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EU ends sops for Indian textile, engineering exports

Sidhartha, Times of India

New Delhi, 13 December 2013: In a twin blow to local exporters, the European Union has given special preference for imports from Pakistan, which will allow duty-free access into 27 markets, while withdrawing the concessions for several Indian goods, including textiles and engineering. And, it's the Indian government, not EU, to be partly blamed, for creating this disadvantage for exporters.

While India had managed to block similar concessions nearly a decade ago after a challenge at the World Trade Organization, this time the sops have been given to deal with floods that hit Pakistan and have been given after the move was backed by New Delhi. The GSP-plus benefits will kick in from January 1.

The new concessions to Pakistan, known as GSP-plus or those above the Generalized System of Preferences, come at a time when the Indian textile sector was looking up, with exports and employment on the rise.

"Pakistan stands to gain on products on which it gets duty concessions and to that extent the competitivenss of Indian products gets eroded," said Abhijit Das, who heads the Centre for WTO Studies. While Apparel Export Promotion Council chairman A Sakthivel said garment exports will not be hit, Das identified products such as bed linen where Indian exports may be impacted.

The list of 75 goods on which Pakistan will enjoy duty concessions was not immediately available but exporters said textiles will be a major product. Although the concessions have been discussed for several weeks now, the European Parliament approved the package for Pakistan on Thursday, raising expectations of a $1 billion gain for India's neighbour.

From the same date, Indian exporters of several products ranging from chemicals, textiles, leather goods, motor vehicles, bicycles, aircraft parts and shipbuilding and components will lose 6-12% advantage. "When it comes to bicycles, GSP benefit to China too has been withdrawn. So, we can compete there but life will be tougher for several other segments," said Anupam Shah, chairman of the Engineering Export Promotion Council.

Sources in the textiles industry said some Indian companies would look to invest in countries such as Bangladesh to claim concessions under schemes such as Everything Bur Arms (EBA).

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Export of engineering goods drops 14.6% in November

Indian Express

18 December 2013: Engineering goods exports declined sharply by 14.60 per cent month-on-month in November, raising questions on the sustainability of recovery in exports.

According to engineering exporters' body EEPC India, engineering export basket, which covers a variety of items ranging from automobiles, iron & steel and components of nuclear reactors and spacecraft, stood $4.78 billion during the month compared to $5.6 billion in October.

"What is causing more concern is that they have declined month on month ... raising doubts whether recovery which began in the second quarter of this fiscal can be sustained," Anupam Shah, chairman, EEPC, said.

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FTAs propel engineering exports to Japan, S Korea

Financial Express

Kolkata, 28 December 2013: Free trade agreements (FTAs) have proved to be beneficial for India, with engineering exports to Japan and South Korea showing a rising curve. Singapore, however, was an exception during the April-November period this fiscal, according to an analysis by the engineering exporters' body, EEPC India.

Apart from ASEAN, India has operational FTAs with important trading partners like Japan and South Korea. Engineering exports to Japan grew 17% during the April-November period of the current fiscal to $568 million from $485 million.

Shipments of engineering goods to South Korea witnessed a jump of over 13% to $739 million during the period.

EEPC chairman Anupam Shah said an exception was seen in the case of Singapore, a country with which India has significant bilateral trade, including those of engineering goods. Exports of engineering goods to Singapore in the April-November period saw a 2.11% drop to $1,995 million from $ 1,997 million during the same period a year ago.

A similar trend was seen in trade with neighbouring countries like Bangladesh, Sri Lanka and Nepal, with which India enjoys a liberalised trading regime. Engineering despatches to Sri Lanka went up by 18.57% to $ 1,342 million for the period under review from $1,132 million during the same period a year ago. Likewise, shipments to Nepal were up 20.84% to $ 577 million from $ 477 million.

On the other hand, western countries such as the US and Germany did not account for much of India's engineering exports, even though the base of trading volume is quite large, Shah said.

He said though shipments to the US dropped 9.19% to $3,909 million during April-November from $ 4,305 million, the country continues to be India's largest trading destination. The same is true of Germany, where consignments fell by about 6% though overall shipments were above $1,300 million. "The signs of recovery in some key western countries, such as the US, are hazy. Month on month, there was a drop of over 14% in overall engineering exports in November this year, Shah said.

He said Iran and Kenya were two countries competing to remain in the top 25 as far as India's engineering exports are concerned. The top 25 countries contribute over 72% of India's engineering exports.

India's basket of exports of engineering goods is quite big and it includes high-tech items like nuclear reactor parts, aerospace parts, automobile and bicycle parts, steel and iron products, non-ferrous metals, transport equipment and others.

