Miscellaneous

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Remittances seen crossing $70bn in 2012

ParnikaSokhi, Business Standard

June 15, 2012, Mumbai:With the Reserve Bank of India (RBI) allowing people to receive money more than twice a month from abroad, the companies facilitating transfer services are set to cash in, too.

The relaxation, coupled with a weak rupee and high domestic rates, are enough to boost remittances to India, which may translate into high revenues for money transfer operators.

RBI, in a circular last week, said the inward remittance limit had been increased from 12 to 30 per year. The cap on the amount of each transaction stands unchanged at $2,500.

Experts say remittances to India are expected to cross $70 billion in 2012 as non-resident Indians (NRIs) take advantage of a weak rupee and high interest rate levels. There will be accelerated growth in remittances after this relaxation and if volumes are going up, the industry will also benefit, said KiranShetty, MD for India at Western Union.

Typically, remittance service providers charge the sender per transaction. This fee differs across companies and countries, depending on competition, market dynamics and regional restrictions.

Remittance service providers said there were no plans to revise fees or the fee structure but changes could take place depending on market dynamics.

Thanks to RBI, we expect to grow 30 per cent in 2012 over last year in terms of cash float, said SudheshGiriyan, head, Xpress Money Business. He said the company would add agents and agent locations in North America, Europe, Australia and West Asia to source more business from these markets. In 2011, cash-to-cash float to India was about $14 billion and we have a 10 per cent market share on that, said Giriyan. Xpress Money plans to introduce modes like cash to accounts, cash to cards and cash to mobiles, subject to regulatory approvals.

India is the top receiver of remittances in the world. Some of the key corridors to India are North America, as well as the GCC (Gulf Cooperation Council) countries, said Harsh Lambah, senior regional director, South Asia, MoneyGram International. He added there were a little over 30 million NRIs abroad who continued to have links with India. Each year, more and more students go abroad, and workers as well as professionals are migrating.

Shetty said a major part of money sent to India comes from blue-collared workers employed in West Asian countries, who have a salary cycle of more than once per month. RBI's move is expected to minimise the use of informal channels of remittances, such as hawala.

The World Bank, in its recent report, had increased the 2011 estimates on remittances to India from $58 billion to $64 billion after taking into consideration the weak currency and robust economic activities in the Gulf countries.

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Resist protectionism, keep markets open: G20

Press Trust of India

June 20, 2012, Los Cabos: In order to boost global demand and achieve sustainable growth, the G20 leaders have asked the member nations and other countries to resist protectionism and keep markets open.

"Resisting protectionism and keeping markets open," said the Los Cabos Growth and Jobs Action Plan adopted at the 2-day summit here, which among others was attended by Prime Minister Manmohan Singh.

As the global economic risks and uncertainties have increased substantially, it said, "our collective focus now is to strengthen demand, growth, confidence and financial...We have agreed today on a globally coordinated economic plan to achieve those goals through our framework for strong, sustainable and balanced growth."

Besides underlining the need for decisively dealing with the sovereign debt problem in the Euro zone countries, the Action Plan calls for "boosting demand and economic growth, and reducing persistently high and rising unemployment in many advanced economies, especially among young people".

It also underlined the need for dealing effectively with spike in oil prices in wake of geopolitical risks in an environment of limited spare capacity and modest inventories.

The priority, it added should be to ensure that emerging markets maintain a strong and sustainable growth path that contributes to the global recovery and quality job creation.

Calling for "stronger actions" to promote growth and stability, the Action Plan said, "we need to intensify our efforts to reduce both internal and external imbalances" and address problems pertaining to high fiscal deficits.

Efforts, it added, should be made to minimise risks and ensure proper functioning of our financial systems, supported by fiscal and monetary policy actions.

"We renew our commitment to deny safe haven to the proceeds of corruption and to the recovery and restitution of stolen assets," the declaration said.

Corruption, it added, "impedes economic growth, threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust and undermines the rule of law. We call on all relevant stakeholders to play an active role in fighting corruption."

Referring to trade issues, the G20 leaders expressed "deep concern" about rising instances of protectionism and expressed their commitment for "open trade and investment, expanding markets and resisting protectionism in all its forms, which are necessary conditions for sustained global economic recovery, jobs and development.

"We underline the importance of an open, predictable, rules-based, transparent multilateral trading system and are committed to ensure the centrality of the World Trade Organization (WTO).

Recognizing the importance of investment for boosting economic growth, we commit to maintaining a supportive business environment for investors," the declaration said.

The declaration also expressed the commitment of the G-20 nations to reduce imbalances and strengthen public finances of deficit nations with sound and sustainable policies and moving toward greater exchange rate flexibility.

"Despite the challenges we all face domestically, we have agreed that multilateralism is of even greater importance in the current climate, and remains our best asset to resolve the global economy's difficulties," it added.

Recognizing the need to pursue growth-oriented policies that support demand and recovery, the declaration said that the United States will calibrate the pace of its fiscal consolidation by ensuring that its public finances are placed on a sustainable long-run path so that a sharp fiscal contraction in 2013 is avoided.

