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The Indian exports story is like an F1 race

Nayanima Basu, Business Standard

August 10, 2012: Export-Import Bank of India (Exim Bank) Chairman and Managing Director T C A Ranganathan asserts that a compound annual growth rate (CAGR) of 21 per cent between 2001 and 2011attests to the success of India's exports story. In an interview with *Nayanima Basu,* he says, the focus now should be on clocking a CAGR of more than 21 per cent over the next decade. This, he says, will be possible if we promote all categories in the export sector and measure up to the best countries in the world. Edited excerpts:

India's dismal export performance started the current fiscal year on a bad note; the situation is comparable to the 2008 crisis. How long do you think this will continue and when do you see a turnaround in exports?

I see the country's exports story as a Formula 1 race. You can't make out who is performing well or badly by merely watching the race. The Indian exports story should be viewed from this perspective. The CAGR of exports from 2001 to 2011 was almost 21 per cent. Growth during these 10 years was very strong though there were periods of poor performance in between. In fact, India's exports growth story had been one of the strongest, apart from that of China's. Our share in world exports has gone up from less than one per cent to about less than two per cent in the same period. But growth might not look that strong since imports have gone up faster. So, the so-called slowdown is because we are not seeing the story in its totality. The challenge now is to clock a CAGR of more than 21 per cent in the next 10 years.

How can India achieve this in the next 10 years?

There are some exports that need to be promoted. For example, agricultural exports that account for 10 per cent of total exports. Today, there is no organised method for promoting agricultural exports as a concept in the national economy. Without the full support of the government, agricultural exports have reported a CAGR of more than 21 per cent. We need to export because we do not have enough oil in India; we have a billion-plus population for which we have to create a job market.

All sectors of economic activity need to be promoted and exports is one of them. And in promoting exports, we have to measure up to the best in the world otherwise we cannot export.

Today, the main markets for India's merchandise exports like the US and Europe are down. Do you see a revival of demand in these markets anytime soon?

See, we have to look at the overall composition of exports: chemical products, petroleum, manufacturing, gems and jewellery, agriculture and textiles. No one is talking about these categories that may not have seen a fall in demand in the US or European markets but are facing their own set of problems. If we address the problems of each of these segments, we may create a better CAGR story for exports. We have to create substantial capacity for their exports. We have to create manufacturing capacity or production capacity for exports. These issues are long term and are not getting due focus and attention. We have more arable land than China yet in agriculture our productivity is lower than China. There is potential in all our top-five export sectors. Today, almost all countries in Europe are in recession or are stagnating; the US economy is just floating; and then there is the emerging Asia where the picture is not so good either.

Imports are rising faster than our exports and this is putting pressure on the trade deficit that, in turn, is stretching our current account deficit. Why are Indian exports lagging imports?

There are two reasons for the increase in our import base: one is the energy issue and the other is an overvalued currency. FII [foreign institutional investors] inflows resulted in the overvaluation of the currency and the rupee was kept at a higher level. We have had inflation on a real basis and it was not being mapped into the currency over the period. These things should be kept in mind whenever you analyse a problem.

What is the Exim Bank doing to push Indian exports?

We are helping SMEs [small and medium enterprises] identify new markets. We are trying to promote exports in financial products. We are giving sovereign loans to projects as a primary or as a guarantee counterparty and we will give term credit up to 10 to 12 years. This could be for a power project, a dam or a housing project. We have also developed a short-term buyer credit that is giving loans directly to companies that are importing from India.

Exporters have been complaining about the high costs of borrowing over the past five years. What is your view?

I believe interest rates are being given too much importance. People should think of how to manage other aspects. I urge companies to look at China, for example, and analyse how it has been able to manage. The Chinese model is based on economies of scale because they have set up large units. Our story is based on SMEs. And to compete, these SMEs have to fend for themselves. But if they work collectively, they could pool in resources to buy raw materials, get transportation and warehousing and so on. Therefore, Indian SMEs should stop competing with each other and join hands to compete with the world. This will change the cost profile in terms of high costs of borrowing and soaring transaction costs.

So, you are basically trying to promote the idea of clusters?

Yes, absolutely. This is the only way we can improve India's export story in the next decade. It is not that we are not successful; but problems arise because of internal issues and our dependence on imports. We need to grow exports faster than imports. Today, companies are working with a micro perspective.

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Women Suffer More With Rising Trade Globalization

Asian Tribune (India)

19 August 2012: In an increasingly globalised world, the impact of trade and investment liberalisation is an important area of policy focus. With the emergence of bilateral free trade and investment agreements and clamour for more and more foreign direct investment, all in the name of economic growth, the gender impact of these policies is changing and impacting women's roles in society.

Indian women face a number of challenges everyday as workers, care givers, food providers, and healthcare seekers. In a country like India, where economic, social and gender inequalities persist historically, and where trade policies are not 'gender neutral' the impact of trade policy on women must be paid serious attention to.

Unfortunately, for the economists, women's work remains invisible, especially in the agriculture sector. Likewise discourses on land reforms do not talk of women at all.

Despite being actively involved in producing food, a very high percentage of women remain anaemic. Have we ever pondered as to why the same kitchen produces malnourished women and healthy men?

All these issues were discussed at length in a capacity building national workshop for media persons on 'International Trade and Gender Dynamics in India' which was jointly organised recently in Delhi by the Center for Trade and Development, Third World Network, Centre for Legislative Research and Advocacy and Heinrich Boell Foundation.

It is important to understand the gender dimensions of international trade and finance policies in relation to the new opportunities, expectations and responsibilities which are beckoning women. Women's ownership of physical and financial assets is limited and employment in large sectors has low proportion of women while small sectors have higher numbers. Investment liberalisation has created an impact on gender dynamics in sub sectors like banking, health, construction, and information technology in terms of both employment and access.

Foreign Direct Investment (FDI) in construction sector has involved more mechanization resulting in displacement of women workers before their male counterparts. With growing commercialization, the access and control over traditional knowledge systems (like in medicine and food) especially by women gets threatened.

The new trade policies related to the pharmaceutical sector threaten the growth of generic medicine industry and hence the supply of affordable medicines to disadvantaged sections, including women who would rather choose to spend on the healthcare of their husband/child than their own due to financial constraints.

Renana Jhabwala, the National Coordinator of SEWA (Self-employed women's association) felt that, "Although with more opportunities available, more women are entering the workforce, but the patriarchal system ensures that the household and family responsibilities still rest upon them, increasing their emotional and physical burden. Women still do not own assets and their healthcare and education are still not given enough importance. 94% of the women workers are in the informal sector with low earnings and poor growth opportunities. In sectors with falling earnings like agricultural labour (having little input of technology), men are moving to other more skilled sectors, and are increasingly being replaced by women, resulting in feminization of agriculture. Similarly in the handloom sector there has been a marked shift from male to female weavers. However sectors which get more mechanised (like construction) are lost to women workers, as they lack requisite skills. Although there is a strong desire in members of

SEWA to spend their earnings to educate their children, they have little inclination to spend in upgrading their own skills to face a more competitive market."

The workshop highlighted cross cutting areas where the gender impacts of trade and investment liberalisation can be felt. According to Dr Axel Harneit-Sievers, Director of the Heinrich Boll Foundation, "India's international trade has become much broader and deeper. Trade and investment agreements and liberalisation policies in general affect a vast range of sectors like agriculture; industry; services; intellectual property rights; and services and in all these areas gender impacts are getting stronger."

