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Highlights

- Modi government appoints Nirmala Sitharaman as new Commerce Minister
- US- India solar trade spat continues
- Trade deficit narrows as exports bounce back in April

In focus this month

The UK becomes India's third largest source of FDI

Highlights

Modi government appoints its new Commerce Minister: Nirmala Sitharaman

Nirmala Sitharaman emerges as India's new Commerce and Industry Minister in Narendra Modi's Council of Ministers under the Bharatiya Janata party (BJP) led National Democratic Alliance (NDA) regime. Sitharaman, who served as BJP's national spokesperson, is India's first ever woman Commerce Minister. She will be Minister of State (Independent in charge) for the Commerce Ministry. A 'Minister of State with independent in-charge' is a minister without an overseeing Cabinet Minister and so Sitharaman is likely to report directly to PM Modi. But Sitharaman will also play number two to Finance Minister Arun Jaitley as Minister of State for Finance and Corporate Affairs. So despite the independent commerce portfolio, Sitharaman may be working closely with Jaitley on a number of key issues where both ministries have an interest, particularly those related to the FDI and bilateral investment promotion agreements (BIPA). Both ministries have often been at loggerheads especially over issues related to FDI, BIPA and free trade agreements (FTAs). Top priorities for the Commerce Ministry are implementing India's new 2014-19 Foreign Trade Policy, boosting Indian manufacturing capacity, reviving the Special economic zones (SEZs) and liberalising the FDI regime further. Sitharaman has however indicated that the NDA government may not allow FDI in multi brand retail as it could adversely impact small traders and farmers. This is in keeping with the BJP manifesto

which stated that except for the multi-brand retail sector, FDI will be allowed in sectors wherever needed for job and asset creation. The previous Congress government had however allowed 51% FDI in multi-brand retail. Though the current government is touted to be pro-business, reversing the FDI decision on multi brand retail would not be helpful for the EU-India FTA negotiations.

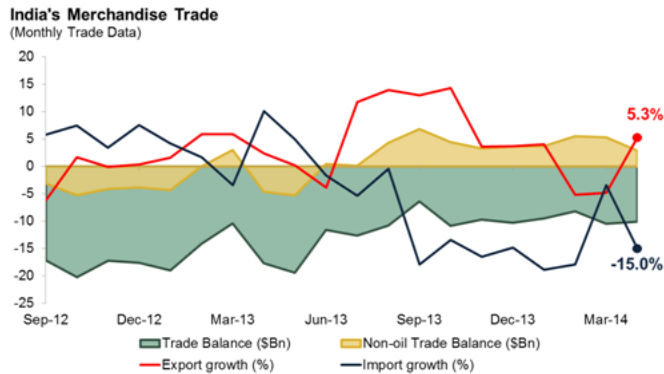
Sitharaman's appointment into the National Commission for Women carved her path into the BJP hierarchy. Sitharaman studied economics from India's Jawahar Lal Nehru University and later worked at [Pricewaterhouse Coopers](#), London as a Senior Manager.

US-India solar trade spat continues

Under the new BJP regime the commerce ministry is bracing itself for a trade battle with the US at the WTO. A dispute settlement panel has been set up by the WTO to examine a complaint by the US against India's domestic content requirements under the country's National Solar Mission (NSM) programme. India had blocked the first request by the US to set up a dispute settlement panel after negotiations failed between the two countries. But under current WTO rules, the trade body is obliged to set up the panel if a request is made a second time. The US has accused India of restricting imports of solar equipment by imposing local content requirements and offering subsidies to Indian developers who use domestic equipment instead of imports. India on its part has argued that of the total 750 megawatts that are open to bidding under the NSM programme, half are open to global developers. Also, the Indian government considers such a step necessary to develop its domestic manufacturing capacities.

Trade deficit narrows as exports bounce back in April

After contracting over the past two months, India's exports rose 5.3% y-o-y in April, which is an improvement on a seasonally adjusted basis. As a result the trade deficit has narrowed to \$10.1bn in April from \$10.5bn in March. Overall, the momentum in exports is turning around and should rise in the coming months. The trend is in line with other Asian economies, including China, Korea, Taiwan, Malaysia and Singapore, which saw an improvement in export growth in the month of April. Exports of petrochemicals, engineering goods, and textiles and pharmaceuticals in particular grew strongly in April. Imports contracted 15% y-o-y in April, versus -2.1 % in March. This was mainly on account of subdued domestic demand and low gold imports. But the import bill may rise again in coming months as gold restrictions were slightly relaxed after the elections.



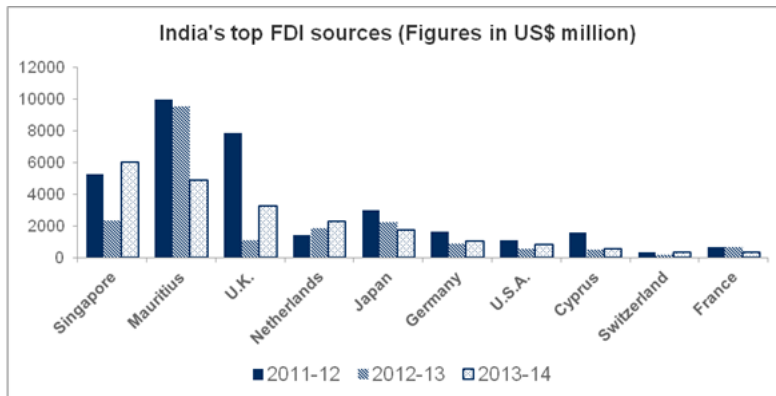
Source: Ministry of commerce, Government of India

In focus this month: The UK becomes India's third largest source of FDI

Foreign direct Investment (FDI) into India grew by 8% y-o-y to \$24.3bn in 2013-14, according to data released by the Department of Industrial Promotion and Policy (DIPP). Singapore has overtaken Mauritius as India's top FDI source, ending Mauritius' long run at the top position. Singapore's FDI inflows into India totalled almost US\$6 billion, compared to US\$2.3 bn in the previous year. While that of Mauritius halved from US\$9.5 bn to US\$4.5 bn during this period.