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Minister links trade to security

The Telegraph

Shillong, May 27: Union minister of state for home affairs Jitendra Singh today said there was a "delicate balance" between enriching trade with neighbouring countries and maintaining strict vigil to safeguard the region while underscoring the presence of "not-so-friendly neighbours".

According to Singh, who arrived here today, how India determines its trade ties amid security concerns, also largely depends on the relationship with a particular neighbouring country.

"For instance, the present government in Bangladesh headed by Prime Minister Sheikh Hasina is favourable to India. The tension along the Indo-Bangladesh border has also come down," Singh told reporters after meeting senior state Congress party workers at the residence of Meghalaya PCC president D.D. Lapang.

Perhaps, Singh's remarks on Bangladesh justified the reopening of two border haats along the Indo-Bangladesh border in the Meghalaya sector.

The Kalaichar-Baliamari border haat under West Garo Hills was reopened by Union commerce minister Anand Sharma and his Bangladeshi counterpart MdFaruk Khan in July last year.

A border haat was also reopened between Lauwaghar or Dalora (in Sunamganj district of Bangladesh)and Balat (in East Khasi Hills, Meghalaya) on May 1 this year.

Singh said the Centre's allocation for the Northeast had increased threefold over the past few years. "The Northeast has to move forward and the Centre has been increasing its allocation for the entire region to develop infrastructure. With a difficult terrain and with expenditure being high for construction of projects, more funds are required here," he added.

Moreover, the junior minister also said the Centre was encouraging states to improve their intelligence gathering network.

He said his ministry would support Meghalaya in the setting up of hi-tech police stations and the sanctions would be completed soon.

Singh said with the commissioning of the crime criminal tracking and networking system (CCTN), policing would be highly improved.

The system is a comprehensive and integrated one for enhancing effective policing at all levels and especially at police stations through adoption of e-governance and creation of a nationwide network infrastructure.

It includes hardware, communication infrastructure and data centre, CCTNS application, digitisation of historical records and capacity building. It will also focus on modules like registration, investigation, and prosecution solutions; crime prevention solutions, reporting solutions; collaboration solutions; emergency response management solutions; citizen and external interfacing and traffic solutions.

The Congress leader said Union home minister P. Chidambaram had asked all the ministers, including those under him, to visit the Northeast more often and extend all possible support in terms of paramilitary forces, funds and other forms of assistance.
The idea is to reassure the people of the region that the Centre was committed to extend all support.

The junior home minister, who is on a four-day visit to the region, will also hold discussions with officials from the paramilitary forces stationed here like the CRPF, Indo-Tibetan Border Police (ITBP) and the Assam Rifles.Singh will also visit Nagaland, Mizoram and parts of Assam.

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India among five fastest growing markets for LDC exports: WTO Director-General Pascal Lamy

PTI

April 5, 2012, NEW DELHI: 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 Organisation (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 one per cent of world trade," he said.

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.

Duty-free and quota-free access in favour of LDCs is a commitment undertaken by WTO members at the launch of the Doha Round in 2001.

On the current impasse over the Doha Round, the Director General said with a growing list of issues and members, reaching a conclusion in trade negotiations has become ever more challenging.

"Part of the reason for the current impasse in the global trade talks is the difficulty in striking an appropriate balance of benefits and concessions, in particular between developed and emerging countries-- a balance which itself is being affected by structural changes in the global economy," he added.

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Indian exports to remain in troubled waters in 2012-13

NayanimaBasu, Business Standard

New Delhi, Feb 07, 2012:If 2011 was a difficult period for Indian exports, 2012-13 would be worse. Exports had a healthy run in the first half of 2011-2012, while growth rates had been steadily falling since August. However, exporters are set to begin the new financial year with growth rates that are already grim, and down to single digits.

According to analysts and economists, while exports are facing severe shortage of demand in developed countries, even new markets would fail to ease the burden, as these also depend heavily on exports to Europe and the US.

The order books for the summer of 2012 have already seen drops of 20-30 per cent, and exporters are not very hopeful of orders in the spring or winter as well. “The big stores and outlets in Europe are all asking for a discount. The situation is very grim, as the supply is more and demand is shrinking by the day. Compared to 2011 summer orders, this year these are almost 30 per cent down,” said M Rafeeque Ahmed, president, Federation of Indian Export Organisations (FIEO) and chairman, Farida Group, a leading leather exporting firm.

Commerce secretary Rahul Khullar had recently said 2012-13 would be harder for exporters, as a solution to the euro zone crisis was still uncertain, and recovery in the US was sluggish. Looking at the government’s fiscal condition, it might not be able to dole out incentives for exporters, unlike previous years, he had said.

“The first couple of quarters of 2011-2012 had been very robust, but things have come to a standstill since then. We have no hopes of doing better, even in the upcoming financial year, which is already starting on a very poor note. It is not easy to go to new markets at this juncture. There is a fear factor among exporters, owing to the high volatility in exchange rates,” said R Maitra, executive director, Engineering Exports Promotion Council.

Engineering exports had seen a robust performance in recent years. In 2010-11, engineering exports reached $60 billion. According to Maitra, engineering exports would not exceed $60 billion this financial year. He said one of India’s primary markets was Germany, and exports were not faring well even there. About 40 per cent of India’s engineering exports are meant for the European and American markets.