The workshop also highlighted the contradictions in the gender-trade linkages. There are areas where India may lose markets, jobs and incomes by opening up to global competition. At the same time, women's employment and income in export oriented industries like textile and garments, leather, food processing and marine products and in gems/jewellery have increased. But despite more work, disparity in wages, volatility of employment, harsh working conditions and inadequate health/maternity benefits are common. . In states like Kerala and Tamil Nadu, increasing exports have threatened the livelihood of women fish vendors who get fish for local market consumption. Easier access to foreign fishing vessels to Indian fishing waters in future bilateral trade agreements can further threaten smaller domestic players. It is important that India's trade policy takes gender sensitivities into account in its trade agreements and combines it with a gender friendly development policy.

Jayati Ghosh, Professor at Jawahar Lal Nehru University, said that, "The global crisis has resulted in a real wage decline in all women related activities. In India, export oriented growth has relied more and more on women's work in the informal activities and unpaid work in social reproduction. To generate exports with better material conditions for those who produce them, we need not just better wages but also social protection measures."

Abhijit Das, Director, Centre for WTO Studies, raised the issue of anomalies in women's work in India's industrial and service sectors and said that as literacy rate in women goes up, the wage gap between men and women narrows. He cited to Citizen News Service (CNS) a 2008 study which found that only 36% of the jobs created in the export oriented sectors in India went to women, although this was still 5% higher than the average overall share of jobs going to women. Abhijit felt that, "Just creating jobs for women in trade oriented sectors is not enough. We must go beyond the numbers to look at the underlying inequalities and address them and strengthen their social positions."

Kalpana Sharma, former Deputy Editor of the Hindu lamented that, "It is ironic that in 2012 we still need to have a gender workshop. In our business pages, only women as heads of companies exist, but the common woman is not found anywhere. As journalist we are missing half the story if we do not understand the gender dimensions of the issues of economy, environment and development policies. We need to wear a gendered lens to humanise our stories by integrating facts with the life of the women on the street."

Mainstream media has often been accused of neglecting agriculture related issues. Debt ridden farmers are not news worthy unless they commit suicide. The image of a woman farmer does not come easily. Paranjoy Guhathakurta, senior journalist and political commentator said that, "for the corporate media, news relating to trade and gender issues that affect the under privileged are rarely emphasized, except on occasions when the facts are too stark and important to be ignored. In other sections of the media, news stories on such subjects can sometimes be presented in a dull and prosaic manner, thereby reaching out to only those who are already interested in the subject."

Ranja Sengupta of the Third World Network was worried that as India climbs up the ladder of an emerging economy, the health, education and food needs of women get affected. Whenever there is a crisis, women lose jobs much faster than men. When healthcare costs go up, women are the first and worst sufferers. She summed up by saying that, "The aim of the workshop was to encourage the media to develop focused stories from women's lives and connect them to policy issues; spread awareness and bring examples related to the gender issue into public domain and create public pressure to influence government's trade, investment and labour related policy making at all levels."

Let us hope that in the coming months, we will get to read more about linkages between trade/investment liberalization and gender equality in the context of women's access to critical physical, financial and human resources and access to basic services, with significant implications for their livelihoods, health, socio-economic status and well-being. The media will have live up to the expectations of the important role it can play in building awareness on trade and gender issues by educating the common masses as well as policy makers.

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Trading up the value chain

T S Vishwanath, Business Standard

August 30, 2012: At a recent conference organised by the Confederation of Indian Industry (CII), the emphasis was on the need to position Indian exports in the emerging global value chain. The underlying objective was to understand and plan as to how India could increase its presence in global markets.

Several ideas were debated but some of the issues that were highlighted and discussed need some attention and deliberation.

An important issue that was raised was the fact that industry needs to look beyond subsidies to sustain and grow exports. The focus has to move from incentivising exports to supporting exports. This means that industry has to shift its focus to demands in terms of better infrastructure, better connectivity to large markets, single-window clearances and greater coordination among departments that handle exports rather than focus on increasing the incentives provided to exports.

The second point was whether India should look at new markets or concentrate on existing markets that still contribute to the lion's share of global imports to provide a substantial boost to export performance. It was pointed out that a study by the Federation of Indian Export Organisation shows that large importing countries across the globe need not be the emerging markets where India is now seeking to focus. To sustain a 30-40 per cent growth in exports, it will be important to continue building strength in conventional markets of the developed world, while at the same time identifying and tapping new markets. Both these strategies have to coexist.

A significant argument that was forcefully driven home was the fact that Africa needs special focus. Africa, it was pointed out, is not emerging as a potential market but is already a large market that needs greater attention. The need is not to open lines of credit alone to tap the African continent but to build business-to-business contacts and also build Brand India in most African countries.

The third point that came across was the fact that Indian companies are lagging most counterparts across the globe in investing in research and development (R&D) to introduce innovative products in the market. Chairman and Managing Director of Exim Bank T C A Ranganathan made a noteworthy point that without R&D, it may be difficult to make progress for companies to become part of an emerging global value chain.

India, today, accounts for 1.6 per cent of global merchandise export and ranks 19th in the world among leading exporters. New Delhi hopes to improve its position by touching $500 billion of exports and four per cent of global trade over the next year or two. Till now, India has not been part of the important traded sectors in the global trade basket but has concentrated on products in which it may have a more competitive edge. But to increase exports significantly and become part of a global value chain, it was felt that there is a need for greater emphasis on innovation and R&D by industry. That is why it was pointed out that India has not been a major exporter of high-technology products.

Another important issue that emerged was whether India, like China, should use the policy of increasing exports through foreign-owned enterprises or focus on developing the strengths of domestic companies to tap global markets. China had in its initial years of export opened up to foreign direct investment for exports and foreign-invested enterprises accounted for as much as 80 per cent of exports out of China.

This has come down over the years but foreign enterprises located in some key export zones account for well over 50 per cent of total exports from China. The domestic private sector in China accounts for over 33 per cent of exports, while state-owned enterprises account for over 14 per cent of exports.

Given the current need to increase exports to balance growing imports, we have to build on the existing export policy and steer clear of long-term incentives and focus on building competitiveness of various sectors. There is an urgent need for industry to move in that direction.

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Not all is well with the country's special economic zones

Sebastian P, Business Today

September 2, 2012 edition: It came as a big bang policy initiative in 2006, but is quickly losing sheen. Not all is well with the country's special economic zones (SEZs). More than a quarter of the country's exports still come from them, but SEZs are grappling with a sharp slowdown in growth. The number of new SEZs too has dropped drastically in recent years. An inept, nebulous policy framework seems to have taken a toll.

The recent move by the Maharashtra government to scrap four SEZ projects only emphasises the point. The abandoned projects - planned over 1,000 to 3,000 hectares - include a multipurpose SEZ by Indiabulls Infrastructure in Raigad district; Mahindra Lifespace Developers' SEZ in Maval taluka of Pune; and two ventures by Videocon Realty & Infrastructure Ltd in Aurangabad and Pune.

The private companies simply failed to acquire the required land for these projects, a grim reminder of the not-so-distant past. In September 2008, the Maharashtra government had scrapped Reliance Industries' grand plans for the Maha Mumbai SEZ in Raigad as 22 villages opposed the land acquisition for the project.

Undoubtedly, land is a thorny issue for SEZs. The difficulty lies in getting land that is contiguous, vacant and not double-cropped. "It is impossible to get large tracts of land near cities. We gave up the Maval project as we, as a policy, do not go in for projects that the people do not want," says Arun Nanda, Non Executive Chairman of Mahindra Lifespace Developers.

"We welcome the Maharashtra government's move. What is the need for such huge tracts of land?" says social activist Medha Patkar, who labels SEZs "pervert corporate projects".

Patkar points out that the Maharashtra Industrial Development Corporation (MIDC) had about 80,000 acres of unutilised land - information unearthed through the Right to Information Act. "When there is so much land with the MIDC, what is the need to acquire more land?" says Bharat Patankar of Shramik Mukti Dal, an NGO.