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No major impact seen on travel, IT firms; exports may take a hit

Busienss Line (The Hindu)

New Delhi/Kolkata, 1 October 2013: Even as the US Government began the partial shutdown process on Tuesday, travel and infotech companies here said they did not anticipate any major impact. But industry bodies pointed out that exports to the US could take a hit.

Rana Kapoor, President of Associated Chambers of Commerce and Industry of India, in a statement said, “The shutdown of the US Government will certainly hit Indian exports because of crippling of trade facilities at the ports and airports.”

Visa Issue

Tour operators said the shutdown was not likely to have any major impact on travellers. Karan Anand, head-relationships, Cox & Kings Ltd, said obtaining a US visa would not be a problem as consular services at US embassies and consulates around the world were largely funded by application fees not annual appropriations.

“Visa applications filed by foreigners wanting to enter the US will continue to be processed. Flight operations across all airlines to the US will not be affected,” he said.

But, if leisure tourists have any of the 401 national park service sites, including the iconic Statue of Liberty, on their itinerary, it will have to be changed, as all national parks and such sites will remain shut. However, Anand said, “Indian customers prefer going to theme parks such as Universal Studios, Disney World in Los Angeles or indulge in shopping. They do not prefer national parks.”

Tour operators also said that this was not a big season for Indian leisure tourists to travel to long-haul destinations such as the US.

Subhash Goyal, Chairman, STIC Travel, said, “Most leisure tourists do their long-haul travel during summers. Usually honeymooners are looking to book trips to the US in this season and some are opting for other options.” For corporate travellers, it’s going to be business as usual.

IT industry body Nasscom, said, “A majority of the business that our industry has is with the private sector, and is not directly dependent on federal spending. Hence, we do not see an immediate economic impact. If the shutdown continues for an extended period, there will be an overall macroeconomic impact that may affect the industry.”

It added that some services such as visa processing time that depend on federal budgets are expected to see delays.

Engineering Exports

The US Federal Government shutdown may hit Indian engineering exports to that country, Anupam Shah, Chairman, EEPC India, an engineering export promotion body, said in Kolkata on Tuesday.

The US consumed nearly one-tenth (11 per cent) of India's $57-billion engineering exports last year. Exports to the US were down 12.3 per cent during April-August this fiscal.

According to Shah, the shutdown — which was announced by the US Government after the two houses of Congress failed to agree on a new budget — would substantially reduce the demand. "As the US economy closes down, our export might slow down as well. The consumers will be spending less and individuals will be left without pay, (resulting in a sharp decline in demand)," Shah said at a press conference here.

According him, delay in port services in the US would also impact export operations, if the shutdown issue was not resolved immediately. "Commercial ports do not come under emergency service category. So, there will be delay in port services like clearing of goods from ports owing to staff shortage. This may result in huge demurrage for exporters," he said.

Growth and Benefits

Meanwhile, Shah said exporters were upset with the Finance Ministry's decision to cut back duty-drawback benefits on some engineering products.

The reduction in duty drawback, neutralised the benefits of devaluation of Rupee against US dollar. EEPC has lowered its growth expectations to 10 per cent (from 15-20 per cent) this fiscal, Shah pointed out.

The engineering export promotion body has sought a financial support worth around Rs 500 crore to upgrade technology in the engineering products sector to boost export growth.

According to a PTI report, "The Indian pharma industry is not selling drugs to the US Government. It is selling mostly private. So, the US government shutdown will not have any impact on the India pharma industry," said the Indian Pharmaceutical Alliance Secretary General D.G. Shah.

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The rupee alone can't resurrect our manufacturing exports

Arun Bruce & Anirban Mukherjee, Business Standard

29 September 2013: As a nation, we possess a refined ability to see the silver lining despite the gloom. Collectively, as we battle inflation, a falling rupee, weakening domestic demand, and a sluggish policy environment, we hope of a bright long term, including hope of an export boom. As the currency has depreciated by over 15 per cent since April (it had lost more than 25 per cent a few weeks ago before bouncing back), voices abound on the kind of export boom this could trigger.

Sadly, this prophecy is not entirely true - at least definitely not for manufactured products.

First, 70 per cent to 90 per cent of the cost base of manufactured products is "exchange rate neutral", thanks to the tightly linked world we live in. Most manufactured products (for instance, auto components, appliances) have a commodity cost base of between 70 per cent and 90 per cent - and most commodities are priced at parity to equivalent international options. Copper is available in the domestic market only at London Metal Exchange prices (which are dollar denominated). Domestic steel manufacturers price their steel on par with steel imports - and are currently in the process of raising prices - thereby nullifying any advantage a weak rupee may provide. Domestic plastics and chemicals are also constantly priced on par with equivalent international imports.

