BLASH

THE INTERNATIONAL TRADE CLUB

TRADE WINDS

November 2014

An Indo-GCC focus edition

Kuwait
Bahrain
Qatar
UAE
Saudi Arabia
Oman
Yemen
India

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Dear Reader,

Trade Winds is an initiative by the student community at Indian Institute Of Foreign Trade to provide an enriching and learning experience for everyone. With articles by our faculty and interviews from the EU economic counsellor, this special edition focuses on GCC trade relations.

IIFT has been the premier B-school in India for disseminating trade knowledge and even being involved in trade policy formulation for India. Thus the views of faculty, alumni and industrial personalities along with the students is aimed at pushing the limits higher.

Along with the focus theme on GCC trade relations, this editions focuses on future potential of trade by India by improving its infrastructure and ties with South America. A commodity analysis of Crude oil and its downstream product of plastics is also in the offering.

We, at Team Trade Winds hope to provide an enriching reading experience to all. Happy Reading!

Team Trade Winds

Trade Winds, the bi-monthly magazine of International Trade Club of IIFT is the result of contribution of various stakeholders. We would like to thank Dr. Tammana Chaturvedi, all the contributors of articles and BLASH – The Trade Club at IIFT.

Team Trade Winds is also involved in the fortnightly publication of the Trade Digest newsletter. The team comprises of the following:

Senior Editors: Ujjwal Bhatia & Gautam Guliani MBA(IB) 2013-15

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"We are planning to give more market-linked export sops to different products this time instead of incentivizing products and markets separately. We can then plan our promotion and marketing drive better. There will also be focus on promoting services exports"- DGFT

Yours sincerely,

Team Trade Winds

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Dubai Trade Conclave

This special edition of Trade Winds on GCC trade relations was released during the International Trade Conclave in Dubai. The theme of the International Trade Conclave was "Revolutionising Trade by Unlocking the Potentials of the Global Value Chain".

Picture from Left to Right: **Dr. Jaydeep Mukherjee** – Assistant Professor, IIFT, **Mr. Anurag Bhushan** – Consul General of India in Dubai, **Dr. Surajit Mitra** – Director, IIFT, **Mr. Ajay Mathur** – President of Dubai Alumni Chapter.

This edition of Trade Winds was released during the Dubai International Trade Conclave. The conclave saw Mr. Anurag Bhushan, the Consul General of India in Dubai as the honourable chief guest.

IIFT has successfully organised trade conclaves in the past. Since last year the conclave has shifted from Singapore to Dubai and the trend continued this year as well. Major reason being the growing trade relations between India and Gulf Cooperation Council (GCC) Countries and Dubai is also emerging as a global trading hub as it connects markets from across the globe.

"For India, Dubai is emerging as a gateway to Africa as they require cost effective products. There is a great deal of synergy for both UAE and India to tap these markets as Dubai is also emerging as a global trading hub as it connects markets from across the globe. In qualitative terms there is a great momentum between two countries which will b sustained in long run. We have decided to concentrate on UAE as it really enjoys good trading infrastructure," said Dr Surajit Mitra, director and vice-chancellor, Indian Institute of Foreign Trade.

This special edition of Trade Winds aligns itself with the theme of the conclave ,focuses on various aspects of the trade relations between India and GCC Countries and various opportunities.

Focus Theme: GCC trade relations

This special edition focuses on various aspects of the India – GCC trade relations and various opportunities for both. India has traditionally been a big trading partner of GCC and identifying future potential will create further opportunities

By Ujjwal Bhatia
MBA (IB) 2013-15

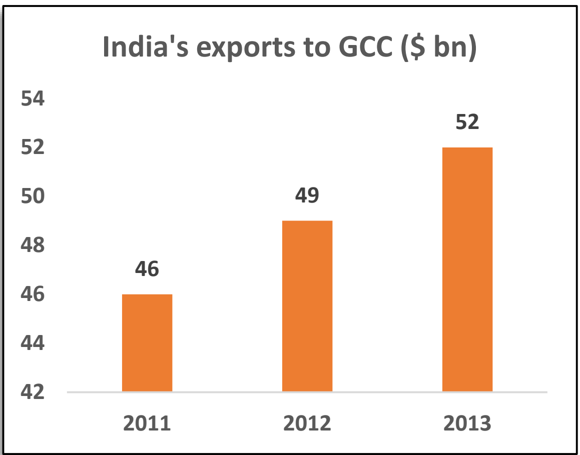
India-GCC Trade Relations

Traditionally, India has enjoyed cordial relations with GCC with cooperation in the areas of economic, political and security domains.

Against the backdrop of an evolving global economic scenario and changed political landscape in India, the Gulf Cooperation Council (GCC) assumes great significance as India's trade partner. GCC is an economic and political union of Arab states bordering the Persian Gulf; Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Traditionally, India has enjoyed cordial relations with GCC with cooperation in the areas of economic, political and security domains. With the increasing instability in the Levant region and spreading out of the reverberations to adjoining areas, India's concerns of security and stability in the region have found resonance with GCC's views.

Also, as the Gulf enjoys geographic proximity to India, separated only by the Arabian Sea, it has huge potential as India's trade and investment partner for the future.
The GCC has had strong cultural and historical linkages with India. The GCC-India trade relationship has flourished after India undertook the path of liberalization in the 90s. The complementary nature of both an interdependent economic profile and the fast growth rate of domestic economies serve as strong underpinning to the future trade and investment ties between the two regions. With the transition in the India's economic mindset with the arrival of a new government at the centre, the need for energy resources and infrastructure funding is at an all-time high. At the same time, diversification of the domestic economy, job creation and food security continue to be the major concerns of GCC countries. Recently, India has taken several steps to open up foreign investment in certain sectors. There are vast opportunities for investors hailing from the GCC countries to invest in India's growth story and also India can prove itself as an attractive investment destination by easing some of the existent

regulatory hurdles. India has taken numerous steps in this regard and several more are underway to improve the ease of doing business in India. Establishment of economic zones and incentives for various sectors in India's Foreign Trade Policy (FTP) are steps in the same direction. It has also signed several bilateral trade agreements with GCC but the India-GCC Free Trade Agreement (FTA) is still elusive with the negotiations about to enter into the third round after a temporary negotiation freeze from GCC's end of the table.



India's trade with GCC partners has witnessed a tremendous growth in the past few years and is slated to increase further against the backdrop of rising urbanization and consumption in the GCC countries. Also, Indian businesses have made extensive use of Dubai's location as an east meets west destination i.e. a transshipment hub and have leveraged on the basis of cost competitiveness through savings in logistics costs. There is still lack of awareness about the attractiveness of GCC countries in India and hence there is a huge potential for growth in bilateral trade and investment flows between India and GCC provided both parties work cohesively keeping in mind long term strategic goals.

Top 10's (India's top 10 exports and imports from the region)

Source: ITC Trademap

Exports- India to GCC

HS Code	Product	Value (in US$ mn)
271012	Light petroleum oils and preparations	6,966
271019	Other petroleum oils and preparations	6,377
711319	Articles of jewelry & parts thereof	5,823
710239	Diamonds non-industrial nes excluding mounted or set diamonds	4,978
710812	Gold in unwrought forms non-monetary	2,439
100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	1,898
270799	Oils & other products of the distillation of high temp coal tar etc.	1,130
710231	Diamonds unworked or simply sawn, cleaved or bruted	758
880240	Aircraft	693
851712	Telephones	633

Imports-India from GCC

HS Code	Product	Value (in US$ mn)
270900	Petroleum oils and oils obtained from bituminous minerals, crude	59,041
999999	Commodities not elsewhere specified	13,794
710812	Gold in unwrought forms non-monetary	7,208
710239	Diamonds non-industrial nes excluding mounted or set diamonds	7,136
710231	Diamonds non-industrial unworked or simply sawn, cleaved or bruted	2,878
271113	Butanes, liquefied	1,910
271112	Propane, liquefied	1,180
290531	Ethylene glycol (ethanediol)	698
271012	Light petroleum oils and preparations	656
271119	Petroleum gases and other gases, liquefied	622

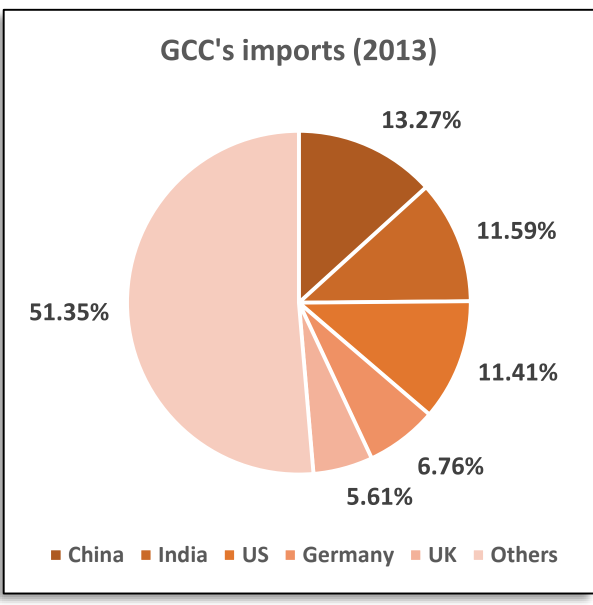
As far as bilateral trade with GCC is concerned India's export basket to GCC is relatively more diversified than its import basket. This is substantiated from the fact that the top 10 export categories from India to the GCC account for about 80% of the total exports of India to the region. The number of categories of products exported from India to GCC is approximately 100.