However, experts do not foresee exports going into negative territory, a scenario in which revenue would be lower than that seen in 2011-12, though growth rates are expected to be tepid.

“I do not foresee a negative rate of growth for exports, but surely, there would be reduced levels of growth. The EU is in a bad shape, and so is the US. Things are not that bright in the Asean countries as well. Lifestyle products such as gems and jewellery and handicrafts would take a major beating in 2012. But we might not see a reduction in absolute exports,” said K T Chacko, director, Indian Institute of Foreign Trade.

Exporters had demanded the extension of interest subvention to other sectors in the Budget for 2012-2013. In a pre-budget meeting with finance minister Pranab Mukherjee, FIEO had said exports should be included in priority sector lending.

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It's going to be a very difficult year for exports: Rahul Khullar

Nayanima Basu & Indivjal Dhasmana, Business Standard

The country's merchandise exports are expected to revive from January after a growth dip but the year ahead won't be easy, Union commerce secretary Rahul Khullar tells Nayanima Basu& Indivjal Dhasmana. Edited excerpts:

Jan 16, 2012: *Will we achieve the $300-billion export target for FY12? The fall in the November export growth rate was too much; do you see any contraction ahead?*

We are within striking distance of about $290 bn in exports and with a little luck, we will get to $300 bn. My guess, based on today's condition. I do not see any contraction to happen. I think in January, February and March, there will be a slight turnaround. If you look at the corrected numbers, exports essentially fell by $2 bn every month since August. It is not that significant but this indicates a trend that exports are steadily decelerating, due to external factors and the exchange rate. The nominal exchange rate change took place in November, so that is why I am confident we will go back to the $25-bon a month level in January, February and March.

You have earlier said the trade deficit will end up within $150-$155 bn. How do you see this impacting our current account deficit (CAD), which many say would be close to three per cent of GDP, the case during the balance of payments (BoP) crisis?

Yes, we are likely to end up within the range of $150-155 bn, which is a very large trade deficit. The real question is what happens to remittances, what happens to net services income and what happens to factor incomes. There are two good things. First, the services market is responding well and there are indications these will go up by 16-18 per cent in dollar terms in the next three-four months. On remittances, I think with the depreciation taking place, people who were holding back on spending money would now start doing so. This means the news on remittances and net services income is not all that bad and we'll be in the 3-3.5 per cent of GDP range on CAD. This is normally manageable.

Is it a comfortable range for CAD? Also, will we able to finance it without taking a hit on forex reserves?

The real problem is that there is going to be financing difficulties because the mood in the rest of the world is not good for capital flows. Should something untoward happen in the euro zone, there will be a real financing problem, because a lot of the European banks have exposure to Asia. So, it is not India's problem alone, it is the financing of the Asian trade deficit as a whole which may become a problem, because we are not only ones dependant on the European banking system for finance.

Second, the drying of capital markets impacts not only rolling over money but also trade finance. The availability of credit itself becomes very difficult and people who give short-term loans to finance trade get impacted. That is the real problem.

Is the fall in the rupee expected to push up the growth rate of exports, that has come down to single-digits?

Nobody responds to the exchange rate instantly but only with a lagged response. Exports will start showing some improvement from January but the bulk of the exchange rate depreciation took place in November, so you cannot expect an instantaneous reaction in orders in December. You should start seeing it in January-February. Orders have started coming in from the US but not so from Europe, so that could also help in pushing export.

Customs duty collections have also come down in November and December. Does that indicate any deceleration of imports?

As the exchange rate depreciates, imports become more expensive, so there will be a natural slowdown in imports because people will then start substituting. Second, a lot of the investment demand in the country was being met by imports of capital goods. But for the past few months, many private sector companies have put their investments on hold, which has an automatic impact on imports. So, I am not surprised with the fall in customs duty collections. This may be an indication of slowing imports. But we will still have a trade deficit of $150-155 bn this fiscal, because there are certain imports that you can do without.

What trend do you foresee in FY13 on exports?

Too early to say, but it is going to be a very difficult year. One, we are going to have our own domestic problems, which means we have a fiscal correction to be effected, there will be tax buoyancy as a problem, growth is decelerating and the question is will growth actually revive and will there will be any easing of the domestic monetary policy stance. More, there are going to be international events that will impact you. These will be mostly demand-related problems due to the European trouble, difficulties in the US and the general world mood is very sombre. Export will continue to grow but to expect a growth rate at 30-40 per cent is out of the question. If we get export growth rate in the order of 15-20 per cent, we should be more than happy.

Looking at the present global conditions, do you think the budget will have a package for exporters?

That depends on the December till February numbers. If there is a real problem, something has to be done. But I am very doubtful that the ministry of finance, which is already so strapped for cash, will give export subsidies.

How do you see the sanctions on Iran impacting us?

Oil prices have already started rising. Should those sanctions be pushed to the hilt, we are going to have a supply problem which is artificially created and that would hike prices. What can we do? There are too many risks and no one knows how these will shape up in 2012.

Last year, you released a strategy paper on doubling India's exports by 2014. Where do you get the optimism from?

