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India Trade Policy Unit (iTPU)
Monthly Trade Report
July 2014

Highlights

- India delays landmark trade facilitation deal; draws WTO flak
- WTO sides with India in trade dispute with the US
- India's exports continue to grow in double digits in June

In focus this month

Intra-regional trade among the South Asian countries

Highlights

India delays landmark trade facilitation deal; draws WTO flak

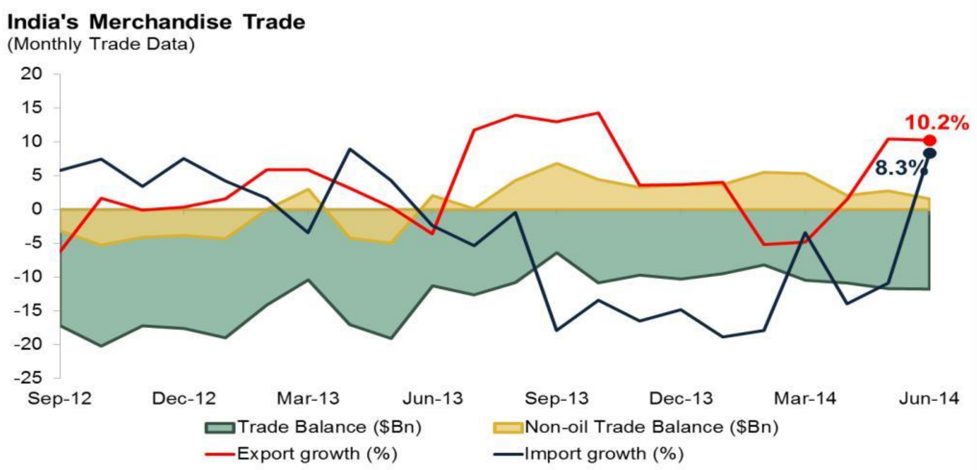
The multilateral Trade Facilitation (TF) agreement collapsed on 31st July as India refused to sign the deal agreed to in Bali late last year. India and a handful of countries attempted to re-negotiate aspects of the Bali agreement. India would not adopt the protocol on the TF agreement without parallel movement on the issue of public stock holding for food security purposes. PM Narendra Modi emphasised the need for developed nations to understand the challenges of poverty in developing countries in his meeting with US Secretary of State John Kerry late last week. India's hard-line position has also drawn domestic criticism from certain quarters. Voicing their frustration, critics pointed out that the new government has tarnished its pro-business image by going back on what was agreed in the Bali WTO Ministerial in 2013. There is also a fear that derailing Bali could encourage developed countries to focus more on FTAs, particularly the Transatlantic Trade and Investment Partnership (TTIP) and Trans Pacific Partnership (TPP). India has not been involved in these mega-FTAs so far, and there are fears this will have a knock-on effect on India's exports. Meanwhile the Indian government has tried to counter the global finger-pointing by reaffirming its commitment to the TF deal and stated that there is time till 31st July, 2015 to reach an agreement on both issues. During the Bali ministerial meet in 2013, WTO members agreed to begin implementation of the TF pact by July 2015. India has stated that it would take up the agenda once the WTO resumes work in September.

WTO sides with India in trade dispute with the US

A WTO dispute panel has ruled that the imposition of countervailing duty (CVD) by the US on India's exports of hot–rolled carbon steel flat products is inconsistent with the law on subsidies. India filed its complaint at the WTO in 2012, after Washington imposed duties of nearly 300% on the imports of Indian steel products. The US claimed that Indian steel manufacturers were benefiting from unfair subsidies. The measures continue to be in force and adversely impact Indian exports. India had challenged these claims made by the US in various investigations and reviews, contending that its programmes do not confer any subsidy on Indian exporters. This ruling could question the validity of a number of other CVDs imposed by the US on products of Indian origin.

India’s exports continue double digit growth in June

For a second straight month India recorded export growth of 10.2% y-o-y, reaching $26.4bn in June. While an encouraging development, part of this rise is due to a base effect, with weak export performance this time last year. The recovery has been led by strong demand for engineering goods, ready-made garments and petroleum products. Despite a strong export performance, the trade deficit widened slightly to $11.8bn in June, from $11.3bn in May, as imports grew 8.3 % y-o-y. Import growth, which had been slowing over the past year, was driven by resurgent demand for gold (65% y-o-y) and oil (11% y-o-y). The strong growth in gold imports has been driven in part due to the relaxation of gold import restrictions, which were put in place last year to counter a weakening rupee. Non-oil, non-gold imports rose by 3.3% y-o-y, indicating a gradual pick up in domestic demand. In the coming months the import bill may further increase, as gold restrictions are eased further and domestic activity strengthens.



