

Highlights:

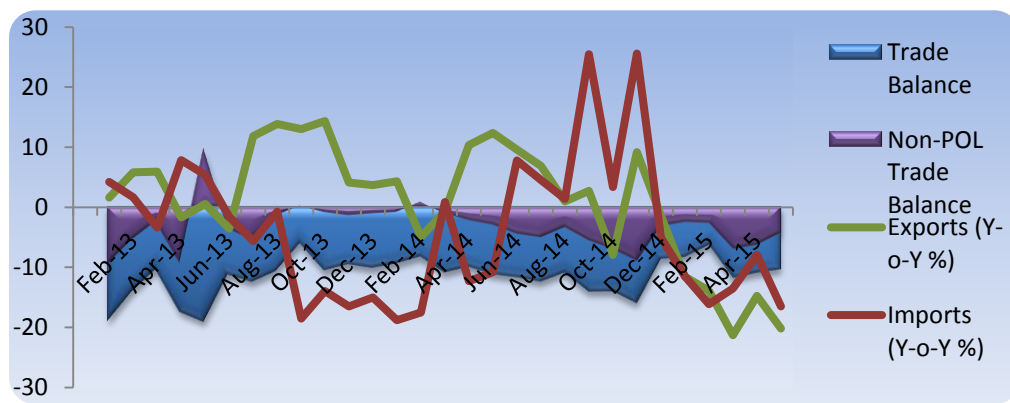
- ✓ **Trade deficit narrows but export performance worrying**
- ✓ **India pursues gas pipeline option with Russia**
- ✓ **India, Eurasian Economic Union FTA discussions begin**

In Focus: Linking East – The BBIN Motor Vehicles Agreement

India's trade deficit narrows but export performance worrying

India's trade deficit improved marginally in May to \$10.4 billion aided by low oil prices and reduced gold imports. On the flip side, weak global demand and low value from petroleum products have pulled down India's exports for the sixth consecutive month. In addition, there has been a sharp fall in imports in commodities other than gold and oil indicating weakness in India's economic activity. Worried by the continual dismal export performance, the government is reportedly mulling extending its interest subsidy scheme for exporters under which exporters get loans at affordable rates. However, over the first year of the Modi-led government, there is yet to be any credible improvement in India's trade performance.

India's merchandise trade data (Monthly)



India pursues gas pipeline with Russia at OPEC meet

India continued to pursue its bilateral energy cooperation agenda in the margins of the OPEC meet in June. Petroleum & Natural Gas minister Dharmendra Pradhan met his Russian counterpart Alexander Novak and agreed to conduct a joint study soon on the feasibility of crude and gas pipelines from Russia to India. This development follows from PM Modi's meeting with Russian President Putin at the BRICS summit last year based on which a \$40 billion project is reportedly being worked out. For India, one of the four largest importers of oil in the world, a project like this could go far to securing its energy needs. For Russia, it gives the opportunity to tap into a huge market. However, transnational gas pipelines are complex with political and geo-strategic factors to consider. For instance, the Turkmenistan-Afghanistan-Pakistan-India project is yet to see

the light of day. Pradhan also met counterparts from Saudi Arabia, Iran, Qatar, Kuwait, Iraq, UAE, Angola and Venezuela.

India commences FTA discussions with Eurasian Economic Union - EEU

The Indian government seems to have moved on from the rigid position on avoiding free trade agreements it had adopted after its election. It is now exploring a trade pact with the Eurasian Economic Union which was formed only a short while ago in January this year. An agreement has been made to form a joint group to study the possibility of concluding such a trade pact. The current members of the EEU, apart from Belarus, Kazakhstan and Armenia, include Russia with whom India shares a Special and Privileged Strategic Partnership. India's total trade with Russia stands at about \$6.34 billion – a mere 0.83% share that has remained largely unchanged in the past five years. However, with India looking to expand its export destinations and Russia looking eastwards, a preferential pact is expected to boost relations.

In Focus: Linking East – The BBIN Motor Vehicles Agreement

India along with neighbours Bangladesh, Bhutan and Nepal have officially signed a sub-regional agreement that would regulate passenger, personal and cargo movement between the four countries. This Motor Vehicle Agreement (MVA), signed in June in Thimphu, Bhutan, officially cements the first step towards easing cross-border movement of goods, vehicles, and people which would help expand trade and economic exchanges between the countries.

The agreement is drafted on the lines of SAARC MVA and borne out of the lack of progress in the latter. Incidentally, the previous UPA government had attempted to draw up a bilateral agreement with Bangladesh. In an effort to get this moving, the Commerce Department had at that time even considered, as a goodwill gesture, extending a unilateral offer where cargo trucks from its neighbour could pass into Indian borders.

It is expected that transforming transport corridors into economic corridors could increase intraregional trade by almost 60% and with the rest of the world by over 30%. The BBIN MVA is one step in the development of such corridors.

To put their plan in action, a six-month work plan from July to December 2015 will be carried out. This includes formalization of the agreement which in turn requires bilateral (and perhaps trilateral/quadrilateral) agreements and protocols.

However, the seamless integration being envisioned requires a conducive administrative and trade facilitation systems, efficient border controls and procedures among others – all of which require significant bureaucratic cohesion.

Incidentally, the BBIN initiative was supported by the Asian Development Bank's South Asian Sub-regional Economic Cooperation (Sasec) programme. The Japan-led bank has in fact, been involved in multiple infrastructure projects in the region.

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