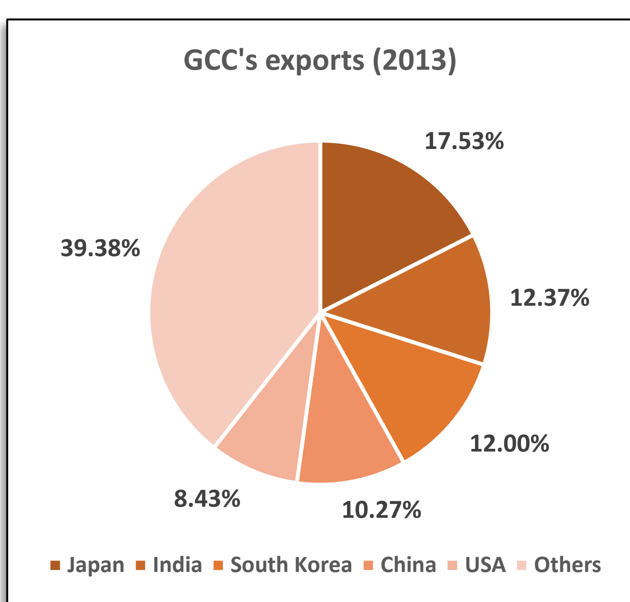
GCC's exports to India grew at a CAGR of 46.2% in the millennial decade of 2001-10. UAE and Saudi Arabia are the major exporters from the region. Mineral fuel, oils and distillation products continue to be the biggest export from GCC to India with demand driven by the increasing industrialization activity and the expansion of refining capacity in India.

Trade in Services

India has a comparative advantage over GCC in the services sector due to a service-based economy with services contributing around 55% to India's annual Gross Domestic Product (GDP) and vast availability of knowledge capital. On the other hand, the GCC countries have an underdeveloped services sector and are largely dependent upon imports. As the region aims to diversify its economy beyond oil, the demand for services in the domains of information technology, education, training and healthcare services, telecommunications, software development, banking and financial services and tourism and hospitality is only going to increase. All these developments provide huge opportunity to India. India can capitalize on its twin advantage of low-cost skilled labour and English proficiency to take advantage of these opportunities. On an average, India offers 50-80% lower costs than their source locations and 10-30% lower costs than other low-cost destinations. Hence, this is an opportunity not to be missed.

Trade Breakup





Source: ITC Trademap

Growth drivers for bilateral trade

- Apart from the oil sector, there is huge untapped potential in areas such as manufacturing, healthcare, financial services, agriculture, food processing, mining and minerals, tourism and hospitality.
- In order to promote trade and investments, the regulatory regimes in both the countries are being liberalized.
- India's bid to boost consumption and GCC's initiatives for diversification of their export markets can result in strong bilateral trade synergies.
- Numerous bilateral trade agreements have been signed and both the regions have prioritized the development of free economic zones. However, the free trade agreement (India-GCC FTA) is yet to be signed and has gone through two rounds of negotiations.

Challenges

- Tariff and non-tariff barriers in India and GCC
- Poor infrastructure in India
- Red-tapism and cumbersome regulatory procedures in India and GCC
- Internal political conflicts and geopolitical instability in GCC
- Lack of official publications and databases in GCC

Opportunities for India with GCC

- ***Manufacturing in energy-intensive domains:*** Both the regions can upgrade their present commercial relationship in energy sector to manufacture value-added products such as petrochemicals, plastics and fertilizers. Abundance and cheap supply of natural gas also makes GCC an important investment destination for Indian conglomerates in other energy-intensive manufacturing domains like aluminium and steel.

- ***Oil and Gas engineering services:*** Several Indian behemoths like Reliance Industries Ltd. (RIL) and Larsen and Toubro (L&T) have shown keen interest in exploration activities in the Gulf region.

- ***Minerals and mining:*** Although the global financial crisis derailed Dubai's push for infrastructure slightly, the momentum is building up again with huge improvements planned in the region's rail, road and sea network. This presents a huge opportunity to Indian construction giants. In 2012, Punj Lloyd was given a contract for the construction of a bulk oil terminal at the Jebel Ali port in Dubai.

- ***Healthcare:*** Increase in disposable incomes, surge in lifestyle diseases and improved awareness about personal healthcare are going to be the major drivers for healthcare expenditure in GCC. Therefore, the GCC provides an attractive destination to the Indian healthcare companies to benefit from the increasing private and public healthcare expenditure.

- ***Financial Services:*** As GCC boasts of a huge population of Indian expats, India can take advantage of its sound banking and financial sector and expand into these countries.

- ***Agriculture and Food processing:*** Due to harsh soil and climatic conditions and water scarcity, the GCC countries primarily depend on imports to meet their needs for agricultural and food products. India's competitiveness in agriculture and proximity to GCC makes it an ideal sourcing partner for agro-based value chain in the GCC region.

Opportunities for GCC with India

- ***Oil Sector:*** For the foreseeable future, GCC's relationship with India is primarily going to be hinged around the oil sector. In terms of energy consumption, India ranks fourth in the world after US, China and Russia. Thus, GCC would continue to play the key role of a strategic supply partner for India's energy needs.

- ***Infrastructure:*** With the push of the incumbent government for Public-Private-Partnership (PPP) based model of infrastructure development, there is huge opportunity to be explored from the investors based in GCC. In 2012, Indian government invited the Abu-Dhabi investment authority to invest in the Delhi-Mumbai Industrial Corridor.

- ***Downstream sector:*** With limited scope for investments in the upstream sector, India has positioned itself as a competitive downstream player with proven capability in the refining sector. In 2011, Qatar based Consolidated Gulf Company bagged its first contract from the India-based Oil and Natural Gas Corporation (ONGC). The downstream sector presents a significant opportunity to GCC's refiners and oil giants.

Conclusion

GCC and India continue to play a pivotal role mutually in terms of growing trade and investment volume between the two regions. Innovative ways to expand the relationship beyond the conventional import-export relationship and improvement of business environment in the two regions can go a long way in boosting bilateral merchandise, services and capital flows. A lot has been achieved over the past and a lot remains to be achieved in the future.●

By Amitabh Anand
MBA (IB) 2013-15

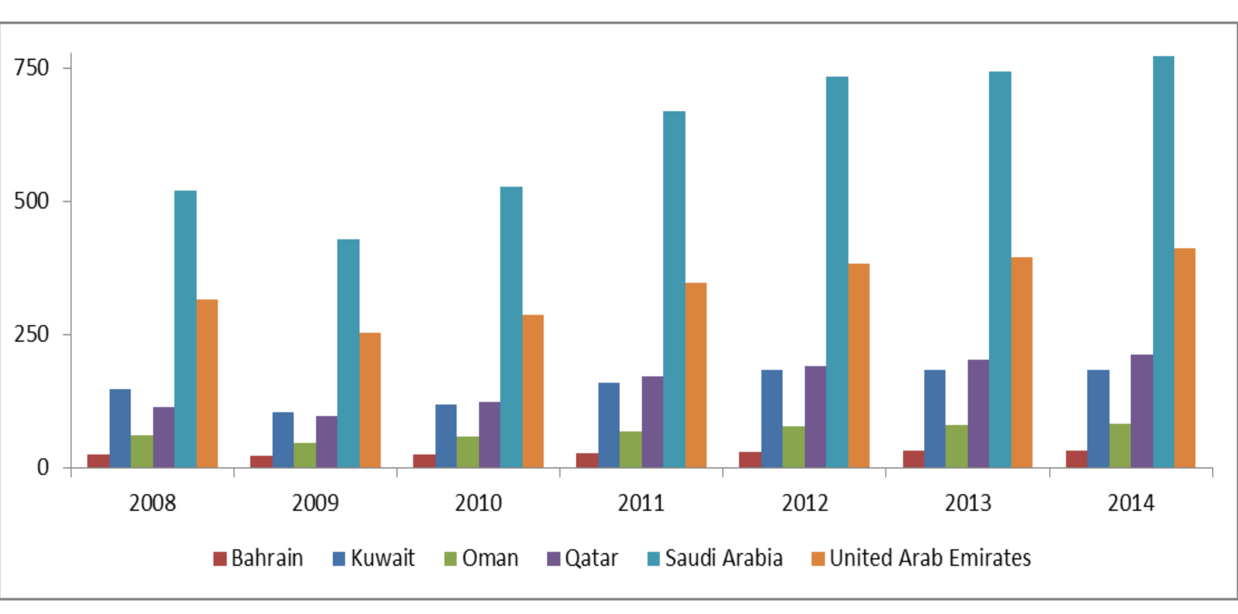
GCC and EU: Potential of Economic Collaboration

An analysis of the GCC-EU trade relations and what the future holds, identifying opportunities for both sides.

Gulf Cooperation Council (GCC) is a political and economic alliance of six Middle Eastern countries—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. Established in Riyadh, Saudi Arabia, in May 1981, the purpose of the GCC is to achieve unity among its members based on their common objectives and their similar political and cultural identities, which are rooted in Islamic beliefs. Presidency of the council is rotated annually; Kuwait holds the current Presidency position with Abdullatif bin Rashid Al Zayani as the secretary General since April 1, 2011. He is the fifth GCC secretary general and the first with military background since the GCC established.

The GCC was established in view of the special relations between them, their similar political systems based on Islamic beliefs, joint destiny and common objectives. The GCC is a regional common market with a defense planning council as well. The geographic proximity of these countries and their general adoption of free trade economic policies are factors that encouraged them to establish the GCC.

Based on their conviction about the connected nature of their security and that an aggression against any one of them is deemed an aggression against all of them, cooperation in the military field has received the attention of the GCC states. Such conviction stems from the facts of geopolitics and faith in one destiny. Moreover, the security challenges in an unstable regional environment, like the Gulf area, impose on the GCC States coordination of their policies and mobilization of their capabilities. In 1981, the immediate objective of the formation of the GCC was to protect themselves from the threat posed by the Iran-Iraq War and Iranian-inspired activist Islamism. In a series of meetings, chiefs of staff and defense ministers of the Gulf States



developed plans for mutual defense and launched efforts to form a joint command and a joint defense network.

