filing proof of executing at least half the quantity of export mentioned in the first RC. Generally, from the date of RC an exporter requires at least a month to physically ship the quantity of exports. The 50% mandatory shipment clause, therefore, requires executing export orders fast to obtain another RC for the next consignment.

In spite of exports being freed, traders are not as enthusiastic, though they feel 1.5 million bales might still be exported in the next three months, before the season ends. Exports will be limited on two counts. Several restrictions have been imposed by the government and the US Department of Agriculture (USDA) has said the current year's global closing stock is expected to be higher by 12 million bales, at 77 million bales. The reason: China, the largest importer of cotton, is expected to have huge cotton reserves and is not likely to purchase substantial quantities this year. Traders say China's new import quota, to be announced in the near future, may be close to 1.2 million tonnes (seven million bales) this year. Interestingly, several exporters who'd stored cotton expecting free export have started selling even at a loss in the domestic market, given the 10,000-bale cap on shipment abroad. This has led to a slide in prices at home of 7-8%. Cotton prices in China are 10% higher but they are not eager to give more orders to Indian exporters, as the latter have not met past commitments due to the sudden ban imposed by the government.

The Cotton Corporation of India has been asked to build a buffer stock of 10 lakh bales to meet any emergency during June, July and August. The real problem for consumers would start three months down the line, by when stocks at home would have dried up and the new crop might be lower, going by the expectations of a 10% fall in area sown, which is likely to mean prices begin to move up. Even before the government allowed free export earlier, the Cotton Advisory Board (CAB) had estimated a closing stock of 2.51 million bales (a bale is 170 kg) after considering 11.5 million bales already shipped out. The closing stock estimated was already the lowest in a decade. It was four million bales in each of the past two years. This may lead to a crisis for cotton textile mills and spinning mills when the season comes to an end, as they will not get cotton till the new season crop arrives.

Business Standard (10 April, 9 May and 16 May 2012), *Economic Times* (18 April 2012), *and Times of India* (30 April 2012)

18. Rupee depreciation

The sharp fall in market value compared to its Real Effective Exchange Rate (REER) has made the rupee an undervalued currency, giving strength to exports. However, the gains will be limited due to weak global demand and costly imports, according to economists and treasury executives. A real effective exchange rate is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs. The REER index for the rupee declined from 110.40 in February to 103.71 in April. When the REER touches 100, the currency reflects its real value.

Since the end of April, the rupee (its market value) has depreciated 6.2% against the dollar and 13% from its 2012 peak in February. According to Reserve Bank of India data, the REER declined from 116.13 for June 2011 to 103.75 in December 2011. It was 108.78 for March and dipped to 103.71 as on April 27, 2012. The REER model helps economies to value their currencies on a relative basis. The value of the currency is adjusted by the inflation differential between the domestic economy and the reference economy. As a result, there is a difference in the rate of fall because of the high inflation in India compared to its trading partners, such as the US, Japan, China, UK, Hong Kong and the euro zone.

In the normal course, a depreciating rupee should have made Indian exports cheaper and more competitive. The uncertainty facing members of the Federation of Indian Export Organisations illustrates the enigma of the macroeconomic fallout of the depreciating rupee. Because of a combination of shrinking global markets and rising import content of Indian exports, a weakening rupee does not necessarily translate into enhanced exports. Worse, because imports are largely inelastic, with oil and gold accounting for 44% of India's purchases from overseas, declining exports can only mean that the trade deficit would widen, putting further pressure on the balance of payments.

Perceived policy paralysis and an inability to pursue serious fiscal correction are spooking foreign investors, particularly institutional investors, in a manner that could make the weakening rupee a self-fulfilling prophecy. In other words, there is a risk of capital inflows holding out due to fears of a weakening rupee, which triggers another round of currency depreciation, setting off another round of a negative macroeconomic response. This has resulted in diminished capital inflows, which in turn have only increased the pressure on the rupee, pushing it down to a record low of 56.38 on 24 May.

A part of the problem is that over the past few years, the composition of India's exports has changed in favour of value-added products, in contrast with the past when primary products and textiles used to dominate shipments abroad. While sectors such as engineering, chemicals, and gems and jewellery have been the key drivers of India's exports, due to higher import content in such products, the depreciation of the rupee does not fully translate into gains for exporters. Engineering exports accounted for the largest chunk; they were around $75 billion (around Rs. 4.2 trillion today) in 2011-12, while total exports were $303 billion.

The rupee depreciation will also put additional pressure on domestic inflation by making imports costlier. A 10% depreciation could have an impact of 140 basis points on inflation over a period of time. A basis point is one-hundredth of a percentage point. Because prices of some of India's major imports, such as crude oil, have come down in recent times, it has counter-balanced the rupee depreciation. The price of Brent crude oil is down nearly 13% to $107 per barrel in the current quarter, its biggest drop since late 2008.

On account of their aggressive global expansion strategy and the need to find cheaper sources of funds, as opposed to depending on costly domestic credit, Indian companies have taken dollar-denominated loans. The weakening of the rupee is expected to significantly raise their debt burden in rupee terms.

