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### **India Trade Policy Unit (ITPU) Monthly Trade Report September 2014**

#### **Highlights**

- WTO impasse continues as India sticks to its guns
- India signs services and investment pact with ASEAN
- Low exports growth in August-upcoming foreign trade policy may provide a boost

#### **In focus this month**

Quick facts on India-ASEAN trade in goods

#### **Highlights**

##### **WTO impasse continues as India sticks to its guns**

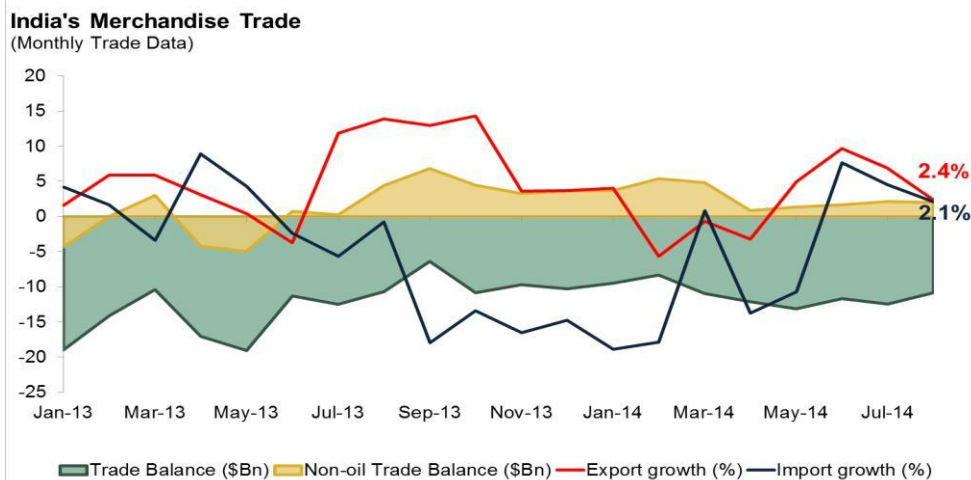
India remains wedded to the idea that the ratification of the trade facilitation agreement (TFA) should only happen after a permanent solution is found on the issue of public food stock-holding. The US and India remain at loggerheads at the WTO. The US has in fact questioned several of India's farm trade policies, including its land holding laws and the subsidy mechanism at the WTO. However, during the recent bilateral meeting in Washington Obama and Modi directed their officials to "consult urgently" with their fellow trading partners to resolve the current WTO stalemate. Meanwhile, media reports claim that India has urged the WTO to move beyond the Bali deal and address the other issues in the Doha Development Agenda (DDA) such as non-agriculture market access (NAMA), fisheries subsidies, cotton subsidies and trade in services, among others. India is of the opinion that the TFA is taking centre stage as it is a developed world agenda, while the larger DDA issues have taken a back seat.

##### **India signs services and investment pact with ASEAN**

India has formally signed the services and investment pact with the 10 member Association of South East Asian Nations (ASEAN), two years after the discussions on the pact concluded. The agreement will pave the way for movement of professionals and investments. Philippines is the only ASEAN country which is yet to sign the pact, but it is expected to do so soon. Philippines had earlier raised concerns that opening up of the services sector will result in the country losing out its market share to India, particularly in the IT sector. All ASEAN members are expected to get the agreement ratified by their Parliaments, after which it will be formally adopted during the next India-ASEAN summit later this year. India's recently-signed FTAs have been under the scanner as critics have argued that while imports from the trade partners had increased, exports to these nations from India have not been significant. So it is hoped that this pact will provide an opportunity to India to leverage its competitive edge in services, particularly in IT, telecommunications, health, education and transport sectors, and that it will help India counter balance its rising trade deficit in goods trade. The India-ASEAN Agreement on trade in goods was operationalised in 2010.

## Low exports growth in August-upcoming foreign trade policy measures may provide a boost

India's export growth slipped to a five-month low of 2.4% at \$26.9 bn, due to a combination of high base effects and sequential slowdown in export growth. Petroleum products, gems and jewellery and electronic goods mainly registered negative growth, while pharmaceuticals, chemicals and engineering exports registered positive growth. Import growth also moderated to 2.1% y-o-y in August from 4.3% in July. The dip in imports was due to a lower import bill which contracted by 15% y-o-y in August. On the other hand gold imports in August increased to \$2.03 bn from \$738 million a year ago. The overall trade deficit narrowed to \$10.8 billion from \$12.2 bn in July. Industry bodies are hopeful that there will be measures to boost India's exports in the upcoming five-year Foreign Trade Policy to be unveiled this month.



Source: Ministry of commerce, Government of India

## In focus this month: Quick facts on India-ASEAN trade in goods

- 1) Strong complementarities in trade exist between India and the ASEAN bloc. India has a clear comparative advantage in exports of chemicals and pharmaceuticals, gems and jewellery, and iron and steel. ASEAN's strength lies in natural resources (edible oil, rubber, wood) and electrical machinery. There are also areas of competition, which include petroleum products, apparel, vehicles, and mechanical items. In apparel, India's main competitor within ASEAN is Vietnam, while in automobiles, it is Thailand. It may be a bit early to judge the impact of FTA in goods now as full tariff liberalisation of the FTA will be complete in early 2016.