GCC and its Economic Potential

The combined GDP of the GCC in 2013 was USD 1642 billion and is expected to grow to USD 1699 billion in 2014, according to IMF estimates. The oil deposits in and around the region have been driving growth and investment in the region over many years. Though the region is still heavily dependent on oil and oil exports, the non-oil GDP of the GCC region has started showing positive trends after the fall in 2008. Investments in the real estate sector and manufacturing are expected to be major growth drivers for this region. There has been considerable clamor across the region over the need to make the Government policies in the region more emigrants friendly as this region attracts a large number of foreign workers.

Besides, the GCC also has immense demographic advantage in the fact that this region would have grown to 53 million by 2020 as against 29 million just decades back. This has made this region a wonderful investment destination for investors all across the globe. This growth in population has contributed to a burgeoning middle class that also provides an excellent market for the sale of a number of goods. This has made the GCC region the topic of hot discussion in business circles. This region has been attracting healthy investment in the manufacturing sector and the petrochemicals industry. Europe has been paying close attention to the GCC region engaging it in a sizeable bilateral trade arrangement. Throughout this article, we will examine at the current GCC-EU business relations and the potentials of the future.

EU-GCC: Current Trade Interaction

The EU has been a very active trade partner of the GCC region. The Gulf Cooperation Council countries account for 4.2% of total EU trade. They are currently EU's fifth largest export market worldwide.
EU is the first trading partner for the Gulf countries covering 13.8% of their total trade in goods. EU-GCC total trade in goods amounted to USD 197 billion in 2013, a significant increase from USD 140 billion in 2008 which had dipped to USD 104 billion in 2009.
Among the multiple trade partners that GCC has, imports from EU stand highest at 26.1%.

GCC population growth – Population (in million)

	2000	2005	2010	2015	2020
Saudi Arabia	20.47	23.12	26.18	29.59	33.34
Kuwait	2.23	2.99	3.58	4.4	5.2
UAE	3.24	4.61	5.57	6.44	7.06
Bahrain	0.64	0.89	1.18	1.45	1.66
Oman	2.4	2.51	3.11	3.32	3.53
Qatar	0.64	0.97	1.82	2.33	2.79
Total	29.62	35.09	41.44	47.53	53.58

Source: Economist Intelligence Unit, The GCC in 2020: The Gulf and its People, September 2009

Period	Imports			Exports			Balance ($ mn)	Total Trade ($ mn)
	Value $mn	Growth (%)	Share in Extra-EU (%)	Value $mn	Growth (%)	Share in Extra-EU (%)		
2008	48836	17.6	2.4	91179	14.5	5.4	42344	140015
2009	29618	-39.4	1.8	75193	-17.5	5.3	45575	104813
2010	45612	54	2.3	85138	13.2	4.8	39527	130751
2011	74666	63.7	3.3	94962	11.5	4.7	20296	169628
2012	79652	6.7	3.4	108840	14.6	5	29188	188491
2013	73997	-7.1	3.4	123592	13.6	5.5	49595	197590

Source: Eurostat Comext

However, when it comes to exports, GCC has not exploited the European market fully as its exports to EU are merely $64 billion or 7.4% of a total of $663 billion.
EU exports to Gulf Cooperation Council are diverse but focused on industrial products (91.9%) such as power generation plants, railway locomotives and aircraft as well as electrical machinery and mechanical appliances. Machinery and transport equipment (44.6%), manufactured goods and articles (collectively 23.6%) and chemicals (11%) were the main categories of products exported in 2013. EU imports from Gulf Cooperation Council are mainly fuel (75.8% of total EU imports from the region in 2013).

Source: Eurostat IMF

Partner	Imports		Partner	Export		Partner	Total Trade	
	Value $mn	World Share %		Value $mn	World Share %		Value $mn	World Share %
EU	122147	26.1	Japan	134882	15.3	EU	186623	13.8
China	65410	14	S.Korea	95852	10.9	China	161032	11.9
USA	58851	12.6	China	95622	10.9	Japan	159458	11.8
India	53875	11.5	India	95510	10.9	India	149383	11.1
Japan	24577	5.3	EU	64476	7.3	USA	122815	9.1
S.Korea	19509	4.2	USA	63964	7.3	S.Korea	115361	8.6
Turkey	10209	2.2	Singapore	38983	4.4	Singapore	47575	3.5
Singapore	8592	1.8	Thailand	30048	3.4	Thailand	38490	2.9
Thailand	8442	1.8	Iran	28573	3.2	Iran	31742	2.4
Switzerland	8225	1.8	Pakistan	15400	1.8	Pakistan	19729	1.5

SITC Selection	Imports (%)	Exports (%)
Food & Live animals	0.1	6.3
Beverages & Tobacco	0	1.6
Crude materials, inedible, except fuel	0.5	1.5
Mineral fuels, lubricants & related materials	75.8	3.1
Animal & Vegetable oils, fats & waxes	0.1	0.1
Chemical & related products	10.1	11
Manufactured goods classified chiefly by material	7	11.8
Machinery & Transport equipment	4.4	44.6
Miscellaneous manufactured articles	1.1	11.8
Commodities & Transactions n.c.e.	0.7	6.4
Other	0.4	2

Source: Eurostat Comext

Inward investment is likely to be concentrated in the export-oriented industries and in services sectors that cater to the growing resident population, including power, water, transport, education and healthcare. "Petroleum and petrochemicals are the GCC's most competitive industries," says Professor Hosoi, "but the shortage of infrastructure in the region, particularly related to water and power, make this another key investment sector." There is little public transport in the GCC and the potential for railways and urban light rail is strong. There is also scope for more public-private partnerships in the provision of services, notably healthcare. Foreign participation in education may slow following a surge in recent years, as universities pause to assess the success of recent entrants. Some institutions will also be deterred by concerns about political constraints and censorship of the press and the internet in parts of the GCC. Lending to real estate projects may be subdued for some time following the recent boom. However, there is scope for greater investment in some property subsectors, since investment in recent years has focused heavily on high-end property at the expense of affordable housing.

Source: World Investment Report 2014, UNCTAD

FDI outflows from GCC over the years ($ mn)						
Region/Economy	2008	2009	2010	2011	2012	2013
Bahrain	1620	-1791	334	894	922	1052
Kuwait	9100	8584	3663	4434	3231	8377
Oman	585	109	1498	1233	877	1384
Qatar	3658	3215	1863	6027	1840	8021
Saudi Arabia	3498	2177	3907	3430	4402	4943
UAE	15820	2723	2015	2178	2536	2905

Destinations for overseas investment will combine the traditional and the new. Due to the maturity of the markets, Europe and the US will continue to be major investment destinations for the GCC but China and India will gain importance as well as agricultural-based economies.

EU-GCC Free Trade Agreement

The six countries of the GCC and the 28 member states of the EU have been talking for over two decades, and in the current trend of globalization or increased economic and political interdependence between states and countries, it is remarkable that they have still not developed the EU-GCC Co-operation Agreement of the late 1980s.

The EU-GCC negotiations for a Free Trade Agreement seek the progressive and reciprocal liberalization of trade in goods and services. They aim to ensure a comparable level of market access opportunities, taking into account the countries' level of development.

The current framework for economic and political cooperation is the 1988 EU-GCC cooperation agreement that seeks to "help strengthen the process of economic development and diversification of the GCC countries". The Cooperation Agreement covers such varied areas as economy, science and technology, agriculture, energy and investments. The agreement created a Joint Council and a Joint Co-operation Committee which meets annually. At the 2010 Joint Council, an EU-GCC Joint Action Programme for the years 2010-2013 was agreed. The EU-GCC Invest project is part of the EU-GCC Cooperation Agreement.

The mutually welcomed idea to sign an EU-GCC Free-Trade Agreement, providing progressive and reciprocal liberalization of trade between the EU and the GCC, has become suspended by the GCC since late 2008 for reasons of feelings that trade talks held so far had delivered only scant results.

EU GCC FTA Impasse

The GCC and the EU should break the current impasse and explore ways to re-engage.

It is important to take into account though that the balance of power between the two regional-blocs has changed: the ever more rising status of the GCC in the Gulf and the wider Middle-East, and the bail-out role of their Sovereign Wealth Funds in economies affected by the repercussions of the global financial breakdown, has led to GCC states becoming more assertive in their relation with the EU.

The imposition of energy-taxes by the EU on fossil fuels should not be seen as protectionism, for this is the result of international commitments, or the attainment of agreed reductions in carbon-dioxide emissions for environmental reasons proper.

International competitiveness of GCC companies in petro-chemicals and aluminum is, on the other hand, the result of fair and lower production costs, or strategically combining the limited absolute and comparative advantages of economies under economic development as such. Taking into account the different levels of economic advancement between the two blocs remains therefore important.

A future EU-GCC agreement has been subject to a public sustainability impact assessment.

Insisting on trade concessions to be reciprocal is not realistic, for GCC states have, apart from oil and natural-gas, only few products which can be exported in significant quantities to the EU in comparison with the ship-loads of finished and semi-finished EU products that the envisaged EU-GCC Free Trade Agreement is likely to make more competitive within GCC markets.

Finding ways to re-engage means adoption of a more realistic/flexible game of give and take, for the conclusion of a sound, mutually beneficial trade agreement requires a workable consensus.

Establishing and fostering deeper economic and political relations with the GCC via a bilateral free-trade agreement has proven to be different from the trade agreements with other commercial partners around the world: GCC states cannot be pulled-into by the prospect of EU-accession, for none of them belongs geographically to Europe nor can they become tempted by financial-aid, for all of them are wealthy.

In terms of pushing for democratization and respect for human rights, has it become clear that the EU has no leverage over the GCC as an organization neither over GCC states individually.