The problem remains that many SEZs are seen as real estate scams. A recent commerce ministry discussion paper highlighted that there is a perception that many developers do not set up the proposed SEZ and continue to hold on to large parcels of land with the intention of benefiting from its alternative usage and land price escalation. "SEZ has become a dirty word. Governments do not see any political returns in pushing them and companies thus do not get much political support," says Aradhna Aggarwal, economist at National Council of Applied Economic Research (NCAER).

Lack of clarity on the country's land acquisition policy, then, is a major stumbling block for SEZ projects. "A comprehensive land acquisition policy should be put in place at the earliest," says Nanda. The UPA government is examining the report of the Parliamentary Standing Committee on Rural Development on the Land Acquisition, Rehabilitation and Resettlement Bill of 2011. The panel opposes the acquisition of land by the government for private entities or even public private projects.

Rural Development Minister Jairam Ramesh though has indicated that the government should play a role. Nanda agrees. He argues that without the state's involvement it is difficult to get land even in the interiors of the country because of fragmented holdings and lack of proper records, among other factors.

However, until the government can translate its intent into an overarching framework, land acquisition will remain a contentious issue. In this context, doubts arise over the government's ability to push ahead

with the proposed National Investment and Manufacturing Zones (NIMZs). Commerce Minister Anand Sharma had told BT earlier that he remains upbeat about NIMZs becoming a reality. According to the New Manufacturing Policy, each NIMZ is expected to come up in 5,000 hectares or more, and acquiring the land would be the state's responsibility.

It promises to be a tall order. Already an investment of Rs 2,31,159 crore has been made in SEZ projects since the SEZ Act came into force in February 2006. In the last three years, more than a quarter of the country's exports (see The SEZ Narrative) have come from SEZs. They also provide direct employment to over 8,15,000 persons - as of September 2011 - and about 680,000 jobs have been created since 2006.

Apart from the foreign exchange earnings, SEZs have also created a significant local area impact in terms of indirect employment and changes in consumption pattern.

However, commerce ministry data shows that SEZs cumulatively have been losing ground over the past couple of years. Export growth of SEZs has slid from over 120 per cent in 2009/10 to just 15 per cent in 2011/12. At the end of 2009/10, of the 364 SEZs that had been notified (approved by the government), only 153 had become operational.

Not only has there been little interest in setting up new ones, there has been a spurt in requests for denotification of approved SEZs. For instance, of the total 46 applications for denotification, 37 have been in the past two years. The imposition of certain levies, and a proposal to take away tax incentives, is believed to be among the key reasons for the cloud over SEZs.

The government had imposed Minimum Alternative Tax (MAT) and Dividend Distribution Tax on SEZs in 2010/11, which were earlier exempted from almost all levies. The Direct Tax Code (DTC) being considered by Parliament proposes to do away with the income tax exemption given to SEZs and instead link tax sops to investments made in them. "The decision to impose MAT has made SEZs an unattractive proposition. Also, with DTC likely to remove SEZ benefits, there is further scepticism," says NCAER's Aggarwal.

The government too has conceded that the imposition of these levies has led to a visible slowdown in export growth from SEZs. "Policy clarity is lacking," says Ramadas Kamath, Senior Vice President (Infrastructure), Infosys.

The main aim of the SEZ Act of 2005 is to boost exports, create jobs, bring in new investment and improve net foreign reserves, he points out. "But the focus is lost in the many 'ifs and buts' in the Act and the rules. Also, the commerce ministry and the finance ministry speak in different languages," he says, citing the example of Instruction No. 70 issued by the Department of Commerce in November 2010 clarifying various policy and operational issues relating to IT SEZs. "It was rejected by the finance ministry. Investors don't know which way to go," says Kamath.

The commerce ministry paper on SEZs points out other flaws. For instance, a major proportion of SEZs is concentrated in six states - Andhra Pradesh, Kerala, Maharashtra, Gujarat, Karnataka and Tamil Nadu - and account for 92 per cent of total exports. Also the SEZs are located around urban centres.

Then, there also seems to be a lack of coordination between the centre and the states - the latter can evolve their SEZ policies within the broad framework laid down by the centre. Many developers complain that they get tax breaks and concessions from the centre but not from the states. "Uncertainty in tax laws and poor administration of SEZ laws will only drive away foreign investors too," says Kamath.

The Indian government is expected to come out with fresh guidelines soon to revive SEZs and it may be a timely intervention. "The brand SEZ has got hit," says Kamath.

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Have free trade agreements helped exports? Exporters say no

Times of India

New Delhi, 15 December 2012: The fears of local industry over a proliferation of free trade agreements resulting in little gains for domestic players seem to be coming true. Latest trade data reveals that exports to several of these countries have decreased at a faster clip than the value of all shipments from the country.

In fact, the trend has prompted even the export lobby group Federation of Indian Export Organizations, for years known to toe the official line, to air its concern over what it termed as the government's failure to sufficiently educate exporters to avail of the opportunity before them.

"The idea of signing the FTAs was to increase exports, but we have not seen the benefits. We should not just sign and leave it... We will release the potential areas that exporters can tap, something that the government should have done," Fieo president M Rafique Ahmed told a press conference on Friday. Even officials in the commerce department, who are responsible for negotiating the agreements, have long complained of the benefits actually accruing to India's trading partners. They said that countries such as Japan and Asean members have low average tariffs and the reduction in duties cannot be significant. In contrast, India agrees to substantially lower its duties — and even remove them for thousands of items — in return for more service sector gains, which usually does not happen.

They point to the experience with Asean, where the services treaty is yet to be negotiated, prompting New Delhi to now sign separate agreements with members such as Malaysia, Thailand and Indonesia to realize some of the gains that were expected to flow to Indian nurses, doctors, accountants and IT companies.

Similarly, in case of Thailand, an early harvest scheme, a precursor to an FTA, was botched up in such a way that several companies moved manufacturing out of India.

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Trade contracts: With who is the question

Asit Ranjan Mishra, Livemint

New Delhi, 5 February 2013: A steep fall in shipments to countries left unnamed by the commerce ministry contributed to the contraction of India's merchandise exports, which declined for the eighth month in a row in December, according to official trade data.

Exports to the European Union, which has been battling a sovereign debt crisis, and Asia also fell but, surprisingly enough, sales to the US rose modestly in the April-December period, although the world's largest economy is still struggling for recovery from the financial crisis that felled it in 2008.

Disaggregated data available for April-November shows a 93.4% decline to $900 million from $14.3 billion in the same period the previous year in India's exports to miscellaneous trade destinations classified by the commerce ministry as unspecified.

In fact, unspecified was India's fifth largest export destination, accounting for exports of $16.4 billion, and the country's 14th largest trade partner with $17.5 billion of bilateral trade in the fiscal year ended 31 March 2012.

"Sometimes the country name and country code written on merchandise items do not match. In such cases, we categorise them under the 'unspecified' head," a commerce ministry official said on condition of anonymity.

Another government official with knowledge on the matter said it was basically a data collection problem and no mischief was involved.

K.T. Chacko, former director of the Indian Institute of Foreign Trade, said usually exporters make mistakes in entering the product codes and entering the country code correctly isn't very difficult. "I cannot find any reason why this is happening. At present there is ambiguity. Commerce ministry need to clarify the matter," he said.

Disaggregated trade data for April-November also show that while India's efforts for trade diversification towards African and Latin American countries is slowly paying off, its free trade agreement with the Association of South-East Asian Nations (Asean), which came into effect on 1 January, 2010, has so far benefited only the latter.

Exports to the Africa grew 13.9% to $17.8 billion during April-November, while shipments to Latin America rose 10.4% to $8 billion. India is offering incentives to exporters to boost sales to such regions through various schemes.