Any big benefit that is currently being perceived is transient, and largely due to inputs purchased at a lower dollar (say, when the rupee was 54), and demand fulfilled when the dollar is stronger (say, when the rupee was 58 to 60). A large part of the third-quarter surge in export order books that many companies are experiencing is precisely due to this factor.

Second, even an advantage in the remaining 20 per cent to 30 per cent of the cost base is lower than what a mere currency rate difference would suggest, because of our dependence on oil imports that tends to impact logistics cost of allied materials and cost of living (and hence domestic inflation) over a period of time. The net advantage that remains for the exporter can still be substantial, but not large enough to boost exports considerably.

The true upside in exports will only emerge when the competitiveness of an industry improves to a fundamental and sustainable level. Take the US for example. The country has been experiencing what you would call an export boom. Consider this: the very country who's currency has strengthened against the rupee, has been and is experiencing a boom. A close look will reveal that US manufacturing competitiveness has steadily increased over the last decade in comparison with key peers. The US' productivity-adjusted labour cost is now 15 per cent to 40 per cent lower than that of several advanced economies (Japan, Germany, the UK, Italy) and its labour laws are considered far more flexible than several advanced economies (No 3 in index developed by the Fraser Institute that measures labour regulations, vis-à-vis No 112 position occupied by Germany). Energy prices are also more favourable in the US. Natural gas is 40 per cent of the price prevailing in Japan/US, industrial electricity is 50 per cent to 70 per cent cheaper than Italy/Japan/France. How is that for a sustainable source of advantage? And the advantage is showing. While the share of global exports by Western Europe and Japan decreased between 2005 and 2010, US exports have held steady at 11 per cent and grown at an overall rate of 8 per ent a year (despite the slowdown in 2008/09).

How does India perform on fundamental manufacturing competitiveness? India has one of the lowest costs of labour and "on paper" a competitive price of power. In reality though, labour productivity is very low and power is unavailable for up to two shifts a day in many industrial clusters - forcing them to use inefficient diesel generator sets - that nullify any factor cost advantage. India's road and port infrastructure are still far from ideal. Our port turnaround times are upwards of 80 hours - roughly five times that of Sri Lanka. The average truck speed in India is 35 to 40 km per hour roughly half of that in China.

To drive exports, we need to fix competitiveness in manufacturing. We will need to build many more efficient clusters - either by resurrecting "dying" special economic zones or by ensuring land acquisition for National Investment and Manufacturing Zones. We will need to increase power generation capacity, at the rate of 25 Gw per year. We will need to proceed aggressively with port infrastructure enhancement, and accelerate the projects on the anvil. We will need to actively focus on workforce skilling and automation. We will also need to place our bets as a country in the right sectors and countries. For example, Africa is a growing consumer with fast growing imports - what is our strategy as a country to address this demand?

None of these measures are really new, but then our challenge has always been our ability to execute well. The day we fix that, we needn't be exuberant anymore about a weakening currency. Until then, cheers to a weak rupee.

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EU takes India’s curbs on marble imports to WTO

Amiti Sen, Business Line (The Hindu)

New Delhi, 23 December 2013: The European Union has questioned import restrictions by India on rough marbles and marble products at the World Trade Organisation (WTO) and sought the rationale behind such curbs.

India has in place a quota of six lakh tonne for import of rough marble and travertine blocks and a minimum import price of $325 a tonne for 2013-14, the same as last year.

In a submission to the Import Licensing Committee of WTO last week, the EU’s representative asked India to clarify how unrestricted import of marble and marble products would pose safety issues for the country.

The EU also wants India to state how imposition of quantitative restrictions on import of marbles relates to security concerns.

While WTO rules do not ordinarily allow imposition of import restrictions, it is permitted if a country shows that such imports can result in a safety or security hazard.

India, like most other member countries, at times resorts to the safety and security caveat if it wants to impose import restrictions on certain products.

The EU further asked India to specify how safety and security issues are handled with regards to India’s domestic natural stone and stone processing industry.

Since India had earlier stated that the minimum import price is justified for quality reasons, the EU said the country should indicate measures put in place to ensure commensurate quality for India’s domestic industry.

An important reason for India’s restrictive import policy on marbles is protection of the local industry which employs a large number of poor and vulnerable people. The marble industry in Rajasthan reportedly employs more than two lakh families belonging to backward classes, minorities and tribal groups.

India will now have to provide detailed answers to the EU queries at the WTO.

“We have provided answers to other queries on the same issue earlier posed by other members. We would do the same this time as well,” a Commerce Ministry official told *Business Line*.

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