Over the last five years, there has been a quiet revolution in our industry and in our export sectors such as engineering, chemicals, gems and jewellery, and others. This does give me reason for optimism.

I think certain sectors are intrinsically competitive and those will drive our exports, so we should continue to see growth. Also, even as the rest of the world turns protectionist, we have gone on signing trade agreements, and that is helping us. Our trade with these countries is growing by 30-40 per cent per annum.

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SEZs losing appeal for companies? Policy filp-flops speed up the pace of withdrawals

Bhanu Pande & Amiti Sen, ET Bureau

27 Dec, 2011: Companies queued up for SEZs. Today, one-third have changed their minds and the rest are unhappy campers. Even as SEZs lose appeal, the department of commerce is bracing for one last push.

Three years is a long time in business. This affirmation came to Rajesh Sonthalia when his company commissioned its new solar panel unit in Falta Special Economic Zone, in Kolkata, this September. Sonthalia's choice of location, made in 2008, was based on economics made favourable by all manner of tax giveaways.

But this February, finance minister Pranab Mukherjee pruned some of those benefits to SEZs, leaving entrepreneurs like Sonthalia fretting. "Having already made a significant investment of Rs 200 crore, we couldn't have pulled out," says Sonthalia, vice-chairman & managing director, Sonthalia Group of Companies. Sonthalia represents India Inc's growing disenchantment with SEZs -- the previous government's big idea to drive exports and, in turn, employment and growth.

China was reaping the benefits of such a policy crafted in the eighties and UPA-I felt SEZs could redefine India's status as an exporter. It rolled out a 15-year SEZ plan in 2006. Land on a platter.Speedy approvals. No income tax for five years and concessions for another 10 years. No tax on inputs.

Except after two years, the promises started coming unstuck, like the one on income tax. "We don't know what the government might do next," says Sonthalia. Faced with a harsher business climate and a government that is wavering on SEZ laws, companies are unsure whether they can plan for 15 years. About one-third of companies that held the rights to build an SEZ -- 202 of 583 -- have raised their hands and walked away.

The pace of withdrawals is increasing, with 60 leaving in the past two years alone. These include companies that were looking to set up SEZs for captive purposes (Bata, Dr Reddy's and Essar) or to lease it out (DLF, Omaxe and Unitech). It's no different for tenants. "Most units are evaluating their tax arbitrage before deciding whether to go to an SEZ," says Anshuman Magazine, managing director, CB Richard Ellis, a real estate consultancy.

About one-third of India's exports come from SEZs. Impressive as that headline number is, it is boosted by some migrating exporters -- for example, IT companies moved from software technology parks to SEZs. Further, it hides the skew of just five states and five sectors account for 90% of exports from SEZs. It hides the fact that SEZs are anything but nonurban and manufacturing conclaves, as they were conceived to be.

It also hides the indecision running through SEZ developers and exporters. Of the 583 SEZs the government had approved till October 2011, only 143 were operational. "Most of the operational SEZs don't have full occupancy," adds Hitender Mehta, a legal expert on SEZs and a senior member of the SEZ Council of Assocham.

Mehta blames it on the government. The department of commerce shaped the SEZ policy, but the finance ministry governs taxation, the policy's cornerstone. The tussle is between a long-term plan (commerce) and short-term imperatives (finance).

"There's a clear disconnect between the department of commerce and the finance ministry, which are at loggerheads," says BK Subbaiah, chief operating officer of Mahindra World City, which operates three SEZs. "One issues a policy and the other fails to honour." Commerce secretary Rahul Khullar has no say in taxation, but he plans to tweak areas where his department has a say."We are now focused on making SEZ policy investor-friendly in areas within our control," he says. "We hope to change the rules of the game." It could well be the last chance for an idea that was made forindustry, but is now coming apart.

CENTRE FLIP-FLOPS

Four blows changed SEZ dynamics. They might not have made SEZs unviable, the noise of developers and exporters notwithstanding, but it has pared the incentive for them. Blow number one was land acquisition, in 2008, about the time that developers started setting up SEZs.

"Demand was good and abundant capital available. So, we saw a rush to set up SEZs as most developers hoped to attract sufficient clients," says Magazine of Richard Ellis. "That turned out to be an over- estimation." Singur and Nandigram erupted and reframed the debate on land acquisition. Till then, the government had been buying land for industry, often on the pretext of 'public purpose' and at sub-market prices, lending credence to the charge of SEZs being a 'land play'.

Amid mounting public backlash, the government stopped. Industry had to now negotiate with landowners and also pay market prices. Blow number two came around the same time, when cash evaporated from the world economy, including India. Real estate prices tumbled and developers fell into a debt trap. They had no money to build, and with the apparent land arbitrage in SEZs gone, they had less reason to build one.

"We would have been ruined had we gone ahead with our SEZ," says RohtasGoel, CMD, Omaxe, a real estate company that gave up its proposed SEZ in Alwar in late-2009. Blow number three was the draft of the direct tax code (DTC), which was released in late-2009. Compiled by the ministry of finance, the code recommended shifting from a system where incentives were linked to profits to one where they were
given on investments.