The commerce ministry targeted a 20% increase in exports in the current fiscal, but is staring at an overall contraction of exports in the year. During 2011-12, India's exports grew 21.8% to $306 billion, while imports jumped 32.3% to $489 billion .

The commerce ministry has also revised provisional trade data down, leading to a larger contraction of merchandise exports than earlier envisaged.

While provisional data released by the ministry showed exports shrank 5.95% to $189.2 billion in April-November, revised data reviewed by *Mint* shows exports contracted 7.1% to $186.9 billion during the period.

Exports to the European Union contracted 11.1% to $31.3 billion, while exports to China shrank by 25.3% to $8.4 billion during the same period. Exports to Asean member-states fell 18.62% to $19.2 billion.

India exports mostly raw materials and minerals to China and restrictions on the production of such materials because of environmental and regulatory issues had caused the decline in exports to China, said Chacko. India's trade deficit with China stood at $28.7 billion during April-November, the largest with any country.

Disaggregated trade data show that exports to the US actually rose 11.6% to $25.2 billion during April-November, belying concerns that the grim economic situation in the US may lead to a decline in shipments.

The US was India's top export destination, overtaking the United Arab Emirates, which topped the list in the last financial year.

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Businesses concerned over India's widening trade gap

Channel News Asia

Mumbai, 26 February 2013: India is the world's 10th largest economy and the third largest in Asia.
But latest figures from the World Trade Organization (WTO) show that India still has much to do before it can catch up to Asian giants China and Japan.

Businessmen like Adil Mapari are worried, and the latest figures from the WTO are not reassuring. They show India is the world's 19th largest exporter, compared to its 12th position as an importer. Mr Mapari, who is a partner at Gammars International, said: "Though the exports in consumer goods have picked up in the past one year, they still lag behind in other sectors. Even when I talk about consumer goods, the exports have only picked up marginally as compared to what we had seen in 2007-08.

"The demand from Western countries is also deteriorating and we have to drastically reduce the costs of our products to keep up with our competitors." Experts said narrowing the import and export gap will be crucial to ensuring India can compete with its larger Asian neighbours, China and Japan. Rupin Shah, senior analyst for institutional research at BP Wealth, said: "There is a wide gap between India's import and exports. So the government has taken steps to curtail the wide gap...because it impacts the current account deficit, slows down industrial growth and also impacts forex reserves negatively.

"So the steps taken by the government of India (include the) deregulation of petrol, partial deregulation of diesel and increased duty on (imports of) gold. So we expect India's trade deficit to narrow down in the future." India's economic woes are more of a political problem than an economic one. Unless there is a drastic change in the way politics is played in the country, there is not much scope of an economic upturn. Policies will continue to sway according to political expediency.

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Govt Sitting on Rs 2,000cr Export Refund Since Jan

The Economic Times

19 March 2013: The government has not paid back around Rs 2000 crores to exporting firms since January under an incentive scheme, claim irate exporters, accusing the tax authorities of going slow on refunds in their desperation to meet the fiscal deficit target.

"The government has withheld duty drawback refunds across sectors for the past 45 days to shore up its revenues for the fiscal," said Ajay Sahai, Director General and CEO, Federation of Indian Export Organization.

The Commerce Ministry and Directorate General of Foreign Trade have written to the revenue department in the ministry of finance to urgently address the issue, a government official told ET. The duty drawback scheme refers to the refund of taxes imposed on inputs used to manufacture goods that are subsequently exported. The objective of the scheme is to ensure that local levies do not make goods manufactured in India uncompetitive in the international markets.

Speedy refunds ensure that the money of the exporter is not locked up for a long time, thereby making it easier for him for to manage his cash flows and working capital requirements.

India's cumulative exports for the 11 months of the current fiscal declined by 4 % to $265.95 billion and are nowhere near the $360 billion target that was set for the fiscal. The government is expected to announce some sops to boost exports, which form a key part of its strategy to rein in the current account deficit, in the next month's foreign trade policy.

But for now, controlling the fiscal deficit appears to have taken precedence over exports and current account deficit.

The government is under tremendous pressure to stick to revised 5.2% fiscal deficit target as any slippage here could have a negative impact on the country's sovereign debt rating. Several measures taken by the tax authorities such as raising demands on multinational companies on transfer pricing issues as well as frequent warnings issued to taxpayers are also seen as part of a strategy to muster higher tax collections and lower fiscal deficit. Fiscal consolidation has been at the top of P Chidambaram's agenda since he took over as finance minister last year.

He had promised to keep the fiscal deficit at 5.3% of GDP against private forecasts of near 6%.The revised estimates peg fiscal deficit for the year at 5.2%, just a tad over the 5.1% estimated in the budget. Chidambaram has said the fiscal deficit could be lower when final numbers come in.

A tax official admitted that refunds were being held back but added that this was usual towards the end of the financial year. But exporters say that in a year that exports were plunging, the government should have been more proactive. Sectors with high working capital requirements such as textiles, engineering and pharmaceuticals are particularly feeling the pinch because of the delay in refunds.

"Engineering exports require high working capital, and the finance ministry has withheld the duty drawbacks since January, said Suranjan Gupta, additional executive director, engineering export promotion council (EEPC). The amount of withheld duty drawbacks for the engineering sector stands at approximately Rs750 crore- Rs1,000 crore.

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Exports alone will keep us afloat

Ritesh Kumar Singh, Business Line (The Hindu)

27 March 2013: The Budget (FY14) has recognised the rising current account deficit (at 4.6 per cent of GDP in FY12) as the biggest threat to India's macro-economic stability. Given the inelastic nature of India's major imports (e.g. crude, coal, edible oil and fertilisers) and the insatiable demand for gold, the long-term solution to the problem of CAD lies in attracting foreign investment or increasing exports.

Of the two key components of foreign investment, FII is highly volatile and its net inflows depend on risk-weighted return in equity markets. FDI inflows depend upon the overall attractiveness of India as an investment destination.

Given the huge demand for FDI across the regions and India's poor record on ease of doing business, there is a limit to how much FDI India can get. This leaves us with only one viable alternative — to push exports.

Export of services

The sectoral composition of an economy must be in congruence with its export basket. However, India's share in the world export of services is just 3 per cent, compared with China's 4.5 per cent, despite India's tertiary sector accounting for roughly 60 per cent of the GDP.

Export of services (as much as manufacturing or farm exports) does not suffer from infrastructural and regulatory impediments. Yet the sector accounts for not more than one-third of India's total exports of goods and services taken together.

India's export of services has a narrow base (in terms of product offerings and market mix) with the share of IT and ITES in India's export of services alone being 40 per cent. Of that, more than 75 per cent goes to just three countries — the US, the UK and Canada. There is a growing sentiment against outsourcing, especially in the US.

These markets do not have much scope for incremental exports. Fast-growing emerging markets should have been the focus for export of services, but these remain largely untapped.

Another sector with a huge potential for earning foreign exchange is tourism, but it is constrained by infrastructural limitations (such as high cost of real-estate) and of late growing safety concerns, of women tourists in particular.

Export of merchandise

Farm exports suffer from poor post-harvest infrastructure, less emphasis on processing and policy flip-flops on export.

Manufacturing exports suffer from a series of bottlenecks, ranging from poor transport infrastructure to rising input cost (aggravated by the disadvantageous exchange rate of rupee and import parity pricing of inputs).

Slower regulatory approvals, and rising cost of compliance with red tape make India's merchandise exports uncompetitive, and lead to increasing exports of low value raw materials/intermediates, such as

fibre or yarn instead of apparel, or mineral ores instead of finished products.