It is expected that the EU will not change its position on democratic principles, good governance and human rights, for the reason that it cannot make an exception to what it internationally stands for.

It has been possible to say that with both the US and Asia willing to do business in the Gulf, the GCC has enjoyed a somewhat stronger bargaining position.

Implications of failed talks

Indeed, it appears the GCC and the EU is once again on the brink of reaching a free-trade agreement (FTA) after 20 years of on-and-off negotiations. Previously the talks have broken down because of the disputes over trade in petrochemicals as well as political differences. This time the major sticking point is also linked to petrochemicals.

If the two sides fail to clinch a deal yet again, the GCC will go into 2014 without any preferential trading arrangement with the EU at all. On 1 January 2014 the EU starts implementing a new Generalized Scheme of Preferences (GSP), under which the GCC and other developing countries are no longer given preferential access to the EU market with reduced tariffs.

The GCC states will be excluded from the new scheme because they are all categorized as high in- come countries with levels of per capita GDP higher than many of the EU member states. With some individual countries – Qatar, UAE and Kuwait – the level is higher than any EU country.

From next year, the EU will apply normal customs duties to all products from GCC countries. The duties on products that the EU imports from GCC countries – minerals, oil and plastics – are low or non-existent. Overall, GCC countries will pay average duties of 1.0-1.5% instead of 0%.

GPCA points out, however, that the GSP tariff on petrochemicals averages between 2.2% and 3.5% and it will be increased to 6.5% effective January 2014.

An FTA, however, will not just cover tariffs, ensuring that GCC products enter the EU duty-free, but also will deal with non-tariff issues. The remaining differences between the two sides center on the GCC's system for pricing petro- chemical feedstocks, mainly natural gas liquids. Also, from the point of view of some GCC states, the dispute about petrochemical feedstock pricing is linked to the issue of how far the FTA should be able to limit their freedom to take decisions on future trade measures. In line with its policy against export restrictions, the EU is insisting that in any FTA or other trade deals made with non-EU countries there should be an undertaking by the prospective partners not to introduce export duties.

In the trade negotiations with the GCC, the EU has apparently softened its stance on export duties by agreeing to allow them to use on a certain proportion of products. But Saudi Arabia is reported to be opposing any prohibition in the free-trade agreement of export duties, particularly for petrochemicals.●

Inward Introspection

International trade will be facilitated in India only if there is coordinated approach to remove all the obstacles. Inward Introspection analyzes the current issues concerning international trade in India with an analysis and future outlook.

By Nikhil Indla
MBA (IB) 2013-15

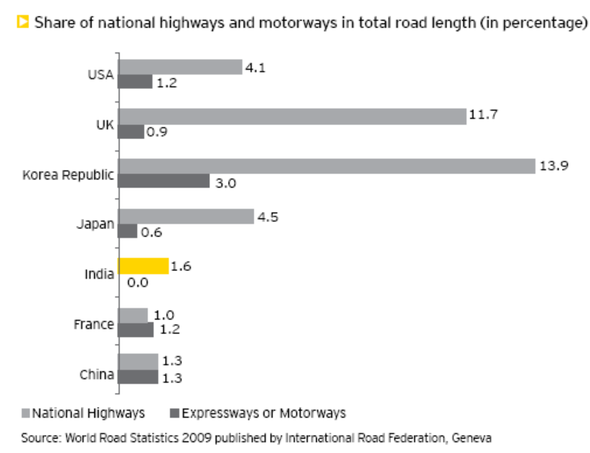
India's Export Infrastructure

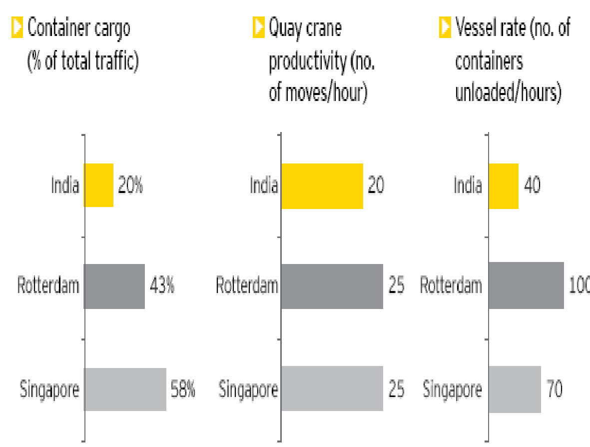
Indian ports have not been able to achieve an optimum level of cargo-handling due to multiple constraints related to handling of cargo which has increased evacuation time at ports.

India's export infrastructure is inadequate. Although this statement is very harsh but also true. We will analyze the different issues plaguing our export infrastructure.

Rail: India's rail network is a vestige of British rule. Over 80 per cent of the current network was built before the country's independence in 1947. India therefore has a network developed by over 40 different railway entities. Further, many independent kingdoms had their own railway networks. Soon after partition, around 40 per cent of the network became a part of Bangladesh (most of the Bengal-Assam railway lines) and Pakistan (the North-Western railway lines). The remaining tracks were amalgamated into the Indian Railways. While traffic on rail has grown more than 10-fold between 1951 and 2007, rail track length has only grown 1.4 times in the same period. Despite the overcapacity in 1950 and the efficiency improvements like gauge conversion and electrification since then this stark gap between traffic and infrastructure growth has resulted in capacity constraints on key portions of the network with high traffic. Furthermore, traffic growth will continue at high rates, requiring a step increase in the rate of network build-up.

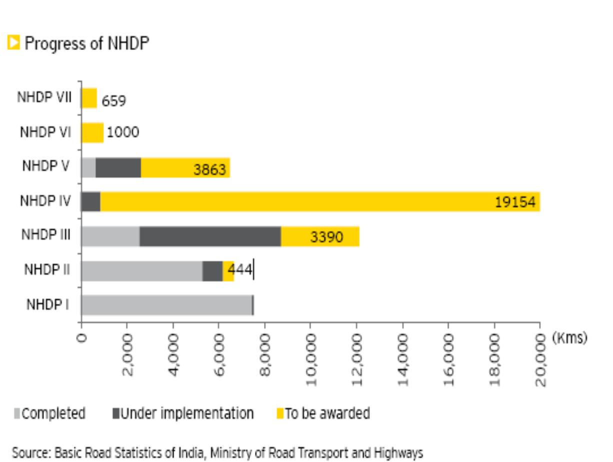
Road: Road infrastructure has high importance for the growth of India's economy, since around 60% of freight and 85% of passenger traffic is carried by road. The country has a road network spanning 41.09 million km11 and ranks among the largest in the world.
Although India has a large road network,12 in comparison with other countries (142), it stands at a low rank of 85 in terms of the quality of its roads.13 Only half the roads are paved, as compared to more than 100% in the UK and 67% in the US. The share of high-capacity roads is less, as compared to those in other countries. The National Highways only constitute around 1.7% of the road network, but carry 40% of the total road traffic. Yet only 24% of the National Highways are four-lane and meet international standards. For a country aspiring to grow at 8.0%, India needs extensive highways and expressways to prevent roads from becoming bottlenecks in its growth.

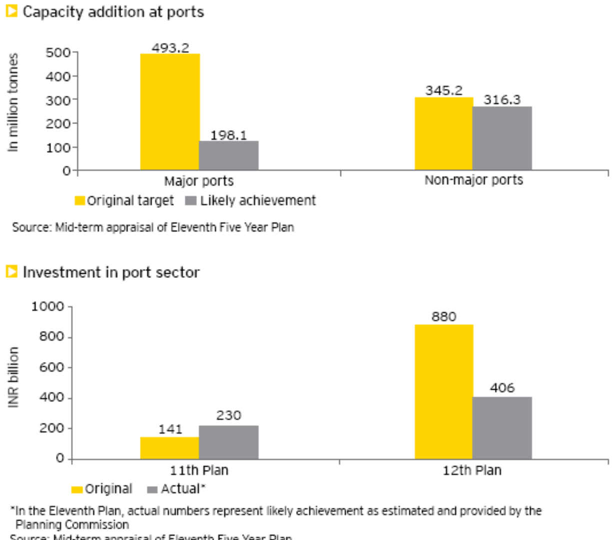




Waterways: Growth in waterways has been hampered by limited investments and the loss of key routes following partition. Prior to the Fifth Five-Year Plan, developing inland waterways was accorded low priority with a cumulative investment of under INR 35 crore. This was partly due to the prioritization of irrigation, and limited viability of inland waterways owing to deforestation and silting. Further, the partition of the country rendered several routes unviable. For example, the Karachi-Rangoon stretch via Colombo was a key coastal route but following partition, this stretch was significantly shortened, resulting in lower traffic. Similarly, the Karnafuli and Kolodyne river routes connecting the north-eastern states to Bangladesh and Burma are not used as extensively as before independence.

Ports: In India about 95% of volume (and 70% of value) of nation's merchandise trade is handled by Indian ports. Obviously port infrastructure and its hinterland linkages will be a critical component of Indian economic development process. There are many problems facing the port sector. Port capacity is inadequate for the requirements of the future. India does not have a continuous channel linking its eastern and western ports. Labour productivity of port workers is low. Greater investment is needed especially foreign investment. National security concerns which have held back foreign investment in the port sector.





Tariff setting is another major issue, which limits private sector investments in the sector. The Ports Regulatory Authority Bill 2011 has potential to overhaul the regulatory structure of ports and the tariff-setting process but concerns of private sector need to be addressed.

Indian ports have not been able to achieve an optimum level of cargo-handling due to multiple constraints related to handling of cargo, the level of containerization, custom procedures and insufficient hinterland connectivity, which has increased evacuation time at ports. As a result, they lag behind their International counterparts on key operating or productive metrics.