"Once the DTC is enacted, SEZs won't be an attractive option," admits Khullar. This has especially peeved IT SEZs, who make up 60% of approved units and 55% of commissioned ones. IT companies, typically, work on low investments, but generate high profit margins.

"This will be a major setback to the IT industry and a matter of concern for all," says RamdasKamath, senior vice-president & head of infrastructure, commercial facilities, at Infosys Technologies, which operates seven SEZs and has another three in the pipeline. Blow number four came in Budget 2011, in another instance of the commerce and finance ministries pulling in different directions. No income tax for SEZs became history.

Finance minister Mukherjee, citing "equal sharing of the corporate tax liability and foregone revenues of Rs 8,614 crore", slapped a 18.5% minimum alternate tax (MAT) on SEZs; he also levied a 15% tax on dividends declared. "This has affected our cash flows," says Sonthalia.

"Our net margin has fallen to 4-4.5%, from 7-8%." Even when the original policy was being drafted, the two ministries, then led by P Chidambaram in finance and Kamal Nath in commerce, clashed repeatedly over giveaways --for example, duration of tax holidays and number of SEZs. If commerce gave, finance pulled back.

NO STATE SUPPORT

The latest pull back by finance has not gone down well with industry, which has dragged the government to court on MAT. "Citing duty foregone in budget speeches is not the way to build a scheme aimed at national development," says Hitender Mehta, a legal expert on SEZs and a senior member of the SEZ Council of Assocham. Likewise, GK Pillai, former commerce secretary under whose tenure the SEZ Act was enforced, calls the finance ministry's argument of revenue loss from SEZ incentives as "notional". "This is more than compensated in other ways," he adds. "For one, SEZs have created huge employment. Two, this employment has spurred consumption, and the government receives duties on the products people buy and consume." The department of commerce estimates that for every job created in an SEZ, two jobs are created outside for activities outsourced.

By that extrapolation, SEZs have created 2.1 million jobs -- 0.7 million directly and 1.4 million indirectly. If the finance ministry feels so strongly about duties foregone, says Pillai, it should scrap all future SEZs and let the existing ones function. For the idea it was meant to be, adds Mehta, SEZs have not received the support of either the Centre or the states. "Governments at both levels may have followed the policy in letter, but not in spirit," he says. "The government is seen as changing its policies far too often."

According to Kamath of Infosys, most states have failed to facilitate SEZ development and, even today, it is a long-drawn process that can take up to two years. "Singlewindow facilitation is useless if you still have to go through a series of regular approval application processes," he says.

Haryana, for instance, has added another layer in approvals. It sponsors an SEZ developer's application to the department of commerce; once the department clears it, the state asks the developer to apply for permission with it again. Only 3 of the 35 SEZs notified in Haryana have become operational. A large number of states, mostly in the North, do not even have an SEZ policy.

Bihar for instance, neither has a policy nor an SEZ. "We didn't try and push states after the initial introduction and encouragement," says Pillai. "The idea was that, over time, they will learn from the experiences of other states." The disparity suggests they either haven't or they don't want to. The four southern states do, accounting for 93 of the 143 operational SEZs and 39% of all SEZ exports. "Most states have failed to recognise the social and economic benefits of SEZs," says Khullar. "They should visit the South and see the difference SEZs have made to the lives of the poor, especially women."

ONE LAST PUSH

Under Khullar, the department of commerce has commissioned a discussion paper, which might well be its blueprint to reform SEZ policy.

The paper essentially aims to explore how it can fix the issues facing SEZ developers -- excluding taxation, which remains the finance ministry's domain. The paper suggests what the department may do to make SEZs more attractive to industry.

Take land requirement norms. The paper acknowledges that acquisition of land -- contiguous, vacant and non-double crop in nature -- is going to become more challenging under the proposed law, which requires developers to provide houses, jobs, salaries and a share of profits to landowners. "At a conservative rate, the cost of land for a SEZ will increase from 5% of the project cost to 15%," says Subbaiah of Mahindra World City.

"The government should think of smaller enclaves." It's what the department paper suggests. It proposes to reduce the minimum land requirement for multi-product SEZs from 1,000 hectares to 250 hectares, and for multiservice and sector-specific SEZs from 100 hectares to 40 hectares.
The high land requirement was one of the reasons why only 17 of the 143 operational SEZs are multi- product -- the kind that are a true reflection of a country's export capabilities. Another change Khullar has been pushing for is an exit window for SEZ developers, that too a clearly defined one.

At present, a developer can decide not to be an SEZ, after repaying to the government all the tax benefits claimed by it. However, it cannot sell an SEZ project, as it would amount to a sale of land. A small window of change might be visible. In its board of approval meeting in September, the department has allowed SEZ promoters to sell part of their equity to a partner, domestic or foreign.

Meanwhile, there are still patches of demand for new SEZs. "IT companies are still interested," says Magazine, adding this is because their minimum land norm is just 10 hectares.

"The SEZs in the South are seeing 90-100% occupancy," says Subbaiah. But there's also the other side that is expressed by commerce secretary Khullar when he says that there's been no investment in SEZs for a good part of 2011. It's up to the government.

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India has initiated 275 anti-dumping cases since 1992

PTI

New Delhi, May 2: India has initiated 275 anti- dumping investigations between 1992 and March 2012, involving 42 countries, Parliament was informed today.