The share of manufactured goods in India's export has declined from 78.8 per cent in FY01 to 69 per cent in FY11 and further to 64.5 per cent in April-November FY13.

On the other hand, imports from low-cost countries are on the rise because domestic manufacturing is increasingly becoming uncompetitive. Export incentives of 2-5 per cent of the export value cannot compensate for 7-9 per cent of export transaction cost.

Export Incentives

To comply with its commitments to WTO, India will have to phase out most of its export incentives (except duty drawback and Textile Upgradation Funds Scheme) once it reaches per capita GNP of $1,000 at 1990 prices. Export competitiveness is deemed to be achieved if a country's global export share of a specific product group (to be defined as a section heading of the India Harmonised Code System) is 3.25 per cent or more in two (consecutive calendar) years.

As a result, export sops for sectors such as textile and clothing (falling under section heading XI of the Harmonised Code System) will have to be phased out. Yet, most of our export promotion talks centre around incentives and sops, though there is no denying their utility as a short-term measure.

What can be done?

As per the World Bank's Ease of Doing Business Report 2013, over one-third of the cost of export formalities is on export documentation. Rationalisation of documentation requirement (as suggested by Task force on Trade Transaction Cost), therefore, will be a real thumbs-up for India's exports.

Expediting preferential trade agreements (given the stalemate over WTO Doha Round) with emerging countries in Asia, Africa and Latin America (e.g. India-Mercosur) will help, given the prohibitive tariff and non-tariff barriers, low levels of existing bilateral trade, comparable incomes and similar consumer preferences.

However, not all preferential arrangements can be helpful to India's exports. For instance, 30 per cent domestic content requirement under SAFTA meant for duty-free import of garments from LDCs like Bangladesh, is actually leading to backdoor entry of Chinese fabrics into India.

Ensuring cooperation on harmonisation of trade regulations can further increase intra-SAARC trade and boost India's exports.

Besides, India will have to increase its exports to China in order to reduce its burgeoning trade deficit with the country.

Trade pacts with developed countries are another area. India-EU may support export of Mode 4 services, but market access benefit for India's merchandise exports will be limited because of the existence of low tariff barriers in EU.

Non-tariff barriers

Advanced EU countries are increasingly resorting to non-tariff barriers that are too difficult to penetrate through free trade pacts, such as carbon trade measures. Mutual Recognition Agreements, whether under the framework of FTAs or outside, will be needed, given the increasing cost of compliance with such

regulations, thereby decreasing net realisation from exports.

Many of India's key exports are low margin affairs, such as readymade garments. Margins will be under further pressure (in future) because of the increasing competition from low cost countries such as Bangladesh, Cambodia and Vietnam.

The result would be more volume but not much addition to the value of exports. Some kind of product differentiation (such as voluntary carbon labelling) will protect our margins in key export markets such as EU and the US, and needs incentivisation.

India's share of 1.7 per cent in global merchandise export, as compared with China's 10.5 per cent, is quite low.

There is, thus, immense potential to increase it to 5 per cent in the next few years.

In the light of the rising cost of skilled workers, the key to promoting exports of services lies in ensuring adequate supply of skilled workers, in addition to broadening our offerings in services and reaching out to emerging markets.

We must simplify export procedures and explore markets other than the US and the EU.

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Want clean energy? Avoid trade disputes

Arunabha Ghosh & Ricardo Meléndez-Ortiz, Business Standard

14 April 2013: The world craves cheaper and cleaner energy, but are global trade and energy policies disrupting progress towards greater deployment of renewable energy?

Nearly two billion people in the world have no access to modern sources of energy. Providing them with power - particularly clean power - is an imperative for social and economic development. According to UN Secretary-General Ban Ki-Moon, renewable energy is the "golden thread that connects economic growth, social equity, and a climate and environment that enables the world to thrive".

However, efforts to scale up renewable energy are being obstructed by a range of barriers to sourcing the best technologies from global markets. Subsidies, tariffs, standards, public-procurement policies and local content requirements are slowing down, or outright hampering possibilities for large-scale use of renewable sources. Rather than focusing on energy access, renewable energy policies have, instead, become tools to achieve other objectives: generating fiscal revenue, developing local industries, creating job and stimulating the economy, to name a few. As a result, renewables remain artificially more expensive than they need to be, delaying access to the poor and postponing the day when they can serve as viable substitutes for fossil fuels.

Take clean energy subsidies, for instance. One of us recently studied how subsidies vary in both form (including financial transfers, preferential taxes, regulations and infrastructure support) and purpose (from energy access at one end to promoting clean energy exports at the other). Some of these measures correct market failures, while others distort trade. This is why disputes are emerging across the world over clean energy subsidies, even though subsidies for fossil fuels - that reached $523 billion in 2011, up 30 per cent from 2010 - actually far exceed those for renewable energy, which are barely one-sixth that amount. The recent solar energy sector disputes are a clear example of how trade relationships can turn sour and make the investment climate for clean energy more uncertain.

Second, tariffs against clean energy technologies as well as non-tariff barriers, such as cumbersome standards, provide another obstacle. For renewable electricity products and wind energy equipment, applied rates range from seven per cent and eight per cent in India and Germany, to 14 per cent in Brazil. Applied tariffs on solar water heaters stand at 35 per cent in China, the second highest in the world. Many countries maintain prohibitive tariffs on ethanol, exceeding 100 per cent in some cases. Solar photovoltaic products face non-tariff barriers in the US market, which does not accept the International Electro-technical Commission standards (otherwise accepted in markets elsewhere), adding to costs.

A third obstacle involves local content requirements, a policy tool intended in part to promote domestic industry and nurture local jobs. However, by requiring that a minimum share of local content be used in the final product, these measures actually result in reduced competition, delayed technology deployment, and higher prices for renewables.

The logic behind these measures is flawed on two counts. For one, it assumes that the renewable energy pie will always remain small, when current trends indicate otherwise. In 2010, clean energy was only eight per cent of global power generation capacity, but 34 per cent of new capacity addition. As the pie expands, all countries could benefit, either from improved access to cheaper technologies or newer markets.

Another logical fallacy is the assumption that if one country has a large share of the market for clean energy products today, it would always remain in pole position. In reality, a global supply chain for

renewable energy products is developing, with components produced in several countries assembled together or deployed in others. Moreover, technological innovation could easily make protectionist measures redundant.

Ideally, these obstacles would be addressed at the World Trade Organisation (WTO). However, governments have been unable, so far, to tackle these issues in a holistic and effective manner, and the ongoing negotiations under the Doha Development Agenda do not instill much confidence. Meanwhile, time is of the essence, and our atmosphere and the billions of people without electricity cannot afford to wait for WTO negotiations to conclude. An alternative process is, therefore, needed to kick-start a wide-ranging dialogue on clean energy and trade. To this end, we offer three suggestions.

First, this week's Clean Energy Ministerial (CEM), being hosted in New Delhi, offers a star opportunity to address some of the issues at stake. CEM members currently represent 80 per cent of global energy consumption, making their input vital in identifying concrete responses to trade barriers in clean energy technologies. India, for instance, could spearhead this process, having already demonstrated leadership in clean energy through its National Solar Mission. Its experience could help spark discussions among fellow CEM members on how countries can retain policy space for promoting energy access while also maintaining open and predictable markets.

Second, countries could use regional trade agreements (RTAs) more imaginatively as tools for promoting renewables. With their limited membership, RTAs might have the flexibility to lower barriers to trade in renewable energy products. Asia-Pacific Economic Cooperation economies have made progress on a valuable package of environmental goods negotiations in recent years, a positive example that could be mimicked for clean energy as well.

