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India Monthly Trade Report August 2014

Highlights

- India likely to stick to its guns as WTO reconvenes in September
- India delays signing of the India-ASEAN services pact
- Exports slowdown in July

In focus this month

India - Unleashing the services trade potential in the ASEAN region

Highlights

India likely to stick to its guns as WTO reconvenes in September

The Indian government is likely to continue insisting on parallel movement on public food stockpiling and the Trade Facilitation Agreement (TFA), as the WTO meetings reconvene in Geneva this month. Commerce Minister Sitharaman stated that fixing the base year for food subsidies on the basis of the average of the last three years, rather than 1986-87 prices used currently, is a way forward. Finance Minister Jaitley accused the previous Congress-led government of agreeing on an “imperfect agreement” at the WTO meeting in Bali last year. India also sought the support of the African nations and China, which so far have not backed India’s efforts as failure to agree on the protocol would be a massive blow to the WTO’s credibility. Studies have also shown that China will be one of the big winners of the TF deal. Some trade experts have pointed out that India has little to worry about its product-specific support to agriculture exceeding „de minimis“ levels of 10 % of the value of production when calculated on a fully inflation adjusted basis. Some trade experts have criticised India for failing to notify the WTO on current subsidy levels; while the other BRICS countries and regional peers have fulfilled WTO obligations on notifications, India has not logged notifications since 2003.

India delays signing of the India-ASEAN services and investment pact

Another deadline for signing of the India-ASEAN trade in services and investment agreement was missed, as India’s Commerce Minister Sitharaman cancelled her Myanmar trip at the last moment. Sitharaman was supposed to travel to Myanmar for three days to sign the agreement with the 10 member ASEAN economic ministers. Sitharaman has rejected reports which suggested that the new government is

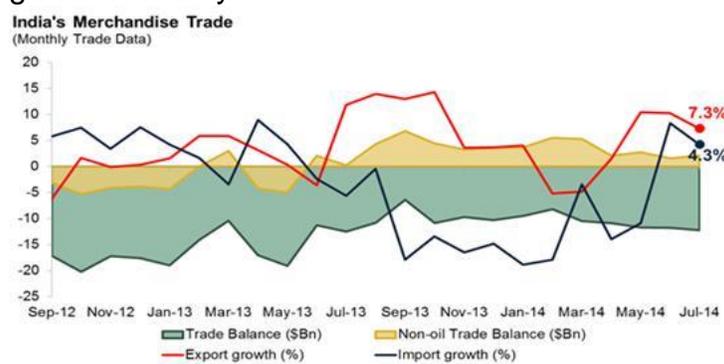
reconsidering the India-ASEAN trade agreement that was finalised under the previous government. The Commerce Minister stated that the new government will not backtrack on its commitment to the ASEAN

nations. She added that she cancelled the trip to attend the launch of the Jan Dhan Yojana, a financial-inclusion scheme.

The services agreement is not in the public domain, but is widely expected to have three separate components – two separate agreements with Indonesia and the Philippines, and one with the remaining ASEAN economies. The separate agreements with Indonesia and the Philippines reflect concerns by these countries that they may lose market share, particularly in ITC. India already has a goods agreement with the ASEAN block, which came into effect in January 2010. However, the government has come under criticism over the deal for failing to leverage it to increase India's market share in the partner countries, while imports have kept rising. The hope is that the services deal with ASEAN will provide India with the opportunity to leverage its position as a service based economy and consolidate its position as a regional leader in this sector.

Exports slow down in July

After two consecutive months of double digit export growth the pace slowed down to 7.3%, reaching \$27.7 billion in July. Imports registered 4.3% growth, while the trade deficit rose to an annual high of \$12.2 billion. Slow growth in exports of gems and jewellery, electronic goods and cotton textiles were largely responsible for reducing exports. On the other hand, export of petroleum products, marine products, engineering goods, organic chemicals, readymade garments, leather products and plastics all showed positive growth. On the import side, growth was fuelled mainly by oil imports, while gold imports declined by 26.4% to \$1.8 billion, compared to \$2.5 billion a year ago. Non-oil and non-gold imports rose by almost 3% in July compared to 1.4% in June, reflecting a recovery in domestic industrial activity. Exporters are hopeful that exports will pick up in the coming months on the back of increased growth in the global economy.