"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.

In an another reply, Scindia said Rs 264.28 crore has been collected as penalty from tobacco growers since 2000-01 up to February 2012.

"During the same period, an amount of Rs 2.81 crore has been collected as cess," he added.

He also said the Tobacco Board is spending the money collected as penalties on several welfare activities being run by tobacco growers.

"The cess amount collected from the growers are remitted to the consolidated fund of India every year," he added.

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Crisis must not change India's course

Martin Wolf, Financial times

February 08, 2012: What do the financial and economic crises of the high-income countries mean for emerging and developing countries? I addressed this in New Delhi last week, at a discussion sponsored by the Federation of Indian Chambers of Commerce and Industry (FICCI), the Consumer Unity & Trust Society (CUTS) and the Financial Times. The conclusion I drew was that the crisis is dangerous. But this is not so much because of its direct effects. It is far more because of the lessons that might be drawn. The right lessons have to be drawn, not the wrong ones.

In the years since the financial crisis broke upon the high-income countries, the economic performance of the biggest emerging countries has been remarkable. Even allowing for the slowdown forecast for 2012 in the International Monetary Fund's recent World Economic Outlook update, India's gross domestic product is set to rise by 43 per cent between 2007 and 2012. This is below China's rise of 56 per cent. But it is far superior to the high-income countries' 2 per cent.

This is a revolution. It also shows a large measure of decoupling. We learnt in late 2008 that a big shock in high-income countries would adversely affect developing economies. But the Asian giants were relatively unaffected. They found ways of offsetting the shock.

Would that be the case again? The worst likely shock might be a combination of an oil-price jump - perhaps following conflict in the Gulf - with the collapse of the eurozone. The latter would temporarily disable, if not destroy, the eurozone's financial system. That would generate large global shocks, via trade, remittances, finance and pervasive uncertainty.

One can also identify risks inside big emerging economies. China, in particular, might be unable to offset another deep recession in the high-income countries with a huge rise in credit-financed investment, as it did three years ago. According to the economist Andy Xie, fixed asset investment has reached 65 per cent of GDP. It is almost impossible to imagine the investment rate could be raised further, without risking a huge overhang of unneeded capital and a subsequent investment bust.

Another global "bust", possibly worse than that of 2008 would also damage the Indian economy. In its January Global Economic Prospects, the World Bank noted that "conditions today are less propitious for developing countries than in 2008". India has high fiscal deficits and a high rollover rate for public debts. With a current-account deficit of close to 4 per cent of GDP in 2010, it would be vulnerable to another big global shock.

Yet such direct threats should not be exaggerated, for two reasons. First, the scenarios are possible, but far from probable. Downside risks are large, as the IMF notes, but they are just that: risks. The eurozone may do the right thing, in the end. Similarly, conflict with Iran may be avoided. Second, a vast and relatively poor country, such as India (with GDP per head, at purchasing power parity, only a 12th of US levels), can still generate rapid growth by catching up on the world's richest countries, almost regardless of the global environment.

Thoughtful Indian observers are well aware that the principal obstacles to rapid economic development are internal, not external. Among obvious constraints are failures of governance, including wasteful spending on subsidies at all levels of government, a dire record on the provision

of education and health to the bulk of the population, rigid labour laws, inadequate infrastructure and costly restrictions on efficient use of land. Much of this is laid out in an excellent collection of essays by Shankar Acharya,
former chief economic adviser to the government of India. Yet such failings are also opportunities. Given how well India has performed despite these disadvantages, consider how well it might do without them.

The biggest danger from a further global shock would be indirect, not direct. It would come via backsliding on reforms. I can see two threats.

The first and least important would be a consequence of global responses. So far, however, the regulatory response, at least in finance, seems unlikely to damage India. The Indian financial system would, for example, be no worse for adopting the emerging global norms, and probably better. A bigger threat would come from imitating external protectionism. But so far, nothing too serious has occurred in that area, though the risks certainly exist.

The second and far greater threat would be undiscriminating embrace by Indians of the "capitalism-in- crisis meme". In the same way, it might be remembered, one of the worst consequences of the 1930s Great Depression was the embrace of anti-trade and anti-market policies in much of the developing world after the second world war. It would be a catastrophe if any such response occurred, when "reform and opening up", as the Chinese call it, has begun to work so well, even in India.

The crucial point is that what has happened is not a crisis of the market economy, but of mistaken ideas about it. Appropriately supported and regulated, competitive markets remain incomparably the most successful means of generating sustained increases in wealth. This is as close to a proven fact as we are likely to obtain in social sciences.

For India, where so many markets are unnecessarily and disastrously distorted by counterproductive government interventions, this remains overwhelmingly true. But by doing what they should not do, Indian governments have too often failed to do what they should do: to create the conditions for sustained and broadly shared growth. The reforms listed above remain essential. Nothing has changed that.

So what should a country such as India learn from the crisis in forming its own policies? I suggest two big lessons. First, the financial system is capable of generating huge instability and needs to be watched. Second, the integration of India into the global financial system has to be managed carefully. Huge crises may be socially and economically manageable for high-income countries. They would be grossly irresponsible for a country like India.