And since the depreciation has been sharp, the hedges purchased by some of these companies will not be sufficient to protect them against such losses. The impact is not uniform. Many information technology (IT) firms do see a benefit in their rupee revenue and, therefore, their margins and profitability, but for quite a few quarters now, the concern has shifted to the revenue front— particularly in Europe and the US. Unless circumstances change radically, it looks like the weakness of the rupee is going to be an integral part of the macro-economy for the immediate future. Since India is globally more integrated than it was in the past—not just in terms of merchandise trade, but also in the actual movement of people and a rapidly expanding corporate footprint—Indian companies and the larger economy are vulnerable. The uncertainty surrounding Europe, struggling with a debt crisis, has only made the outlook that much bleaker.

Business Standard (24 May 2012) *and Mint* (29 May 2012)

19. Compulsory licensing for anti-cancer drug-Nexavar

German pharmaceutical giant Bayer AG has challenged a ground-breaking Indian ruling that allowed a local firm to produce a vastly cheaper copy of its patented drug for kidney and liver cancer. India's patents chief ruled in March the price Bayer charged for the drug, Nexavar, was "exorbitant" and ordered the firm to give a so-called "compulsory licence" to make the medicine to Indian company Natco Pharma.

It was not immediately known when the appeal, filed with the country's Intellectual Property Appellate Board would be heard. Drug firms insist they need patent protection for medicines to recoup costs of long years of research and development.

Under the World Trade Organization's TRIPS Agreement, which governs trade and intellectual property rules, compulsory licences can be invoked by a government, allowing someone else to produce a patented product or process without the consent of the patent owner to overcome barriers in accessing affordable medicines.

The Indian ruling in March marked the first time a so-called "compulsory licence" for production of a patented drug had been granted in the country of 1.2 billion, known as a global generics drug powerhouse.

India has long been a key provider of cheap generic medicines to the developing world as it did not issue drug patents until 2005, when it was obliged to adhere to WTO intellectual property regulations.

But after a new patent law was introduced in 2005, newer medicines are increasingly being patented in India, keeping prices high. Under the ruling, Natco will pay Bayer a 6% royalty on sales of the drug and sell the medicine for 8,800 rupees ($165) a month - compared to the 280,000 rupees ($5,320) the company charges, which is more than 30 times as much. Patent controller P.H. Kurian granted the right to Natco to produce the drug after concluding Bayer's pricing made it "out of reach" of most Indian patients.

Commerce and Industry Minister Anand Sharma said in June that India has not violated any provision of multi-lateral trade agreement by issuing compulsory licence (CL) for patented anti-cancer drug — Nexavar — to be produced and sold at a much cheaper cost in the country. As per the WTO agreement, India's intellectual property rights regime is fully TRIPS-compliant, the minister said, adding that the developed nations have invoked CL more than developing economies. "In case of India, this was the process of adjudication. It was not an executive invocation" he added.

Seeking greater cooperation in pharmaceutical sector, the minister informed the industry leaders that India is the third largest medicines producer in the world and produces 20% of world's generic drugs.

AFP (6 April 2012) *and PTI* (14 June 2012)

20. India, Brazil & China defend generic drugs at WTO

India, Brazil and China have defended the right of poor countries to access cheap generic medicines at the World Trade Organisation, resisting attempts by the US, Japan and some other developed countries to club counterfeits or copies of patented drugs with fake or spurious ones. "The cases of seizure of high quality generic or off-patent drugs by third countries that hold patents for these could gain legitimacy if counterfeits are confused with fakes," said an Indian official.

In a recent meeting of the WTO's TRIPS Council, developed countries such as Canada, Switzerland and the EU said they considered counterfeiting to be one of the most serious problems to be discussed by the council. These countries said counterfeit medicines not only cause economy loss but also put the lives of patients at risk as they could be "dangerously sub-standard". India, Brazil and China, however, argued that infringing intellectual property rights should not be confused with sub-standard products and the issue of fake drugs should be discussed at other forums and not the World Trade Organization, the three countries said at the meeting in Geneva.

"It is an attempt by developed countries to paint all generic medicines produced by developing countries with a dark brush and create doubts on the quality of such drugs," said Abhijit Das, Head of the Centre for WTO Studies at Delhi-based Indian Institute of Foreign Trade. India should resist such attempts as developed nations are trying to make the intellectual property regime more stringent through WTO as their attempts to do it through the ACTA, the proposed anti-counterfeit agreement between some countries, failed because of opposition by the European people, Das added.

Interestingly, many developed countries, led by the US and the EU, had earlier tried to convince WHO to include fake drugs in the definition of counterfeits. Counterfeits are copies of patented drugs that may have infringed intellectual property rights of patent holding companies. However, a product that is considered a counterfeit in one country may not necessarily be so in another as it may be off-patent there. Therefore, if counterfeits are considered as fake, countries that hold patents to particular drugs could destroy consignment of copycat version of those drugs that pass through their ports on health grounds without fear of retribution. India, with the support of countries like Thailand and Indonesia, managed to convince the WHO that merging of definitions was not only unwarranted but could also be counterproductive in terms of supply of cheap medicines to the poor.

