

India Trade Policy Unit (ITPU)
Monthly Trade Report
March 2014

Highlights:

- Pakistan delays grant of NDMA status to India
- India's decision to provide subsidies to exporters of raw sugar faces international flak
- India's trade deficit narrow as imports dip further

In focus this month:

Rupee depreciation and its impact on India's exports

Pakistan delays grant of NDMA status to India

Pakistan once again delays the grant of Non Discriminatory Market Access (NDMA) to India. NDMA is a more politically acceptable term for the Most Favoured Nation status. With India going to elections in April-May, the Pakistani government is in favour of striking a trade deal with the newly elected government in India. But opposition from various quarters, particularly from the agriculture lobby in Pakistan, has been responsible for this delay. India's Commerce Secretary Rajeev Kher stated that India has already fulfilled its obligations as per the trade normalisation roadmap. India has committed to reduce the sensitive list under SAFTA to 100 items on a reciprocal basis after Pakistan grants NDMA status to India.

India's decision to provide subsidies to exporters of raw sugar faces international flak

India's decision to give subsidies to exporters of raw sugar draws criticism from WTO members. In February, the Cabinet approved a subsidy of Rs 3,333 a tonne for export of raw sugar in response to rising stocks of white sugar in the country. Major agriculture products exporting nations like Australia, Colombia and Brazil have argued that these subsidies are likely to affect their interests and distort global prices. While maintaining that this is WTO compatible, India pointed out that WTO rules prohibit export subsidies only on finished products and raw sugar is a semi-processed item. But this argument has not gone down well with exporting countries, including Brazil which is the world's top sugar exporter. Brazil, in its submission, has pointed out that developing countries are allowed flexibilities for giving export subsidy (under Article 9.4 of the Agreement on Agriculture) only to meet marketing or transportation costs and there was no legally-binding decision by the WTO to extend its scope.

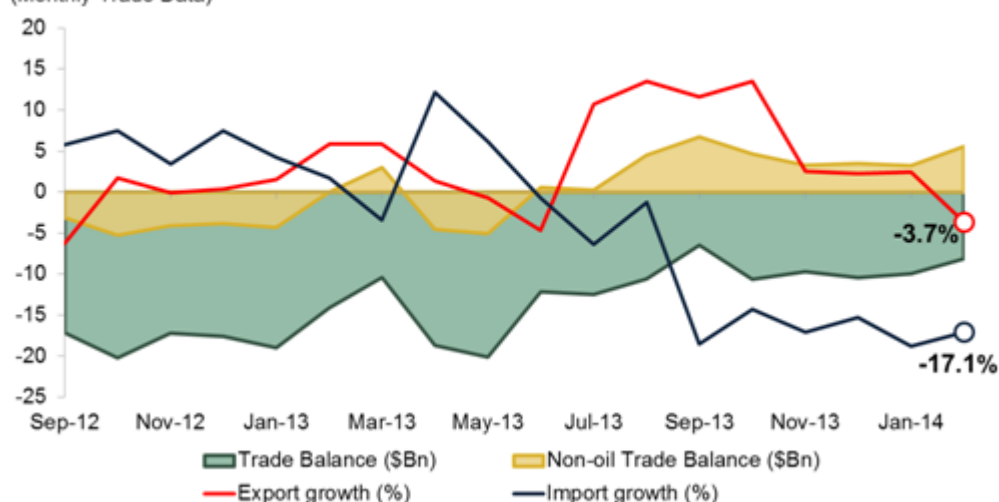
India's trade deficit narrows as imports dip further

India's merchandise exports dipped for the first time in eight months. But a sharper decline in imports further narrowed India's trade deficit to \$ 8.1 bn in February from \$ 9.9bn in January. Exports witnessed a decline of 3.7% in February. End of the EU's Generalised System of Preferences (GSP) benefits could be one factor contributing to the slowdown in exports. Shipments of India's top export sectors like engineering goods and gems and jewellery has also slowed down. However a steep decline of 17 % in imports more than offset the fall in exports. The moderation in imports was largely driven by contraction in non-oil non gold imports, signalling weak domestic demand. Excluding oil and gold, imports contracted by 10.5% following a 3.9% drop in January. Gold imports continued to remain low at around

USD1.4bn in February (compared to a monthly average of USD1.64bn over Jun13-Jan14) as restrictions on gold imports remain in place.

India's Merchandise Trade

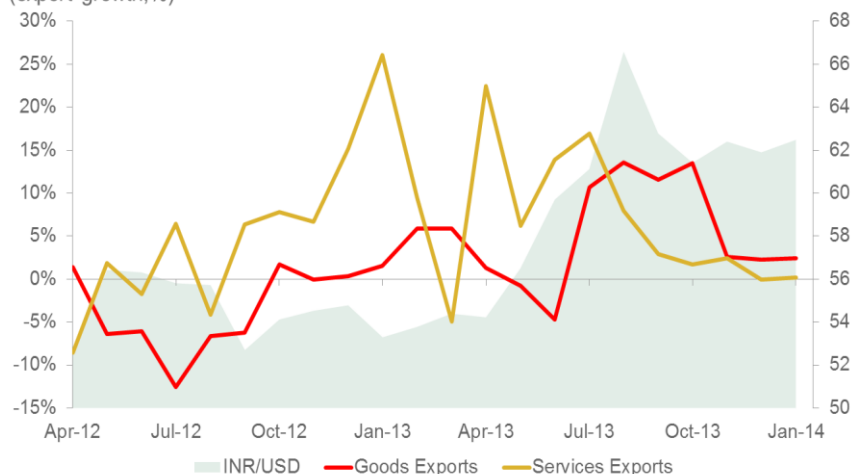
(Monthly Trade Data)



In focus this month: Rupee depreciation and its impact on India's exports

Rupee depreciation and India's export growth

(export growth,%)



1. With sharp depreciation of the rupee over May-September 2013, exports did go up in July, rising 11.6 % year on year. The jump in exports during July and October was led by a pickup in agriculture and allied products, engineering goods (mainly automobiles) and textiles. Competitive services sectors like IT (which use less or no imported components) also responded well to the falling rupee. For instance Information technology outsourcers Tata Consultancy Services shares have jumped nearly 50 % since May.
2. The increase in July however came after a period of sluggish export growth: India's exports dropped 1.8 % in 2012-13 fiscal year. While the currency has been steadily weakening for two years, the decline of the rupee had not helped narrow India's current account deficit until now. Exports did not grow when the rupee fell from Rs 45 to Rs 55 to the dollar. But after the rupee fell further to Rs 62 per dollar, exports shot

up. One reason for this delayed export response is India's high inflation which offsets the competitiveness gains from a depreciating currency.

3. But exports have declined again from October 2013 onwards and turned negative in February 2014. The rupee remains undervalued against most of its trading partners (in terms of the real effective exchange rate), so any meaningful support to exports from the currency is not evident.

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