What, then, are the conclusions? First, India's fate rests mainly in its own hands. Second, the reforms that made sense before the crisis make as much, if not more, sense now. Third, India must proof itself against big macroeconomic risks, particularly from excessive fiscal deficits, ill-managed integration with the global financial system and, in the longer run, out-of-control domestic credit. Last, Indians should resist the notion that the crisis proves market economies do not work. They should recall that the adversely affected economies are still the high-income countries, for a reason. Learn from the mistakes. Remember the reason.

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WEF Davos 2012: 'India, G20 countries don't have enough resources to handle another recession'

Sudeshna Sen, The Economic Times

31 January 2012, DAVOS: India and other G20 countries do not have enough fiscal headroom to tackle another global crisis of the magnitude that happened in 2008, commerce and industry minister Anand Sharma said.

"The situation was much more comfortable in April 2009 than it is now, and governments will find it difficult to provide the kind of stimulus packages we were able to offer then," he told ET after meetings with world trade leaders and IMF chief Christine Lagarde.

"We are keeping a close eye on capital flows and the situation in the Euro zone," he said.

He also assured international investors at Davos that the Indian government has not rolled back its decision to allow 100% FDI in multi-brand retail. "It is going to happen, there's no question of a rollback, we are just building consensus," he said, though he refused to specify a time frame. Speaking to ET, he pointed out that he'd had a stream of meetings with representatives of top global retail brands. "They live in countries where there is a democratic set-up, and I think they understand," he said.

He expressed concerns on a contraction in global trade. "Exporters are sitting on inventories, and we have not seen the growth in trade that we hoped or expected, in EU or the US. It worries us, because if exports don't grow, there is pressure on the trade account, especially given the very high oil prices," he said. "However, we are still growing in exports," he said.

Anand Sharma also insisted that multilateral WTO trade talks have hope, "because even in differences, we had a very open and frank discussion."

Bilateral trade deals, he pointed out, can only supplement multilateral talks, and cannot replace them. He said that collectively, political leaders and ministers were committed to move on the stalled Doha talks.

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Falling rupee fails to cheer exporters, spooks inflows

Asit Ranjan Mishra, Mint

New Delhi, 29 May 2012: In the normal course, a depreciating rupee should have made Indian exports cheaper and more competitive. But instead of celebrating the windfall from a 23% drop in the value of the rupee against the dollar in the last one year, the board of the main exporters' lobby was busy over the weekend in Goa, charting a plan to deal with the volatile currency.

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.

Normally, the exchange rate should have a self-correcting impact on the current account deficit, says Pronab Sen, principal adviser in the Planning Commission. A weak rupee should make exports cheaper, boosting overseas shipments; imports that become costlier would drop.

"Both these should have a positive impact on the trade deficit and current account deficit, which is somehow not happening," Sen said.

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.

Sen suggests that the government has to urgently address the worries of foreign investors. "It needs to send a clear message that the present current account deficit of 4% (of gross domestic product, or GDP) is a problem and we are going to address it. It (government) gives an impression that it is not an issue," he said.

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 a high import content in such products, the depreciation of the rupee does not fully translate into gains for exporters.

Amanpreet Singh Chadha, chairman of EEPC India, confirmed that the rupee's depreciation is not helping engineering exporters as prices of raw materials and steel have also gone up. 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.

Pankaj Seth, managing director of Orbit Exports Ltd, a Rs. 100 crore company with 75% of its sales accruing in foreign markets, said the rupee depreciation will offset some part of the losses in the short run.

However, he added, high inflation has led to hardening of yarn prices, which will hurt textile exports in the medium term. Worse, as Seth pointed out, overseas clients have started seeking discounts on the assumption that Indian exporters are making windfall gains because of the rupee depreciation.

“But because of huge volatility, if I promise to sell at Rs.56 per dollar and then rupee comes back to 52 per dollar, it hurts me. We do not know where the rupee will be in next three months’ time.” he said.

EEPC India’s Chadha put it this way: “We don’t want a high or low rupee,” he said. “We want a stable rupee for the growth of the sector.”

Samiran Chakraborty, head of India research at Standard Chartered Bank, said it is a big challenge for an emerging economy such as India to assess the fair value of its currency. “Sometimes, speculators can take the currency far away from its fair value,” he said.

The rupee depreciation will also put additional pressure on domestic inflation by making imports costlier. Chakraborty said 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.

Debt impact

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.

Chakraborty maintains that this is one of the biggest fallouts of the rupee depreciation. “Such companies
get very little time to adjust their balance sheets,” he added.

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.

“In the short term, there might be a negative impact for some companies depending on their hedge positions,” said N. Venkatraman, chief financial officer (CFO) at Sonata Software Ltd.

The CFO of another leading IT company said sharp currency movements can have an impact in the near term, but the business model has the ability to sustain itself in medium term. “As long as we follow a consistent model, we can benefit from both the upside and the downside,” he added, speaking on condition of anonymity.

The outlook

Unless circumstances change radically, it looks like the weakness of the rupee is going to be an integral part of the macroeconomy 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.