Source: Ministry of Commerce, Government of India

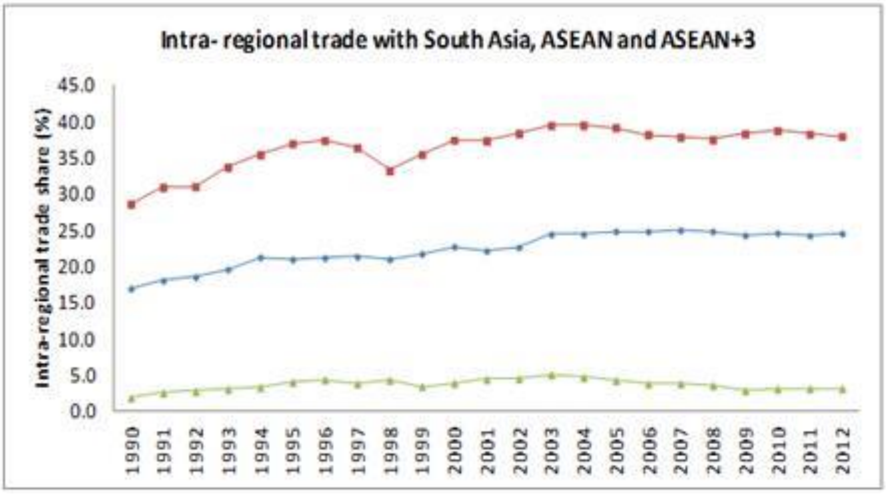
India proposes SAARC development bank at the 8th SAFTA ministerial

India's proposal to set up a SAARC development bank, along the lines of the BRICS Development bank, received support from all the member countries; Bhutan, Nepal, Bangladesh, Pakistan, Sri Lanka, Afghanistan and the Maldives. The proposal will be discussed at the 18th SAARC Summit scheduled for later this year in Kathmandu. If taken forward, it could provide much-needed funding for regional infrastructure projects and seed capital for intra-SAARC projects such as hydro power. Member countries also agreed to direct their effort towards issues such as regional investment promotion and enhancing rail and road transport connectivity. This move gives substance to Modi's focus on forging close economic ties with India's immediate neighbourhood. It is hoped the new institution will prove more effective than the SAARC Development Fund (SADF) which was established in 1996, but has been hampered by inadequate funding and the scope of work being restricted to developmental work only.

In focus this month: Intra-regional trade among the South Asian countries

1) Trade among the South Asian (SA) countries has grown, but slowly, meaning the region continues to be one of the least integrated in the world. While interregional trade in South Asia has grown at less than 5% a year, corresponding figures for 10 member Association of South East Asian nations (ASEAN) and ASEAN+3 were 25% and 38% respectively in 2012. Several attempts have been made to boost SA trade through the regional trade pacts like the South Asian Free Trade Area (SAFTA) signed in 2004, and more recently the SAARC Agreement on Trade in Services

(SATIS), which was signed in 2010. But little has been achieved under these trade agreements.

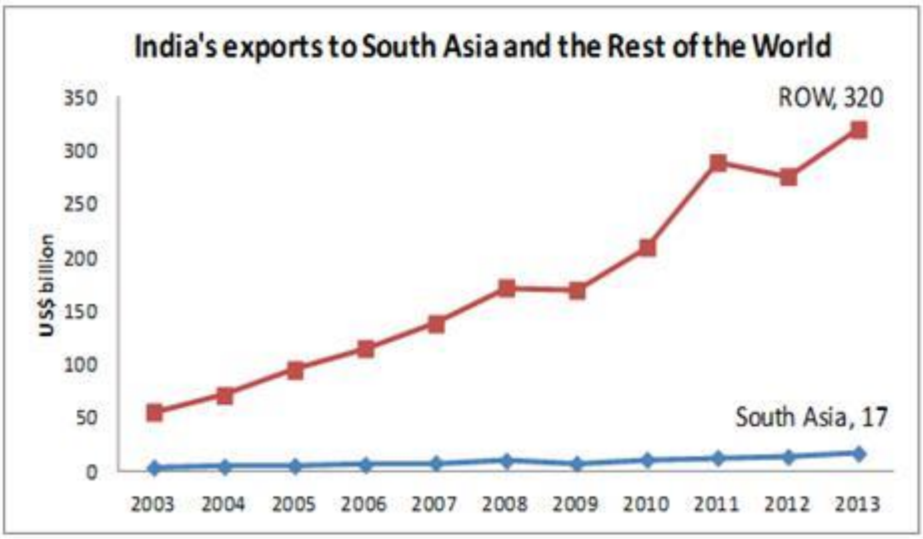


Source: Asia Regional Integration Center (ARIC) Integration Indicators Database.

Note- 1) Intra-regional trade share is the percentage of intra-regional trade to total trade of the region, calculated using sum of exports and imports data. A higher share indicates a higher degree of dependency on regional trade. 2) ASEAN +3 includes the 10 ASEAN members and China, Japan and South Korea.

2) South Asian economies depend heavily on markets outside the region as their export destination, with the exception of Afghanistan and Nepal. SA's trade has grown faster with external partners that with its subregional partners.

3) India's size means it is the dominant trading partner for most of South Asia. This trade has been relatively one-way, with exports going from India to the other countries, while India's imports from the region have been miniscule. But share of India's trade with the SAARC region is just 2-3% of its global trade. India's exports to the region account for 4-6% of its total exports to the world.



Source: UNCOMTRADE WITS database

4) Within the region India's trade has been highest with Bangladesh, followed by Sri Lanka and Nepal respectively.

Partner Name	Exports ($bn)	% Share	Imports ($bn)	% Share
Bangladesh	6.0	35	0.5	25
Sri Lanka	4.8	28	0.5	24
Nepal	3.2	19	0.4	17
Pakistan	2.2	13	0.4	18
Afghanistan	0.5	3	0.2	10
Bhutan	0.2	1	0.1	6
Maldives	0.1	1	0.0	0
South Asia	16.9	100	2.2	100

Source: UNCOMTRADE WITS database

5) Trade in the region has remained low predominantly due to high non tariff barriers as well as ineffective implementation of the trade agreements.

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