Source: Ministry of Commerce, Government of India

In focus: India- Unleashing the services trade potential in the ASEAN region

The India-ASEAN Free Trade Agreement (FTA) has become the corner stone of India’s “Look East policy”. The goods agreement came into force in 2010, while the services agreement is yet to be signed. ASEAN’s share in India’s goods exports has doubled since the start of 2000s. Still, the FTA has been criticised by some in India because the growth in ASEAN exports to India has outperformed India’s exports to the region. But given India’s position as a regional (and global) leader in services, the signing of the services pact is expected to have a positive impact on India’s overall exports to the region. Based on a report by Standard Chartered’s global research team, we have summarised the key points on India’s services trade potential in the ASEAN region:

- With exports of \$152 billion, India is the leader in services exports within the ASEAN region (figure1). Singapore comes second, with exports of \$117 billion. Services export growth (driven by the Business Process Outsourcing (BPO) sector) has been high in the Philippines as well, but in terms of export value it remains far behind India. As a result, India enjoys a large trade surplus in services (figure 2).

Figure 1

Services exports (USD bn) vs. CAGR p.a. over past decade

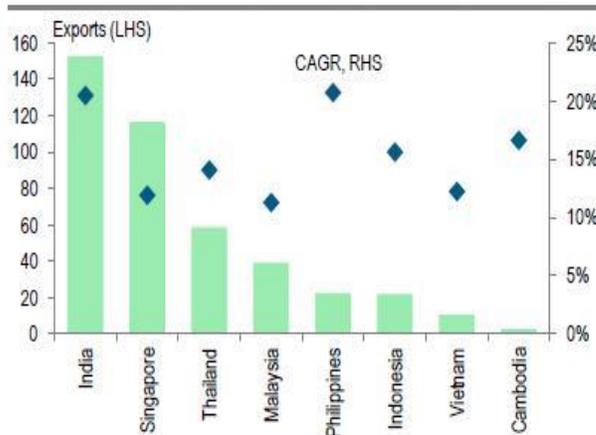
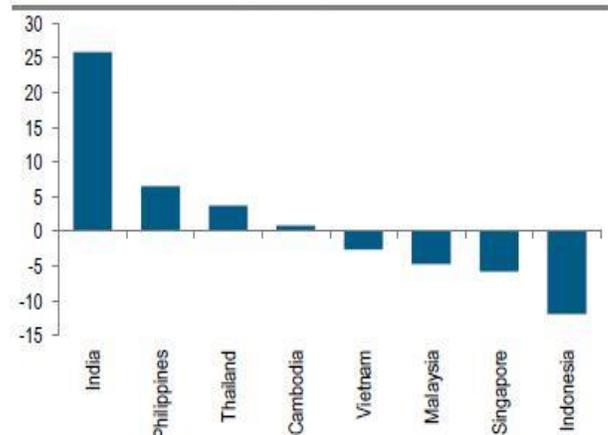


Figure 2

Services trade balance (USD bn)



Source: WTO, Standard Chartered research (CAGR stands for Compound Annual Growth Rate)

- Within services, India clearly leads in IT and communication services, while it is on an even footing with the ASEAN bloc in financial and insurance services. Both the growth and value indicators suggest high export potential for India in these sectors. Both are growing at a CAGR of over 20 % per annum. If the visa regimes are liberalised travel and transportation services may also register an increase by India.
- However there is a school of thought that believes that India may not gain substantially from liberalisation in ASEAN services trade, as India exports most of its IT services to the West. This could act as a limitation in the short run to increasing Asia's share in Indian exports as most of the global multinationals that use Indian IT services are based in developed markets. But the long term presents India with an opportunity to tap into a new market; there may be scope to increase the share of exports to ASEAN to service companies operating within the region. For example, Singapore (with which India has a bilateral FTA) is fast emerging as a hub for software exports by Indian foreign affiliates. Diversifying its export destinations would also reduce India's dependence on the EU and US.
- For India easing of Mode 4 restrictions (which allows movement of people between countries to provide services) has been the key ask. This agreement, once in force, is likely to facilitate temporary movement of business persons and professionals and workers from a wide range of services sub-sectors (accounting, architecture, engineering, medical, dental, nursing, pharmacy, ITC, management consulting). It is hoped that easing visa requirements (Mode 2 and 4) and FDI norms (Mode 3) will further boost India's exports to the region.

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