A final suggestion would be to create a sectoral trade agreement on energy, a Sustainable Energy Trade Agreement (SETA). Using the momentum gathered under the sustainable energy trade initiatives, a SETA would leverage a critical mass of countries to elucidate complex international rules on sustainable energy and improve market access. Greater clarity in policy and progress in negotiations would mitigate the current surge of renewable energy-related disputes at the WTO.

Today, we stand at a crossroads. The threat of climate change and the challenges of sustainable development are greater and more pressing than ever - yet the deployment of renewable energy technologies is hampered by higher prices and increasing political tensions. No country wins in this situation, nor does the global climate. We, therefore, urge policy makers to explore all avenues - multilateral, regional, and plurilateral - to create a favourable environment for clean energy deployment. Globally, this would be a win for energy access and for the clean energy industry.

Ghosh is CEO, Council on Energy, Environment and Water (ceew.in) and Melendez-Ortiz is CEO, International Centre for Trade and Sustainable Development (ictsd.org). They are hosting a policy dialogue on clean energy and trade on the occasion of the Clean Energy Ministerial

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Along with exports, India's imports too see eastern shift

Asit Ranjan Mishra, Livemint

New Delhi, 7 May 2013: While faltering economic growth in the US and recession in Europe have forced India to look to the developing markets to boost exports, they have also prompted the country to diversify its import sources along the same lines.

The share of India's imports from Europe fell to 17.32% in 2012-13 from 19.32% in 2009-10, and from the US to 4.94% from 5.89% earlier, show new data released by the commerce ministry.

India's merchandise exports contracted 1.76% in 2012-13 to $300.6 billion, while imports grew only by 0.44% to $491.5 billion.

While the imports of electronic items from the US increased to $2.1 billion with a share of 6.8% in 2012-13, rising from 6.42% in 2009-10, imports of transport equipment and machinery declined, leading to a fall in the overall share of imports from the country.

China has been a major beneficiary of this, taking a significant share in India's import basket, though India's imports from the neighbouring country contracted 5.6% to $54.3 billion in 2012-13.

China's share in India's import of transport equipment rose to 13.8% in 2012-13 from 8.2% in 2009-10, while its share in iron and steel rose to 66.5% from 22.7% and in fertilizer to 56.4% from 43.9%.

The shift in India's imports is the result of a restructuring in global production facilities and supply chains moving eastward, said Biswajit Dhar, director-general at the New Delhi-based think tank, Research and Information System for Developing Countries.

The share of countries such as Australia and South Africa in India's import basket is falling because India has shifted most of its gold imports from such countries to Switzerland, with which it has the second highest trade deficit, at $28.8 billion in 2012-13, only after the $40.8 billion deficit with China.

The shift is taking place because Switzerland has the best quality gold refiners who ensure responsible and conflict-free gold supplies, said Pankaj Parekh, vice-chairman at the Gem and Jewellery Export Promotion Council.

"South Africa and Australia are mostly gold miners and not gold refiners. Indian government has allowed canalising agencies to import gold from refiners on a consignment or loan basis without upfront payments, which is why gold imports from Switzerland have increased," Parekh said.

Gold was the second largest commodity in India's import basket at $53.8 billion in 2012-13, after crude oil imports at $169.3 billion in the same year.

The increase in the import share of countries such as Kuwait, Qatar, Venezuela and Nigeria is explained by a surge in petroleum imports from such countries, with India being forced to reduce its oil imports from its traditional supplier, Iran, because of sanctions imposed by the US. The share of Iran in India's import basket declined from 4% in 2009-10 to 2.36% in 2012-13.

Imports from Japan have increased mostly because of a pick-up in the imports of machinery, transport equipment, and iron and steel, while Malaysia gained a larger share in India's imports because of a shift in the import of vegetable oils from Indonesia.

The share of imports from Singapore and South Korea has also been falling on account of slowing imports of electronic items from such countries.

The share of imports from European Union countries such as Germany, Italy, France and the UK, is dropping because these were badly hit by the global economic downturn, said T.S. Vishwanath, a trade expert and principal adviser at APJ-SLG Law Offices.

"Because EU countries mostly supply either intermediary or finished products, and not raw materials, imports from such countries remain volatile, depending on economic conditions," he said.

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UN chief picks ex-Kenyan minister to head UNCTAD

Xinhua

Nairobi, 16 May 2013: UN Secretary General Ban Ki-moon has nominated former Kenyan trade minister Mukhisa Kituyi to head the UN Conference on Trade and Development (UNCTAD).

A statement from the UN body said on Thursday that if the nomination is confirmed by the UN General Assembly, Kituyi will head the UN body for a term of four years beginning on Sept. 1.

"The United Nations Secretary-General Ban Ki-moon has nominated Mukhisa Kituyi of Kenya to serve as Secretary-General of UNCTAD for a term of four years beginning 1 September 2013," Ban said in a statement.

Kituyi who is the chief executive of the Kenya Institute of Governance is expected to succeed Supachai Panitchpakdi of Thailand who assumed the post on Sept. 1, 2005 and was reappointed in 2009.

The statement said Supachai who has been at the helm of the UN body for eight years, will conclude his second four-year term of office on Aug. 31.

The Kenyan former lawmaker is a graduate of Political Science and International Relations from Makerere University in Uganda is also a holder a PhD in Social Anthropology, a Master of Philosophy in Development Studies and a Diploma in Science, Comparative Production Systems, all from the University of Bergen, Norway.

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Indian exporters can't compete without change in scope: Exim

Joel Rebello, Mint

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

Ranganathan's comments come at a time when India is facing a current account and trade deficit mainly because traditional exports such as gems and jewellery and textiles haven't been able to cope with the global slowdown. Widening the definition to include larger companies will allow Indian manufacturers to access Exim Bank's low-cost financing and hence help them compete with peers in China, Europe and the US. India classifies manufacturing MSMEs as companies with a maximum of Rs.10 crore investment in plant and machinery. Comparatively, Europe classifies companies with investment of .50 million or Rs.300 crore, US classifies investments of $50 million or Rs.250 crore and China of Rs.150 crore. Hence, Indian companies stand no chance because Indian companies are too small to compete, Ranganathan said. Exim banks around the world are backed by sovereigns and lend to their country's exporters at a cheaper rate to help the country earn foreign exchange. Exim Bank India for example refinanced and disbursed Rs 800 crore of loans to these companies in fiscal 2012-13. However, Ranganathan said Indian exporters continue to be challenged as traditional strengths such as processed petroleum, gems and jewellery and textiles are struggling because of a global economic slowdown. Technologies have changed, markets have changed but our definitions remain archaic and outdated. If we have to sign free-trade agreements and do business through the World Trade Organisation, this has to change,. he said, adding that 2013-14 will continue to be a challenge for Indian exports. Figures released last month showed that exports contracted 1.76% to $300.6 billion in fiscal 2012-13 while imports grew 0.44% to $491.2 billion, leading to a trade deficit of $190.9 billion. India's credit rating by global rating agencies is on a negative watch as growth slowed to 5.1% in 2012 from 9.7% in 2010. Standard & Poor's, which maintained the outlook on India;s BBB minus investment grade rating with a negative outlook last week , reiterated that India faces a one in three chance of a downgrade if the pace of economic reforms undertaken by the government slows. India's lower ratings against competitor countries such as China means that even Indian companies are now borrowing from Chinese banks because rates are much cheaper. For instance, Essar Energy Plc. earlier this week signed a $1 billion agreement with the China Development Bank and PetroChina International Co. Ltd on the sidelines of Chinese prime minister Li Keqiang's visit to India, Reuters reported. In January 2012, Anil Ambani-controlled Reliance Communications Ltd signed a deal to borrow $1.18 billion from Chinese banks to repay overseas convertible bonds. Ranganathan said Exim Bank cannot match the Chinese banks in pricing. They are rated at AAA minus compared to India's BBB minus. But I am not worried about Indian companies borrowing from Chinese banks. It's okay because they are getting it at a cheaper rate. Just like we are incentivising Indian exports, the Chinese are also helping their companies,. he said. India has to go beyond traditional exports and focus on manufacturing of electronics and engineering if the current situation has to be turned around, Ranganathan said.