Economic Times (25 June 2012)

21. India and LDC Exports:

India, China and Thailand are among the fastest-growing markets for exports from the least-developed countries (LDCs), WTO Director-General Pascal Lamy has said. "Three of the five fastest-growing markets for LDC exports are regional partners- China, India and Thailand," World Trade Organization (WTO) website quoted Lamy as saying. Lamy said opening of trade barriers, supported by right mix of economic and social policies can help achieve higher growth in LDCs trade. "Even though LDC trade grew twice as fast as world trade in the last decade and has doubled its share in global trade, it still accounts for only 1% of world trade (in products)," he said. The LDCs comprise about 12% of the world's population, but account for less than 2% of world's GDP. Another way of boosting LDCs' imports is "duty-free and quota-free access" to their goods in developed and developing countries, wherein China and India have recently opened their markets.

Four developing countries, including India, have told the WTO they would further open their markets for least-developed countries, a move which will help boost the economies of the poor nations. "Four WTO members (India, China, Chinese Taipei and Korea) reported their commitment to opening their markets for products from least-developed countries (LDCs)...reflecting increased efforts by the developing economies to improve market access conditions for exports from the poorest countries," the WTO said on its website.

At a meeting of the sub-committee on LDCs held in April, these members provided information on their duty-free schemes. The committee is dedicated to discuss issues of particular importance to LDCs.

India's duty-free tariff preference scheme is operational since 2008, and since then duties are being gradually eliminated to bring 85% of its tariff lines under duty-free coverage (for LDCs) over a period of five years, it said. India's trade with Africa, a continent which comprise maximum number of LDCs, has increased to $16.28 billion in 2010-11 from $10.3 billion in 2009-10.

PTI (5 April and 22 April 2012)

22. Centrality of Development Agenda Should be Maintained, Anand Sharma Tells G-20. Warns Against 'Closed Club' Agreement on Services

The Union Minister of Commerce, Industry and Textiles, Anand Sharma has stressed that the Doha round for the first time recognized the centrality of the development agenda. "Only such a narrative will have global resonance and global appeal. We must strive to create a level playing field before we ask all to compete as equals. There is a need to fulfil the promises made in the past, implement decisions taken over years and remain faithful to the mandate of the Doha Development Round. Only then, I believe, will emerge a new narrative on trade – that would position trade as a function of economic growth and not the other way round," said the Minister while intervening at the session on "understanding global value chains: towards a new trade narrative" at G20 Trade Ministers' Meeting at Puerto Vallarta, Mexico in April.

The Minister expressed concern over the fact that "labour largely remains hemmed in by the national boundaries" while capital finance and technologies are able to flow freely across the borders. "They remain engaged in the value chains only as long as the wages are low and present a comparative advantage and this is a harsh reality which we cannot ignore" added Minister Sharma.

Speaking on the emergence of trans-national corporations and their consolidation across the world, Minister Sharma said "The growth in manufacturing is a key political consideration for countries across the world as manufacturing alone holds the potential of absorbing millions of people who are joining the workforce. As democratically elected leaders we remain conscious of our responsibilities in this regard. So even as we endeavour to integrate ourselves with global value chains, each of us would aspire to move up the value chain and not remain confined to lower rungs in value added manufacturing".

On trade facilitation Minister Sharma said that with the lowering of tariffs and removal of quantitative restrictions, the focus is now shifting towards simplification of trade procedures in general and customs procedures in particular.

Press Information Bureau (20 April 2012)

Forthcoming Events (July to September 2012)

S.No.	Events	Partner Institution	Proposed Dates
1	Specialized Course on Select WTO Issues - Agriculture, Services, TRIPS and RTAs	ITEC, Ministry of External Affairs, Government of India (GoI)	16 – 25 July 2012
2	TradeSift : Trade Policy Workshop	University of Sussex, UK	23 – 27 July 2012
3	Seminar on WTO Accession for Ethiopian Officials	Ministry of External Affairs, GoI	30 July - 2 August 2012
4	Seminar on Impact of WTO and FTAs on Gujarat	SPIPA, Gujarat	6-7 August 2012
5	Training of Trainers Programme on WTO and International Trade: Strengthening State-Centre Linkages	Ministry of Commerce and Industry, GoI	22-23 August 2012
6	Workshop on Sanitary and Phytosanitary Measures (SPS)	WTO, Geneva	28-30 August 2012
7	Seminar on WTO and its Impact on Kerala Economy	IMG, Kerala	17-18 September 2012
8	WTO Regional Trade Policy Course for Asia-Pacific	WTO, Geneva	24 September – 16 November 2012

The Centre welcomes views and suggestions from readers at:

E-mail: cws@iift.ac.in

Website: http://wtocentre.iift.ac.in

Printed and published on behalf of Centre for WTO Studies at M/s Image Print, Kirti Nagar, New Delhi- 110015.