**Table 1: Areas of Complementarity in India-ASEAN Trade**

Total exports, USD bn

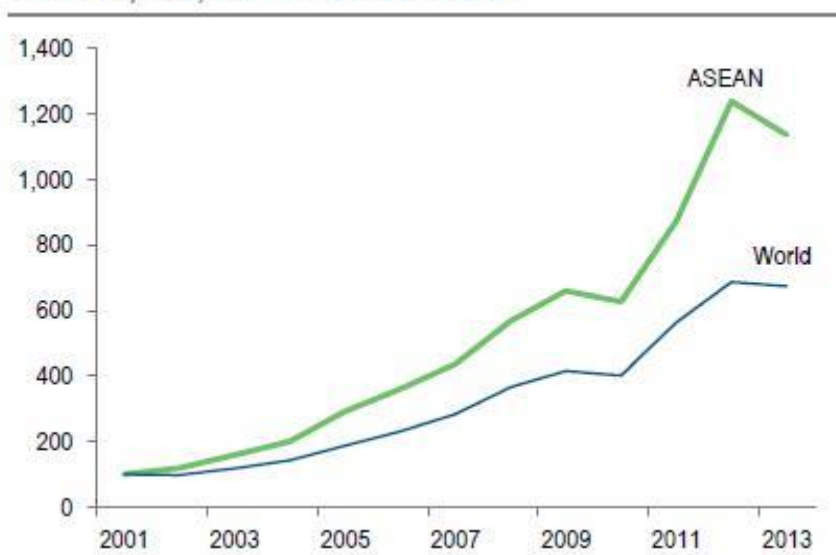
	India	Indonesia	Malaysia	Philippines	Thailand	Vietnam	ASEAN*
<b>Categories where India has a competitive advantage</b>							
Organic chemicals and pharmaceuticals	22.2	3.2	4.7	0.5	6.7	0.3	15.4
Pearls, stones, precious metals, imitation jewellery	43.1	2.9	3.4	0.6	13.1	0.6	20.6
Iron and steel (and articles thereof)	15.4	2.9	5.0	0.6	7.2	3.3	18.9
<b>Categories where ASEAN has a competitive advantage</b>							
Edible oil	1.0	21.3	19.5	1.1	0.7	0.3	42.9
Rubber (and articles thereof)	2.7	10.5	9.1	0.4	17.4	3.6	41.0
Wood (and articles thereof)	0.3	3.4	4.4	2.2	2.0	1.5	13.5
Electrical machinery and equipment (and parts)	10.8	10.8	59.3	20.5	29.0	22.4	141.9
<b>Areas of competition</b>							
Petroleum and petroleum products	54.4	63.4	46.4	1.3	14.9	11.4	137.4
Apparel and clothing accessories	12.9	7.2	1.1	1.6	3.0	14.1	26.9
Vehicles (and parts)	12.2	4.9	1.8	1.9	24.3	1.3	34.2
Nuclear reactors, boilers, and machinery	11.1	6.1	24.8	7.4	37.2	5.9	81.3

Source: Standard Chartered Global Research. Note: ASEAN here refers only to the countries mentioned in this table

- 2) ASEAN's share in India's trade basket has witnessed a steady rise. Over the past decade, exports to ASEAN have seen a more than 10 fold increase, while overall Indian exports have risen only by 6 times. Among the ASEAN countries, Singapore is independently India's fourth biggest export destination.

**Table 2: Indian exports are led by Asia**

Indian exports, indexed to 100 in 2001



Source: Standard Chartered Global Research

- 3) A look at the export growth since the 2008-09 global financial crisis shows that Africa's lead over ASEAN countries has diminished. On the other hand, ASEAN's

lead over South Asia, Northeast Asia, and the EU has widened, which consolidates its importance as a trading partner for India.

**Table 3: India's exports to ASEAN are growing fast**

	Share in total exports	CAGR p.a. over past decade	CAGR p.a. over past five years
Latin America	4%	29%	22%
GCC	17%	26%	19%
Africa	10%	25%	15%
ASEAN	11%	22%	15%
North America	13%	13%	12%
South Asia	5%	18%	9%
Northeast Asia	13%	17%	8%
EU	17%	16%	8%

Source: Standard Chartered Global Research; Note- GCC- Gulf Co-operation Council is the alliance of six Middle Eastern countries-Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Oman and Qatar.

*India Monthly Trade Report is published by the India Trade Policy Unit (ITPU), a joint initiative of DFID-India and British High Commission, New Delhi. To subscribe to the India Monthly Trade Report, please write to [Pallavi.Kalita@fco.gov.uk](mailto:Pallavi.Kalita@fco.gov.uk)*