There are several reasons why the requisite infrastructure has not been developed. Land acquisition is the single largest roadblock for infrastructure development because of multiple reasons. Inadequate compensation and poorly planned rehabilitation packages have led to this issue. To address it, a new Bill, the Land Acquisition and Rehabilitation & Resettlement Bill (LARR), has been proposed. This Bill, in its current form, includes improved provisions for compensation and rehabilitation, and is expected to streamline the land acquisition process and reduce the number of litigations in the country. However, the cost of acquiring land will increase significantly, which could affect the viability of projects in the long term.

Regulatory approvals and environmental clearances are the major hindrance for successful delivery of projects. Multiple agencies are involved and various approvals required across the different stages of the project cycle.

Another major roadblock is the approach of the sponsoring agency to project planning or pre-tendering activities. The relevant authorities often side-step crucial project milestones such as land acquisition and prepare poorly planned projects in their rush to announce projects.

Funding is another major roadblock, with an increased reliance on the private sector to develop and maintain infrastructure projects that are capital-intensive and have a long gestation period. Currently, developers and banks have exhausted their exposure limits to the infrastructure sector, respectively. Equity markets are also not favourable due regulatory requirements, forcing most infrastructure companies to dilute their equity in public markets to whatever extent possible.

Another emerging challenge relates to the capacity of the private sector to execute infrastructure projects. The sector has financial and manpower constraints. Most large companies in India are now integrated players that execute projects as developers and EPC contractors. However, the total number of such players is low and they have already secured several projects, which limits their capacity to take up new projects.

Lack of skilled manpower and shortage of construction equipment further compounds the problem.

Infrastructure development is a critical enabler to economic growth. Logistics infrastructure, covering the road, rail, waterways and air network of a country, is the backbone on which the nation marches ahead. Although the urgency to develop India's logistics infrastructure has been realized in the past decade, the task at hand is daunting. India's logistics infrastructure is insufficient, ill-equipped and ill-designed to support the expected growth rates of 7 to 8 per cent over the next decade. This expected 2.5-fold growth in freight traffic will further increase the pressure on India's infrastructure. India has the opportunity to address this issue.

Over two-thirds of the infrastructure network capacity of the future has not yet been built. Learning from the past and adopting global best practices, India should pursue a logistics infrastructure strategy that minimizes investment, maximizes cost efficiency, reduces losses for users and is energy efficient. This will need India to build its freight infrastructure.

Some recommendations to improve India's infrastructure are as follows:

Rail dedicated freight corridors: This program should have a dual focus. First accelerating the special purpose vehicles (SPVs) for the two planned DFCs—Delhi-Kolkata, Delhi-Mumbai and simultaneously incorporating SPVs for three additional DFCs.

Coastal freight corridors: The objective of this program must be to strengthen the West i.e., Kandla to Kochi and East i.e., Kolkata to Chennai coastal freight corridors through integrated projects that include last-mile rail and road programs, transshipment hubs, proactive marketing and accelerated port development.

National expressways: This includes constructing expressways of 100 to 300 km stretches that factor in expected increases in traffic by 2020. While currently 5 to 7 expressways are likely to be built by 2020, ideally, the number of expressways should be increased to over 20 by 2020.

Last-mile roads: Creating a dedicated last mile program with over 750 last-mile links to connect in particular port and railway terminals to production and distribution centers.

Last-mile rail: This should ensure last mile rail infrastructure in many of the last 750 mile links. It will include developing track and rail head infrastructure to support 8 to 10 critical coal corridors in mineral rich states.

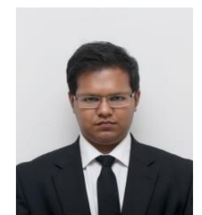
Multi-modal logistics parks: This program will predominantly focus on demarcating land for logistics parks at 15 to 20 key points where different modes overlap, near major cities, or along proposed DFC routes.

Technology adoption like national electronic tolling: This entails standardizing technology for nationwide electronic toll collection (ETC) in future contracts and establishing a nationwide clearing house with set norms and service standards to facilitate transactions.

Apart from streamlining the land acquisition process through LARR, the Government should also issue clear guidelines for sponsoring agencies on land acquisition, e.g., mandatory acquisition of 90% of the total land or 70% of the contiguous land, before offering projects for bidding. This will help agencies to be more rigorous in their project planning and diligence processes before initiating bidding.

Dispute resolution process needs to be more effective and expeditious. The Government may consider setting up a single quasi-judicial authority for all infrastructure sectors, which would have statutory powers to resolve disputes between the authorities and private developers.

The private sector is finding it difficult to raise funds for infrastructure due to the aggressive investment targets set in the Twelfth Plan. Setting up of Infrastructure Debt Funds (IDFs) and the reduction in Withholding Tax is expected to facilitate the flow of long-term debt into infrastructure projects. The Government can also infuse additional capital in major public sector banks to augment funding in short-term.●



India and South America – Opportunities for trade expansion and investment

Looking forward, the emerging economies of South America with their growing middle class present an opportunity which will be beneficial for both the countries.

By Anmol Garg & Suryanarayan Panda
MBA (IB) 2014-16

The fulcrum of world economy has shifted from US and Europe to Asia with China and India leading the way. The global financial crisis post 2007-08 recession and the strong recovery posted by both the countries is a testimony to the fact that both countries are the future of world economy. The setting up of BRICS bank is another example of how China and India are ready to take things under their control .Trade being an engine of growth naturally assumes much more significance for these countries in this scenario. Looking forward, the emerging economies of South America with their growing middle class present an opportunity which will be beneficial for both the countries. While China has already embarked on boosting trade with the region, clocking over $255 billion and emerging as its third largest trading partner, India has gotten off to a slow start. This article will look at the trade and investment opportunities between India and South America.

Common Ground

India and South America have both been colonized by European powers. Although the two regions do not share much in terms of history, trade relations were established in 17th century with Portuguese colonization of Brazil and Goa. The most notable trade item was cow which was sent from India to Brazil and chillies were sent the other way round. India and South American economies such as Argentina, Brazil and Chile have a growing middle class and have evolved as agriculture based economies. Stronger linkage between developing and emerging economies will help them find common ground on international forums like UN and WTO.

Current Trade Volume

India's trade with South America was negligible until the beginning of the past decade. Since then, trade with the South American countries has burgeoned. According to the official statistics of the countries of the region, two-way trade between India and Latin American countries has reached $47 Billion in the fiscal year 2012-13. India has become an important trading partner for the region as a whole. India's share in Latin American and Caribbean trade with Asia-Pacific is still at an incipient stage; its 6.2 % share in the South American region's exports to Asia-Pacific is below the 8.8% share of Republic of Korea and the 12.9% share of ASEAN. India's share in the region's imports from Asia-Pacific is even lower, at 5.1%. There is significant potential for boosting trade in the coming years, given the new growth paradigm of Latin America and the Caribbean and the favorable mindset of Latin Americans towards India.

Some of the official statistics regarding the trade between the Latin countries and India are:

- According to India's official statistics for the fiscal years 2012 to 2013, the India's total exports to Latin American countries is

$14.3 Billion with exports to Brazil being $5.043 Billion, Colombia being $1.042 Billion, Peru being $ 742 million and Chile being $658 million in the fiscal year 2012-2013. At the same time imports from the Latin American countries constitute about $33.315 Billion.

- Brazil is the largest export destination, accounting for almost 40% of total exports to the region. The combined share of the top seven destination countries (Brazil, Bahamas, Mexico, Colombia, Chile, Peru and Argentina) represented 86% of total exports to the region.
- With respect to imports, the Bolivarian Republic of Venezuela and Brazil led the list, with a combined share of 61%. Chile, Mexico, Argentina and Colombia were also important sources of Indian imports.

Key Areas

Energy

Indian trade with South America, especially Brazil comprises mainly of crude oil and agricultural commodities like soya oil and raw sugar. Brazil has emerged as a major source of oil for India as it seeks to diversify its imports. ONGC through its overseas arm ONGC Videsh Ltd has already acquired blocks in the high potential deep-water blocks of Brazil. It has acquired blocks in Venezuela, Colombia and Cuba along with other Indian companies like Oil India Limited and IOCL.

South American Advantage

South America is also a major source of copper and iron ore for India.

Product label	India's imports from Common Market of the South (MERCOSUR)				
	Value in 2009	Value in 2010	Value in 2011	Value in 2012	Value in 2013▼
Copper waste and scrap	194	1,024	1,018	1,232	1,097
Refined copper and copper alloys, unwrought	547	0	236	291	804

Figure 1 Indian copper imports from MERCOSUR (Value in US $ Million)

Product label	India's imports from Argentina					
	Imported quantity in 2011	Unit	Imported quantity in 2012	Unit	Imported quantity in 2013▼	Unit
Soya-bean oil crude, whether or not degummed	727,442	Tons	780,641	Tons	824,987	Tons

Figure 2 Indian soya-bean oil imports from Argentina (Quantity in tons)

Countries like Argentina and Paraguay which have an agriculture based export oriented economies can find opportunity in Indian middle classes' growing consumption. Latin American countries can leverage their expertise in agricultural and farm commodities to dip into the market in India. Both regions can benefit from this trade as they focus on food security.

Indian Edge

The main interests for Indian businesses lie in the investment potential of the area. Argentina which often suffers from cycles of growth and slowdown is a huge consumer market while Chile is one of the most developed countries of the region about to join OECD. Indian companies like Tata Motors and Mahindra and Mahindra are already selling cars in several Latin American countries. TVS and Bajaj Auto have already entered the markets in partnership with local players. Hero Motocorp has started construction of its wholly owned two wheeler manufacturing plant in Colombia.

Indian firms have invested sizably in the IT, pharmaceuticals and mining sector in South America. One of the key differences between Indian and Chinese FDI apart from the sectors is that Indian investment is driven by private companies while Chinese investment is backed by their government. Other highlight has been that unlike the Chinese, Indian companies haven't encountered resistance from host governments. Companies like TCS, Infosys, Aegis etc. have set up their centers in countries like Brazil and Argentina and employ quite a lot of locals.