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

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Long-term interests of exporters at stake: FIEO

Business Line (The Hindu)

Mumbai, 11 June 2013: Exporters should hedge their risk in the current situation of volatility in the rupee-dollar exchange rate movement and look for profitability from core business, according to M. Rafeeque Ahmed, President, Federation of Indian Export Organisations.

"High volatility creates uncertainty and speculation, hitting the economy and business confidence. Depreciating rupee will further widen the Current Account Deficit (CAD)," Ahmed said.

Though volatility may be good in the short term, it would impact the long-term interest of exporters, he cautioned.

India's CAD worsened to a record low of 6.7 per cent of GDP in the October-December quarter mainly due to import of oil and gold and sluggish exports.

CAD arises when a country's total imports of goods, services and transfer's is greater than exports. CAD puts downward pressure on the rupee, thereby making imports costly and stoking inflation.

Since the beginning of the current financial year, the rupee has depreciated by 7.41 per cent (from 54.36 as on April 1 to 58.39 as on June 11) against the dollar.

In the current situation of sluggish export demand, buyers are asking for discounts or price reduction while sectors such as petroleum, gems and jewellery, electronics, plastic products, with high import intensity, are impacted due to increase in input cost.

Ahmed said exporters should hedge their risk as the rupee-dollar exchange rate movement is volatile and look for profitability from core business. Exchange benefits should only be used as icing on the cake. In a lecture recently at Hyderabad, Reserve Bank of India Governor D. Subbarao, said the country's exports will become competitive only by increasing productivity and diversifying export markets and not just through exchange rate.

The FIEO chief said depreciation of the rupee, which closed at a lifetime low of 58.39 to the dollar on Tuesday, will increase both fiscal deficit and Inflation.

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Short-term joy for exporters, long-term pain for importers

Business Line (The Hindu)

New Delhi, 20 June 2013: The falling rupee is good news for exporters in the short run as they get more for every dollar earned despite some hedging by large businesses. However, the high volatility in the currency is affecting business decision making, say exporters. °The situation is so volatile that exporters have not been able to finalise their future orders," says Ajay Sahai, Director-General of the Federation of Indian Export Organisations (FIEO). Some exporters also complain about buyers asking for discounts every time the rupee falls. "Importers have been asking for discounts. Volatility coupled with speculation will impact business sentiment," says Apparel Export Promotion Council Chairman A. Sakthivel. The Commerce Ministry, however, has no plans to play an active role in nudging the Reserve Bank of India to intervene. °As far as we are concerned, our exporters are largely benefiting from the devaluation,"an official from the ministry told Business Line.

Small exporters reap the maximum benefits when the rupee falls. However, they are the ones who are hit hardest when the currency rises. Speaking to reporters earlier this week, Commerce Secretary S.R. Rao said: °Most contracts for exports and imports take place over a three-six month period. The fluctuating rupee is not good (for) business." Exporters agree but don't seem to mind as long as the general direction of the rupee movement is southwards. The rupee has made imports dearer and is adding to the strain in the current account. Although the rise in prices of imported inputs is more than compensated by gains made in exporting the final product, the country's trade account takes a hit every time the rupee depreciates as the rising cost of crude imports widens the deficit. °Every Re 1 depreciation increases the crude cost by Rs 400 crore per month and by Rs 5,000 crore annually,"says P.K. Goyal, Director (Finance), Indian Oil.

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SEZ units hit tax hurdles for domestic supplies

Manoj Mishra & Abhisekh Sethi, Business Line (The Hindu)

14 July 2013: The first thing that comes to mind about Special Economic Zones is a tax haven for exporters, and that is not without reason.

The Central and State governments have incentivised SEZ units exporting goods/ services by providing indirect tax exemption/ refund for customs, excise, service tax and Valued Added Tax payable on imported/ indigenous procurements. However, this harmonious tax environment vanishes when it comes to domestic clearances by SEZ units, which are inevitable from a business/ commercial perspective and have increased in recent times due to global recession.

The Central Government treats such domestic supplies as imports into India and applicable customs duties are levied. However, in contrast, State governments treat such domestic supplies as domestic sales liable to VAT/ CST (Central Sales Tax).

VAT on domestic supplies makes SEZ units uncompetitive in the domestic market, so this levy has always been disputed by trade. The Central Government, recognising this anomaly and in order to provide some relief to SEZ units, had exempted payment of SAD (Special Additional Duty) on domestic supplies, provided such goods were further sold by domestic units on payment of VAT. However, this exemption created a new set of litigation as SEZ provisions were silent on the treatment of domestic supplies other than through sale, such as stock transfer.

Dispute Over VAT

Further, the dispute over VAT on domestic supplies was decided in favour of the State Government by the Allahabad High Court in the matter of India Exports. The court upheld the levy of VAT/ CST on such supplies by holding that none of the provisions of SEZ Act, 2005 or CST Act, 1956 support the trade's assertion.

Under these circumstances, the recent advance ruling in the matter of GE India Industrial Pvt Ltd has provided the trade a great respite by holding that SAD exemption is available to domestic supplies in the nature of stock transfers.

The ruling is favourable to trade and opens new avenues for SEZ units with significant domestic supplies. If the ratio of the ruling is applied along with the fact that stock transfer does not attract VAT, as there is no transfer of property in goods, the impact of duties in the case of SEZ imports and actual imports would become equal.

FTA Worries

SEZ units also face a stiff challenge to compete in the domestic market due to the Free Trade Agreements entered by India with various countries, allowing domestic importers to import goods from these countries at concessional duties vis-à-vis the standard duties applicable on procurements from SEZ. It is time the Central Government frames a policy to provide a level playing field for SEZs, which face stiff competition from foreign suppliers.

Manoj Mishra is Associate Director and Abhisekh Sethi is Manager, Indirect Taxation, Grant Thornton India LLP

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Exporters mispricing goods to stash away dollars overseas

Deepshikha Sikarwar, Economic Times

New Delhi, 29 July 2013: The country's intelligence agencies have sounded an alarm over traders massively mispricing goods to stash away dollars overseas to benefit from the depreciating rupee.

This could be worsening the current account deficit by depressing inflows of dollars. "There is a fresh concern on mispricing of goods to park funds abroad," said a government official, adding the menace had stopped in the last couple of years because of the crackdown on black money.

Customs authorities, directorate of revenue intelligence and enforcement directorate are keeping a close watch.

"There are cases of exporters under invoicing to park dollars overseas while importers are over-invoicing goods to send dollars out," said another official with an agency looking into the issue.

Data does suggest something amiss as India's exports growth has suddenly turned negative in the new financial year, coinciding with the massive slide in the rupee against the dollar.

India's exports dropped 1.4% in the April-June quarter while its non-oil imports rose 5.8% in the same period, yielding a trade deficit of $ 50.2 billion, which is 19 % more than last year. Exports were down 4.6% in June. The rupee has slid nearly 10% against the dollar over this period, and the decline was arrested only after the RBI applied massive liquidity squeeze that risks undermining the economic recovery.

Globally, trade mispricing is the most commonly used method of moving illicit flows, as it is difficult to verify each transaction and its value.

A study by enforcement directorate for the Asia Pacific Group last year had highlighted how international trade denominated in terms of international currencies increases vulnerabilities of exchange rate market. It showed how letters of credit were frequently amended or extended for carrying out mispricing.