But high FDI flows from these countries, particularly from Mauritius may not reflect the actual picture. Global investors prefer to route their FDI into India through Mauritius-based [holding companies](#) to take advantage of the island-nation's favourable corporate tax regime accorded by the double taxation avoidance agreement (DTAA). Though India has repeatedly raised its concerns that Mauritius is being used for round-tripping of funds into India, the island nation has always maintained that there has been no concrete evidence of any such misuse. But FDI inflows from Mauritius may have seen a dip last year amidst concerns over the April 2016 implementation of India's General Anti-Avoidance Rules agreement (GAAR). Singapore on the other hand has managed to improve its legal position as a [holding company jurisdiction](#) relative to Mauritius by incorporating a Limitation of Benefit provision into its DTAA. This discourages 'treaty shopping' and ensures legal legitimacy to companies routing their FDI through Singapore relative to GAAR provisions.

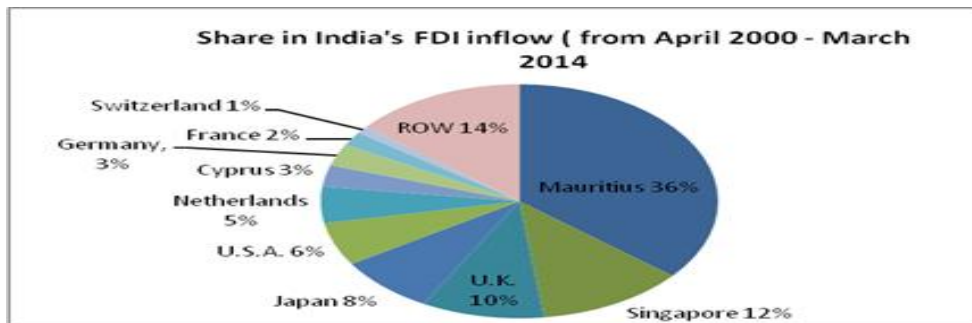
So far attempts to assess which countries are channelling their FDI through these tax havens have proved to be difficult.



Source: DIPP, Ministry of Finance

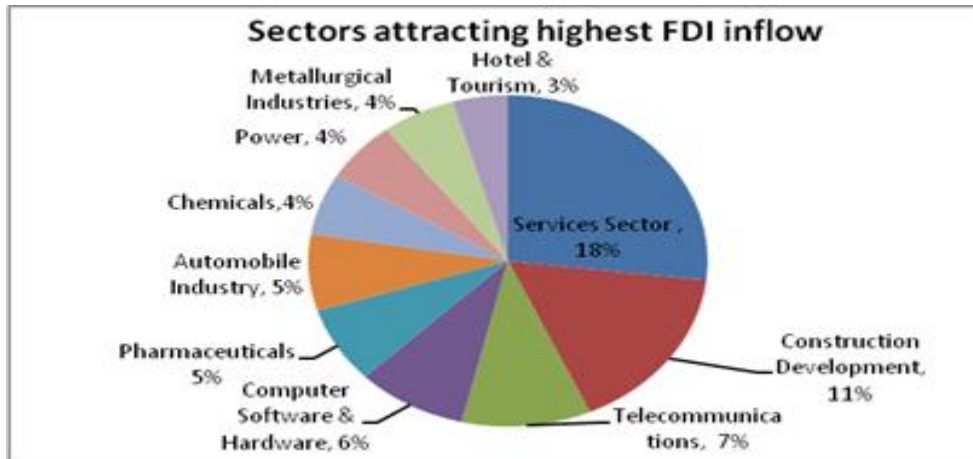
Meanwhile the UK, with a total FDI of US\$ 3.2 bn, is the third largest investor in India. The UK moved to the fourth position last year when its investments were US\$ 1.1 bn. Netherlands (US\$ 2.3 bn), Japan (US\$ 1.7bn) and Germany (US\$1.1bn) were the other top investors.

On a cumulative basis however, Mauritius occupies the top spot accounting for 36% of the inflows since April 2000, followed by Singapore (12%), UK (10%), Japan (8%) and USA (6%).



Source: DIPP, Ministry of Finance

Services attracted the highest FDI inflow (US\$ 2.22bn), followed by automobiles (US\$ 1.51bn), telecommunications (US\$1.3bn), pharmaceuticals (US\$1.27bn) and construction development (US\$1.22bn) in 2013-14. On a cumulative basis (from April 2000 until March 2014), services once again occupied the highest share, followed by construction development, telecommunications, computer software and hardware, pharmaceutical and automobile industry.



Source: DIPP, Ministry of Finance

Note: Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Testing & Analysis

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