Figure 3 Infosys BPO Belo Horizonte Delivery Centre

Indian pharmaceutical companies have been expanding their presence through acquisition of local companies. Ranbaxy, later acquired by Sun Pharmaceuticals had set up a plant in Brazil in 2000 and was the sixth largest generic drug maker in the country. An untapped opportunity in trade lies in the export of jewellery from India. Indian jewellery makers can expand their markets beyond Europe and USA and tap on the rising consumer demand in countries like Chile and Argentina.

Opportunities and Challenges

Despite some recent improvements on many fronts, both India and the countries of Latin America face some formidable challenges. Both the regions together account for some of the highest inequality indices in the world, as well as serious shortcomings in infrastructure, technology, innovation and competitiveness. India and the Latin American region, together with their main partners, could approach these profound challenges as opportunities to forge new partnerships to promote growth and development through increased trade and investment.

Increasing trade between Latin America and the Asia-Pacific region has been done primarily by China, while India still remains an unexploited potential export market as well as an untapped but high potential source of imports for the majority of countries in the Latin America. Furthermore, despite the higher interest shown by Indian firms for investing in the Latin America countries, the region's share of India's overseas foreign direct investment (FDI) remains quite small. The South American region's trade and investment relations with India are still at a nascent stage, so there is a need to identify and take advantage of complementarities and promote business alliances. Trade development needs to be promoted at the intra-industry level with an emphasis on export diversification through business initiatives that draw on the competitive advantage of each region and promote increased investment flows centered on value chains involving both Indian and Latin American firms.

Moreover the establishment of BRICS bank of which India as well as Brazil are a part could further help in giving a boost to the sentiments of investors in both the countries. This poses as a tremendous opportunity to the South Asian as well as South American countries to turn a page of trade and commerce between the two large regions. Both the regions are also discussing the start of direct, non-stop flights as well as shortening the sea route time (from 45 days to 30 days) taken by ships to travel between the regions. Although the trade between India and South America has developed in the 21st Century only, it has the potential of shaping up the destinies of both regions and the world economy in the days to come.●

World of Trade

An increasing globalized world was facilitated by the formation of WTO. World of Trade covers topics pertaining to WTO – issues, potential for growth, opportunities and threats.

International Trade and Environment: Past, Present and Future

World trade expansion has raised the issue of the relationship between trade and the environment. Is trade good or bad for the environment?

By Nitesh Singh
MBA (IB) 2014-16

On December 6th (2013) the World Trade Organization concluded the first multilateral trade agreement. At the heart of the deal is an agreement on "trade facilitation", or measures to reduce trade costs by cutting red tape in customs procedures. Disagreement spanned upon on several issues. But one important aspect of the Doha round, which didn't gain much limelight was the WTO's stance on the environment by launching multilateral environment negotiations.

Environmental Impact of Trade

Trade is a vital element of the global economy. We have a come a long way in terms of international trade .The total international trade of goods in the year 1995(WTO established) was US$ 6 trillion which increased to US$ 36.6 trillion at the end of 2012. World trade is expected to grow by a modest 4.7% in 2014 and at a slightly faster rate of 5.3% in 2015.

Developed countries continue to constitute the main players in international trade, however developing countries account for an increasing share. As of 2011 almost half of world trade has originated from developing countries (up from about one-third in 2002). Although trade growth (both import and export) has been higher for developing countries during the last decade, this trend is slowly abating. In addition, merchandise and commercial services exports provide an increasingly important share of world gross domestic product (GDP), rising from 14 per cent in 1970 to 29.3 per cent in 2011. In developing countries, this share reached peaks of 45 per cent before the financial and economic crisis of 2008.

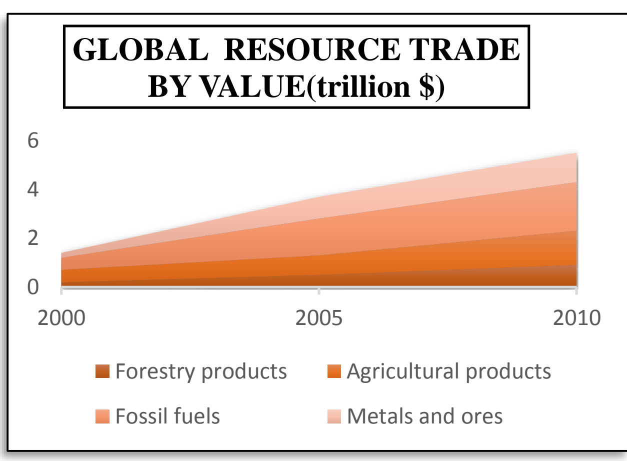


Figure 1. Global resource trade by value (2000-2010)

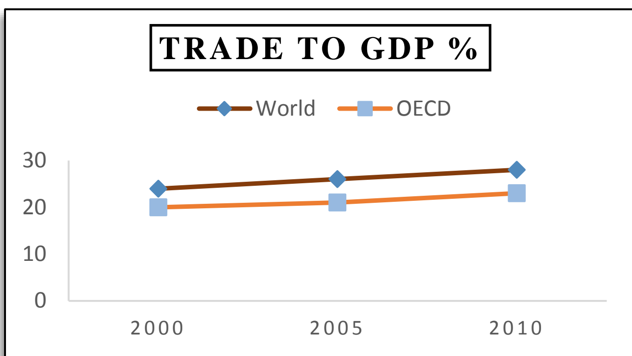


Figure 2. Exports-to-GDP ratio, 2000-2010

This increasing volumes of trade have also put additional stress on environment. Climate change is one of the foremost challenges facing the global community today and intersects with international trade in numerous ways. The rising need for natural resources by emerging and developed economies has resulted in surge in consumption and trade. Greenhouse gas emissions are at all-time high. Emissions from international maritime and aviation transport as also increased significantly in last 3 decades by 88 per cent.

Complexity of the Problem

World trade expansion has raised the issue of the relationship between trade and the environment. Is trade good or bad for the environment? But the problem doesn't end here. The problem intensifies in the case of global problems, such as ozone depletion or global warming. These require global agreements, yet each country has an incentive to free-ride on others' efforts.

Efforts so Far

- **Role of WTO**

WTO has recognised sustainable development and protection and preservation of the environment as fundamental goals of the WTO, but its principal objective has remained to foster international trade and environment has generally taken a back seat.

Doha Agreement came as a breath of fresh air and environmental prospects of trade was also discussed elaborately. Few WTO agreements permit members to avail exceptions, for example;

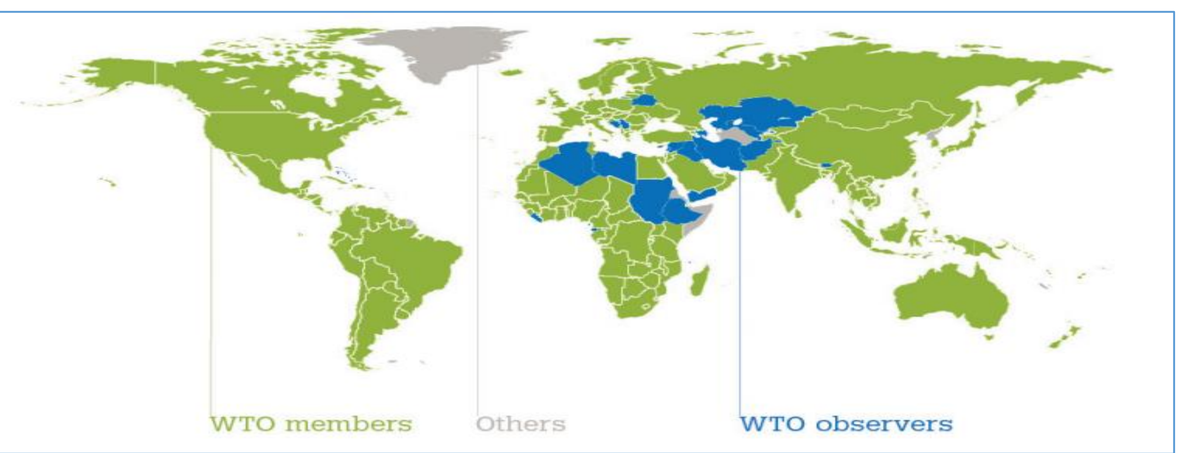
- ***Agreement on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS)***

Rules such as the TBT Agreement, dealing with technical regulations and product standards, and the SPS Agreement, dealing with food safety and human, animal and plant health, provide scope for WTO members to put in place regulatory measures to protect the environment.

- ***Agreement on Subsidies and Countervailing Measures (SCM)***

Provided certain basic disciplines are respected, the agreement leaves members with policy space for, among other things, supporting the deployment and diffusion of green technologies.

Figure 3. WTO members and Observes 2013



- ***Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)***

The TRIPS Agreement provides a framework for applying the intellectual property system to promote access to and dissemination of green technologies, and provides policy space to promote public interest in sectors of vital importance to socio-economic and technological development, as well as specific incentives for technology transfer and exclusions of environmentally damaging technologies from intellectual property (IP) protection.

- ***Plurilateral Agreement on Government Procurement (GPA)***

The plurilateral GPA applies only to the WTO members who agree with upon it. Under the agreement, parties and their procuring entities may prepare, adopt or apply technical specifications aimed at promoting green procurement.