The usual practice is that exporters would declare a lower export value than the worth of goods shipped. The party receiving the goods will park the balance amount in a foreign bank for a commission. Similarly, importers would overprice the goods purchased and the extra amount remitted would be parked in a foreign bank.

Global Financial Integrity had earlier highlighted that was India among the top ten nations in terms of illicit outflows with $123 billion in outflows in the ten years to 2010.

The concern over such a practice is not restricted just to India. Apprehensive of mispricing China, in May, increased scrutiny on exporters over trade payments after its currency depreciated against dollar.
Trade, however, strongly refutes such a possibility.

"Most of the shipments are under some export neutralisation or promotional scheme and subject to customs scrutiny over valuation thus ruling out the possibility of overinvoicing or underinvoicing," said M Rafeeque Ahmed, President, FIEO.

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Too many FTAs, too few benefits?

Nayanima Basu, Business Standard

New Delhi, 22 June 2013: India tops the list of countries that are signing free trade agreements (FTAs) with partner countries in order to gain preferential market access for its goods and services. But gradually as the results come in, it appears that the purpose of these agreements is only partially being met. While imports from these countries and regions have increased sharply, India's exports have stagnated. So, while consumers have benefitted from the FTAs, the Indian manufacturing sector has failed to take advantage. The rising trade imbalance can be seen in two ways: one, these so-called "free" trade agreements have led to the dumping of goods into India, thereby threatening the livelihood of millions, which is a concern for all developing countries; and two, India is simply a huge market with an insatiable appetite for imported goods. Whatever the viewpoint, the question remains: what is the relevance of these FTAs which India had been signing or negotiating at a blistering pace for past few years? Since 2009 India has signed large-scale bilateral deals encompassing all sectors with Japan, Korea, Malaysia and the Association of Southeast Asian Nations (ASEAN), to name a few. Meanwhile, it has also initiated similar deals with Canada, Australia, European Union, New Zealand, Africa, Chile and Israel, among others. According to some critics, this has resulted in huge trade distortions rather than a "spaghetti bowl" of benefits. One of the reasons why India embarked upon this journey was the decreasing relevance of the Doha round of global trade talks under the World Trade Organisation (WTO) where the developing countries were not able to clinch favourable deals with the developed ones; so regional or such bilateral arrangements probably seemed a more comfortable route. But it seems today that the government's strategy has sort of boomeranged. As of now, India has clinched 15 such trade agreements with various countries and regions and a similar number of agreements are in the pipeline. However, if one looks at the export numbers, the situation looks grim. In 2012-13 the country's total exports stood at $300.60 billion, down 1.76 per cent from 2011-12. In 2011, India's trade in goods with its FTA partners was about 39 per cent of the total trade. This figure has not registered much change since 2006, according to CUTS, a Jaipur based think-tank. According to experts, the problem lies with India's uncompetitive (read inefficient) manufacturing sector, thanks to which India has not been able to achieve any gain compared to its partner countries. "Our manufacturing sector has failed to raise its level of efficiency in order to compete in the markets of our partner countries, though one could argue that the enterprises operating in India are too focused on the domestic market that they have not felt the need to export in order to remain in business," says Biswajit Dhar, director general, Research and Information System for Developing Countries. For example, in 2011 India signed an ambitious bilateral Comprehensive Economic Partnership Agreement (CEPA) with Japan. India's trade deficit with Japan was at $3.6 billion in 2010-11 before the CEPA was implemented and it almost doubled in 2012-13 to $6.3 billion. Exports from India to Japan in 2012-2013 stood at $6.10 billion, down from $6.33 billion in 2011-12. Recently, Union Commerce and Industry Minister Anand Sharma raised concerns of the rising trade deficit with Japanese Foreign Minister Fumio Kishida. This is just one of the several examples where such a scenario can be seen. Trade data obtained from UN Comtrade suggests that India's exports to most of its FTA partners decreased in 2012. However, it needs to be kept in mind that most countries have seen exports under pressure because of the slowdown in world trade, crisis in the Euro Zone and uncertainty in West Asia. Opportunities for enhancing India's exports are definitely there in these markets but there are challenges as well. India is facing tough competition from China, Japan and Korea in accessing the markets. These countries are very strong in manufacturing. On the contrary, Indian manufacturing has not been doing well in recent past, according to a

Confederation of Indian Industry paper. The recently announced National Manufacturing Policy (NMP) promises to create 100 million more jobs and contribute 25 per cent to the country's GDP in a decade, up from around 15 per cent at present. It is hoped that this change in policy will change the fate of manufacturing in India and turn around the overall economy, the paper said. According to Jayant Menon, lead economist (trade and regional cooperation), Office of Regional Economic Integration, Asian Development Bank, while the manufacturing sector needs to be developed, domestic reforms need to be brought about in terms of a complete overhaul of the country's infrastructure. "Today it takes more time to transport goods from Tamil Nadu to Kerala than from Tamil Nadu to Korea," says Menon who also feels that like any other developing country, India is also seeing a growing appetite for imported goods. He adds, "India and China are the fastest growing markets in the world; so countries that are facing a severe downturn would surely like to take advantage of these rapidly growing markets teeming with consumers. But we have to keep in mind that FTAs cannot be a substitute to domestic reforms." Says Bipul Chatterjee of CUTS: "We are unable to export because we are unable to manufacture. It is as simple as that. We have to take a closer look at the negotiating strategy before sitting for negotiations. We should do some significant assessment of the complementarities before starting the talks for having a deal. A proper homework is lacking." Recently, there had been some sharp criticism over the ongoing talks for a bilateral trade and investment agreement between India and the European Union (EU) since it covers a wide range of subjects including goods, services, investment, government procurement and intellectual property rights. The criticism got aggravated because of the government's adamancy of not sharing the main talking points, which has roused public sentiments. Adding fuel to the fire, leaked documents of draft negotiating texts reached the hands of several NGOs and lobby groups. Interestingly, there is also a geopolitical angle to it, which cannot be ignored. It has been observed that economic ties can lead to healthy political ties. This can be seen in the way in which India is trying to normalise trading relations with Pakistan. Lack of awareness among industry and exporters, mostly from the small scale sector, is another reason for non-accrual of the benefits from the FTAs. Government of India is trying very hard and organising several FTA outreach programmes to create awareness among exporters. "Business and industry have failed to fully exploit the potential of the FTAs signed by India in terms of market access opportunities, while the enterprises from the partner countries have strengthened their presence in the Indian market. Therefore, the net impact would seem to be unfavourable to India. Indian industry needs to become more aggressive and exploit opportunities that the FTAs provide rather than remaining as passive onlookers to Indian domestic market. There may be cases where the FTAs may have given unfair advantage to partner enterprises. In such cases it would be possible to invoke safeguards that are built in each agreement," says Nagesh Kumar, chief economist, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Under UPA II, India has been mainly demanding more access in the services market than for industrial goods. India has been ranked by the WTO as the seventh largest player in the global services trade with the value of exports and imports aggregating $261 billion in 2011. With exports at $137 billion and imports at $124 billion, India is among the top ten countries which ended the year 2011 with a surplus of trade in commercial services, according to a WTO report. Today service sector contributes more than 50 per cent of the country's Gross Domestic Product (GDP). Under the India-EU FTA talks, India is aggressively pushing for greater access for its professionals in the European markets. Dhar of RIS believes, arguing for additional market access under services trade is likely to give rise to problems in our negotiations with the EU because of the current state of the economies in Europe. Several economies have been battling with huge unemployment (especially, Spain) and this does not augur well for our negotiating position. So what will be the end result? "I think there

will be point where sooner or later India will have to take a call to harmonise these FTAs on multilateral basis in a non-discriminatory way," says ADB's Menon.

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