C. Rangarajan, chairman of the Prime Minister’s economic advisory council, candidly concedes that the outlook on the external sector is worrying. “If capital flows were adequate even with a high current account deficit, the situation could have been manageable,” he said.

A current account deficit that’s above 3% of GDP will be difficult to finance, Rangarajan said, adding that the medium-term target should be to bring the deficit below that level.

According to Standard Chartered’s Chakraborty, if the overall macroeconomic situation does not change, it is likely that the rupee will remain weak. “The global situation is not helping either,” he said.

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Re fall to have limited benefit for exports

Abhijit Lele, Business Standard

But weak global demand, costly imports play spoilsport

Mumbai May 24, 2012: 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 on April 27. 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 per cent against the dollar and 13 per cent 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.

Economists and treasury executives said an undervalued currency would provide strength to exports. D K Joshi, chief economist with CRISIL, said an undervalued currency puts India in a position of strength. However, the major influencing factor is the trend in global demand, presently weak.

Some export goods are also import-intensive and the weak rupee has made imports costly. Also, how currencies of competing currencies behave will have bearing on gains, as will inflation, said Brinda Jagirdar, head of economic research at State Bank of India.

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.

“The nominal effective exchange rate was 82.13 in April and assuming inflation stayed at the same level, REER may fall below 90, as the rupee has depreciated by 6.2 per cent since the end of April,” said an economist with a foreign bank.

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Developed nations want emerging economies to take more responsibilities

Nayanima Basu, Business Standard

July 19, 2012: Developed countries, especially the US, are seeking more market opening commitments from emerging economies like China and India, something that has stalled the Doha round of global trade talks under the World Trade Organization (WTO). In an interview with Nayanima Basu, on the sidelines of a Ficci seminar, Harsha Vardhana Singh, deputy director general, WTO, said he was hopeful of the issue getting solved by 2014, during the next minister-level meeting. Edited excerpts:

You said in your address to Ficci today the Doha round of talks was in a stalemate, as the US wanted more obligations from countries like China and India. Could you elaborate on this?

It is not just the US. The developed world feels, in which the US is a prominent part, emerging economies should take more responsibilities. So, when you look at it from the emerging economies' angle, these feel the level of poverty to be addressed and the development initiatives that are needed in their respective countries, it would not be reasonable for others to seek substantially higher levels of obligations than what these are offering and there is a gap in the perception.

Do you see this gap closing anytime soon during the upcoming ministerial meeting in 2014 and 2015, by which time you said you were hopeful of the Doha talks coming to a conclusion?

I hope so. But we need to see how the global system develops, how much of a political sensitivity, for reaching conclusions in a multilateral system, is of use and is beneficial to all of us. Right now, we are seeing market-restricting measures, which shows an increasing emphasis on domestic concerns without adequate recognition to the positive role played by a multilateral framework in this context. And, as I said, this multilateral agreement under WTO is important to address major problems today and is important for the future, too.

Now that the US is heading for another Presidential election, how difficult will it be to bring countries back on the negotiating table and complete the Doha round in a serious and credible manner?

They are there. There is seriousness expressed. The fact that progress is getting achieved in some areas shows the members' seriousness. But there are other issues to be addressed. Of course, a period before the election makes it somewhat politically uncertain on exactly the position that country will be taking. But, yes, there are discussions and progress. However, it is not spreading across the board.

How is the WTO viewing the recent spate of disputes taking place between the US, and India and China? Is it a fallout of what is happening at the Doha round of talks?

WTO has a credible method of readdressing these sorts of disputes, which reduces tensions. Bringing disputes to WTO are a normal part of the system. It is not as if we have got extremely high-level of disputes which have suddenly peaked. It is not that. These are normal ups and downs. There are different factors that give rise to such disputes. The important part is that there is a disciplined mechanism to settle these and avoid tensions.

Is there an attempt to bring in new issues like climate change clandestinely into the Doha Development Agenda, and do away with the older mandate?

Well, whatever is discussed in the negotiations is privy to those parties and I do not sit in those meetings.

But at present, basically the discussion is on getting whatever we can or whatever the members can from the Doha mandate, as it exists and to the extent if there is any discussion of any type would be on a different platform. But within the Doha round the focus right now is to try and see whatever can be achieved in whichever sequence. The focus till now is that, but of course members keep discussing other issues which I am not privy to.

What is the progress on some of the main sticking points of the Doha talks like, reduction in agricultural subsidies and cotton?

We have moved a lot on domestic support for agriculture. But it gets linked with the single-undertaking. On cotton discussions have been going on. Last month the Cotton-4 ministers had visited US and it is now linked with the US' Farm Bill. In my understanding, to the extent market access issues are addressed, we should be reaching a conclusion in these other aspects. So, it is mainly the market access.

What is WTO doing in this era of increasing protectionism stance being taken by countries to address domestic concerns in the face of a financial crisis?

Three per cent of the world trade today depends on the restrictive measures taken. Concerns are being raised at the highest level in the WTO. Countries are taking note of this and they are taking a look at the factual basis and trying to see how it relates to coverage of various kinds of restraint. Countries are taking these market restrictive measures without looking at the overall perspective. So, they need to analyse the cumulative effect of this and should they be more careful.

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