➢ **Rio+20**

Rio+20 (United Nations Conference on Sustainable Development) took place in Rio, Brazil in June 2012 – twenty years after the 1992 Earth Summit in Rio. The official discussions focused on two main themes: how to build a green economy to achieve sustainable development and lift people out of poverty; and how to improve international coordination for sustainable development. The outcome document sets recommendations that define the role that trade can play in this context. It stresses the importance of several factors, including:

- Trade in environmental goods and services providing incentives and subsidies
- Establishing enabling environments for the development, adaptation, dissemination, and transfer of environmentally-sound technologies, while noting the role of foreign direct investment, international trade and international cooperation in the transfer of environmentally sound technologies

➢ **Green Goods Initiative**

Green Goods are the products, services and technologies that contribute to green growth, environmental protection, climate action and sustainable development. In July 2014 the EU and 13 other members of the WTO launched negotiations to liberalise global trade of environmental goods. This 'green goods initiative' aims to remove barriers to trade and investment in 'green' goods, services and technologies. Initiative attempts to achieve:

- Removing tariffs on a list of 54 products on which the member countries of APEC (Asia-Pacific Economic Cooperation) have agreed to reduce their tariffs to 5% or less by 2015, and a broad range of additional products
- Aim is to create a 'living agreement' which can respond to new technologies and add new products in the future
- Include environment-related services and tackle non-tariff barriers, such as local content requirements or restrictions on investment

At this stage, only some WTO members have chosen to take part in the talks. But in the near future green goods are expected to gain much more popularity.

➢ **ISO Standards**

ISO has developed several green economy-relevant standards. Examples of such standards include:

- ISO 19011 on auditing of environmental management systems
- ISO 14031 on the evaluation of environmental performance
- ISO 14020 on environmental labels and declarations
- ISO 14064 on greenhouse gas accounting and verification
- ISO 14001 on environmental management systems

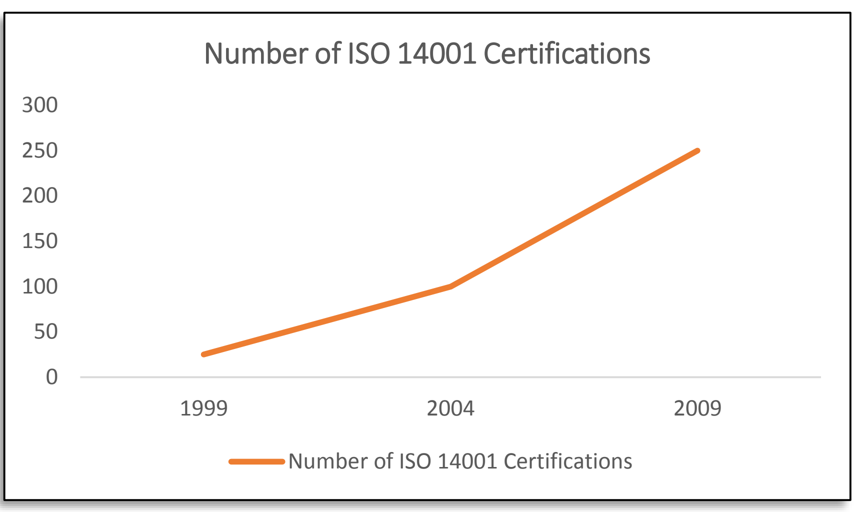


Figure 4. Total number of ISO 14001 certifications issues

In last decade, ISO 14001 certifications issued have increased significantly. Properly implemented standards can facilitate sustainable trade by contributing the use of environment friendly techniques and processes. But consumers will have to play a very important role and choose products with such certifications, large manufacturers and retailers will then only put pressure on suppliers worldwide through the introduction of voluntary standards, and thus transform business practices.

Conclusion

There are positive signs that trade-related practices are moving towards more environmental, social and economic sustainability. But it is obvious that, as far as climate change and trade obligations are concerned, the rules are yet to be clearly defined. The debate and discussions have already begun. These trends have to be encouraged and formal standards need to be defined. A meaningful transition towards a sustainable trade will require cooperation among all the countries around the world along with technological innovation.●

Regional Trade Blocks

The rise in number of agreements between different blocks of late is raising questions on even the future of WTO. Regional Trade Blocks analyses the past, present and future of these trade blocks.

By Shatabdi Banerjee
MBA (IB) 2014-16

SAFTA: All you need to know

Majority of the WTO members have signed more than one RTA and it is estimated that an average WTO member now has agreements with more than 15 countries.

Trade camaraderie has been redefined by RTAs across the globe and *regional trade integration* is one of the most important factors affecting global trade scenario. Currently, 585 RTAs have been notified to WTO, of which 379 are in force and the numbers would continue to increase in the future. Majority of the WTO members have signed more than one RTA and it is estimated that an average WTO member now has agreements with more than 15 countries. The basic tenets of trade facilitation and levelling the playing field that led to ratification of GATT and later formation of WTO has indirectly propelled the conception of RTAs. Most notable RTAs include the North American Free Trade Agreement (NAFTA), European Union, European Free Trade Association (EFTA), Association of Southeast Asian Nations (ASEAN), Common Market of Eastern and Southern Africa (COMESA) and Southern Common Market (MERCOSUR).

Drivers

Allowance by GATT and later WTO to pursue trade liberalization as an exception to the fundamental principle of non-discrimination, provided the RTA doesn't raise trade barriers for other non RTA -WTO members, led to enforcement of a number of RTAs. Moreover, for majority of trade issues position of different regions vary - making the trade negotiations difficult. Also, as the countries are realizing that having trade partners makes it easier for them to face the global competition and unite for their common interests, they are signing RTAs .Thus the global economic scenario is being influenced not only by globalization but by *regionalization* too .

Why SAFTA?

History of regional integration can be traced back to European Communities (early 1950s), followed by a wave of regional integration the 1960s in Africa, Latin America and other developing countries. ASEAN –Association of South East Asian Nations was established in 1967 with an objective to prevent the spread of communism in its member countries. Subsequently as the political equations changed, economic rationale prevailed and its

founding members signed AFTA (ASEAN Free Trade Agreement) in 1992. Majority of regional blocs with subsequent RTAs were conceived in 1980-90s propelled by the existing geopolitical scenario. European Union was formed in 1993 and Euro Zone with common currency denomination in 1999. North American Free Trade Agreement (NAFTA) came into effect in 1994. Currently EU is negotiating free trade agreement with MERCOSUR.

South Asian Countries i.e. India and its immediate neighbors witnessed political unrest and turmoil during the 1960-1970s be it the Indo- Pak wars , independence of Bangladesh or rise of LTTE in Sri Lanka .SAARC(South Asian Association for regional Cooperation)was conceived as emulation of NWFZ(Nuclear Weapon Free Zone –Latin America) and as a political .Following several rounds of negotiation that lasted from 1980-83, SAARC declaration was formally adopted in 1983 and first SAARC summit was held on 7-8th Dec 1985,Dhaka .This was followed by signing of SAPTA(SAARC Preferential Trade Agreement)on 11 April 1993 and implementation in 1995. However desired outcome couldn't be achieved as intra-regional trade did not flourish be it trade creation or diversion .The reasons include limited product coverage and tariff preferences. Thus the agreement on South Asian Free Trade Area was signed in 2004 and came into effect in 2006, replacing the SAPTA.

Framework:
<u>Member Nations:</u>

NDLC –Non Least Developing Countries	LDC-Least Developing Countries
India	Maldives
Pakistan	Nepal
Sri Lanka	Bhutan
	Bangladesh
	Afghanistan

The Objectives of this Agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:
a) Eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
b) promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;
c) Creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
d) Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

<u>Instruments of SAFTA</u>: *(Article-4):*
The SAFTA Agreement will be implemented through the following instruments:-
1. Trade Liberalization Programme
2. Rules of Origin
3. Institutional Arrangements
4. Consultations and Dispute Settlement Procedures
5. Safeguard Measures
6. Any other instrument that may be agreed upon.

<u>The Trade liberalization programme:</u> *(Article7)* – Within 2 years:

NDLC	LDC
Reduction from existing tariff rate to 20% For countries <20% rates annual reduction on a Margin of Preference basis of 10% on actual tariff rates for both years	Reduction from existing tariff rate to 30% For countries <30% rates annual reduction on a Margin of Preference basis of 5% on actual tariff rates for both years

Time Frame	NDLC	LDC
Next 5 years	Reduction from 20% or below to 0-5%	
Next 8 years		Reduction from 30% or below to 0-5%

The Journey so Far

For a region, which once had the lowest level of intra-regional trade anywhere in the world (just 4.4 percent, compared to 65 percent in EU and 42 percent in NAFTA prior to SAFTA), SAFTA seemed to be a solution for regional integration. Progress in terms of trade is evident from the graphs given below.

Though SAFTA was seen as improvement over SAPTA it didn't achieve the desired outcomes. Many barriers are responsible for its dismal performance which need to be overcome .Moreover, SAARC adopted commodity-by-commodity approach to regional trade liberalisation which contributed to negatively These include:

- Political Hurdles
- Retention of Sensitivity List
- Trade through Bilateral Agreements
- Trade taking place outside the ambit of SAFTA

Political Hurdles:

Denial of granting the Most Favored Nation (MFN) status by Pakistan to India when India has already granted Pakistan the same is an example of political differences among the blocks.

The region has suffered from repeated terror attacks be it India, Pakistan, Bangladesh or Sri Lanka. Moreover the alleged involvement of nations in supporting terror groups has led to political tensions in the region. Considering India's context, relationships with all the nations except for Bhutan haven't been always cordial in past .This has significantly affected SAFTA, as India is the largest economy of SAARC.

Retention of Sensitivity List:

The SAFTA nations need to review their sensitive list in order to liberalize trade. Currently, Nepal maintains 25.5% of total product lines in sensitive list, Pakistan - 22.6%.Sri Lanka's list contains 20.3%, Maldives 12.8%, India 16.9% and Bhutan 3% of total product lines. Shifting these to general category will reduce duties and revive trade.

Trade through Bilateral Agreements:

A major portion of trade takes place through bilateral agreements between nations rather than SAFTA. Considering the Indian context, India has bilateral free trade agreements with Sri Lanka, Nepal and Bhutan.

Trade taking place outside the ambit of SAFTA:

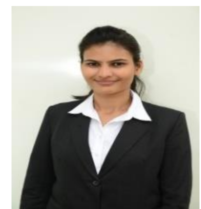
A large chunk of trade takes place outside the ambit of SAFTA through smuggling.

Conclusion

SAFTA is an ambitious project which isn't achieving the desired outcomes owing to various barriers. A joint effort by all SAARC nations is essential to overcome these and boost trade and prove itself as a strategic regional trade union.●

Commodity Watch

International Trade has been propelled by the search of commodities and meet the demands of raw materials. Commodity Watch analyzes the dynamics of the commodity prices and also the factors influencing the supply and demand.



By Priyanka Keshavdas Iyengar
MBA (IB) 2014-16

CRUDE OIL

Oil market does not follow the basics of demand and supply, and the control of oil prices is an international game.

Crude oil is a mixture of hydrocarbons found in underground reservoirs. It is liquid in nature in the natural state and remains liquid at atmospheric pressure after passing through separating facilities. Depending upon the characteristics of the crude stream, it may also include:

A) **Hydrocarbons**: Depending on the nature of hydrocarbons they contain, crude oil is classified into three groups:

a) **Paraffin-Base Crude Oils**: They have high molecular weight. Hence, are solid at normal room temperature. They also do not contain asphaltic (bituminous) matter. These crude oils are useful to produce high-grade lubricating oils.

b) **Asphaltic-Base Crude Oils**: They contain find huge proportions of asphaltic matter with little or no Paraffin. Some of them are predominantly Naphthenes (cycloalkanes). Hence it produces lubricating oil which is more sensitive to temperature compare to paraffin-base crudes.

c) **Mixed-Base Crude Oils**: Both paraffins and naphthenes are found in this crude. Also some amount of aromatic hydrocarbons is mixed with them. Most crudes fit into this category.

B) **Specific Gravity or API**: In petroleum business the standard scientific measure of specific gravity is altered by a standard formula to yield American Petroleum Institute (API) gravity. API moves opposite to standard specific gravity, means the higher the API gravity, the lighter or less dense the crude oil:

a) **Light Crude Oil**: Light crude oil is liquid petroleum. It has a low density and flows freely at the room temperature. It has low wax content, viscosity and specific gravity but high API gravity due to presence of a huge proportion of light hydrocarbon fractions. Light crude oil gets a higher price than heavy crude oil on commodity markets because it produces a higher percentage of gasoline and diesel fuel when refined. Crude oil having an API gravity more than 31.1 degrees is taken as light crude oil.

b) **Heavy Crude Oil**: Heavy crude oil does not flow easily and is referred to as "heavy" because of its specific gravity is higher than that of light crude oil. Activities like

production, transportation and refining of heavy crude oil present huge challenges as compared to light crude oil. Crude oil of API gravity less than 21.5 degrees is considered as heavy crude oil.

c) **Medium Crude Oil**: Crudes with a grade between 21.5 and 31.1 is known as medium crude oil.

C) **Sulfur**: Crude oils contain certain amount of sulfur as an impurity. Crudes can be divided on the basis of percentage of sulfur content.

a) **Sweet Crude Oil**: It is termed sweet because of the low level of sulfur of 0.5% which provides it a mild sweet taste and pleasant smell. They contain very small amounts of hydrogen sulfide and carbon dioxide. High quality (low sulfur) crude oil is used for processing into gasoline. It is in high demand, particularly in the industrialized nations. Light sweet crude oil is the most demanded version of crude oil.

b) **Sour Crude Oil**: If the total sulfur level in the oil is greater than 0.5 % the oil is considered "sour". Impurities need to be removed before this lower quality crude can be refined into gasoline increasing the processing cost. This produces a higher-priced gasoline than that made from sweet crude oil. Thus sour crude is processed into heavy oil such as diesel and fuel oil rather than gasoline to reduce the processing cost.

Crude Oil Benchmark

Crude oil benchmarks are the reference points for various types of oil that are available in the market. These were introduced in the 1980s having the aim of setting a standard for the world's most actively-traded product.

WTI: (light sweet crude in the US). WTI crude oil has sulfur content of 0.24%. It has an API gravity of 39.6 and the specific gravity is 0.827. WTI crude is considered as high quality. The primary use is in the production of gasoline.

Brent Blend: (Light sweet crude found in the North Sea) Its sulfur content is about 0.37%, with an API of 38.06. It is good for producing gasoline.

Dubai Crude: (for light sour crude obtained from the Persian Gulf) Its sulfur content is of 2% and the API is 31. It is used for pricing the crude which is exported to Asia.

Isthmus: (for Mexican light crude). Its sulfur content is around 1.45% and the API gravity is 33.74.

OPEC Basket: It is the pricing data which is formed by collection of seven crude oils from the OPEC nations (except Mexico). OPEC introduced it on June 16, 2005. It is currently made up of the following: Kuwait Export (Kuwait), Qatar Marine (Qatar), Basra Light (Iraq), Es Sider (Libya), Saharan Blend (Algeria), Iran Heavy (Islamic Republic of Iran), Girassol (Angola), Oriente (Ecuador), Bonny Light (Nigeria), Arab Light (Saudi Arabia), Murban (UAE), and Merey (Venezuela).

Global Economy

Even though the global economy sees a growing trend, the growth remains slow and uneven. The estimated world GDP growth in 2014 is 3.1% and in 2015 is 3.4%. In the developing and emerging economies sluggish growth has been observed in the current year also. Major developing countries are expected to grow at a lower rate in 2014 than last year, except for India which is expected to grow at 5.5% in 2014 and 5.8% in 2015. Geopolitical issues, monetary supply measures in the US combined with the sluggish growth in the economy will lead to imbalance in the supply demand equations of crude oil inventories which are at comfortable levels. Resolution in the geopolitical concerns can help improve consumer sentiments, leading to higher oil demand growth in the near future.

Indian Economy

India is the seventh largest country in the world, and the second largest in terms of population – with 1.2 billion people. India comes under top ten economies when GDP is considered. India experienced the fastest growth in two years at 5.7% in 2Q14. Construction and manufacturing sectors recovered with support from growth in service sector. Although making progress in cutting the twin deficits, the Indian economy remains vulnerable to capital outflows due to domestic or external shocks, such as tighter monetary policy in the US.

India is the third largest energy consumer after United States of America and China consuming to 3.86 million barrels-per-day of crude oil in the year 2013. Indian oil demand growth remains within a normal range in 2014. Data for July 2014 suggests oil demand growth of 2.9%, y-o-y with growth decelerating from June's remarkable 5.2%.

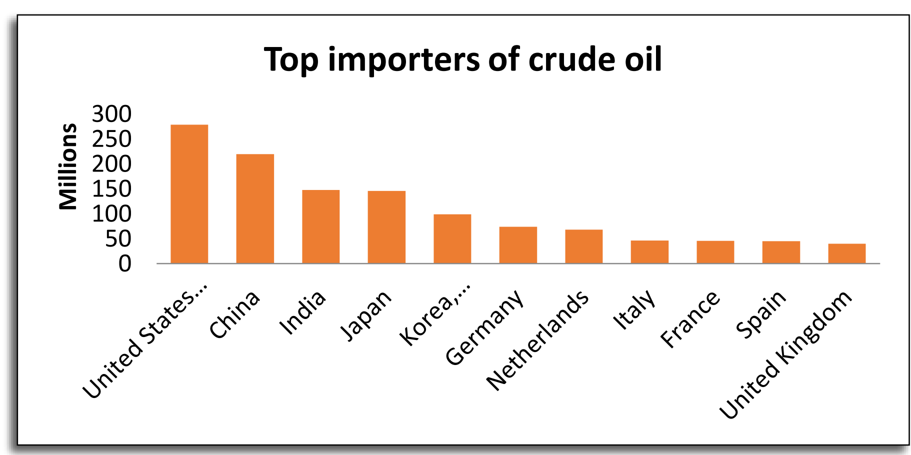
Both gasoline and LPG demand grew by more than 5.4% and 4.7%, respectively. Car sales rose for the third consecutive month, lending support to gasoline. Passenger car sales increased by 5% y-o-y, with 14% growth in the two-wheeler segment, the prime consumer for gasoline. Total vehicle sales improved by 12%. The residential and petrochemical sectors supported LPG consumption.

Jet fuel demand was firm at 1%, y-o-y matching improvements in air travel. Diesel demand recorded its strongest gains since January 2013, growing for the third successive month. Diesel consumption was higher by 6.3%, y-o-y mostly due to general improvements in the economy, as well as a rainfall shortage during the monsoon season and a coal shortage, which prompted higher diesel consumption.

The fuel oil demand weakened by around 60 tb/d y-o-y despite an increase in demand in the power sector in the southern region. Oil demand was well supported by a improved sentiment in India's economy. This was confirmed by encouraging macroeconomic indicators led by a GDP growth rate of 5.3% in the 1Q of the current fiscal year (April 2014 - March 2015), up from 4.6% in the 4Q of the previous fiscal year.

The growth in energy suggests that the consumption has doubled since 1990 and it is further expected to double by 2035 indicating the fact that over 91% of the country's energy needs will need to be imported. The fact that over 44% of Indian homes do not receive electricity and more than 90% of them rely on biomass such as wood, waste and gas make the situation direr.

The country enjoys an abundance of traditional and non-traditional energy sources, but these sources are insufficient to meet India's growing needs. Therefore it imports most of its crude oil from abroad, especially from Middle East.



Source: ITC

Issues faced by India

The subject of oil imports has come to the forefront due to the country's spiraling current account deficit. Demand of petroleum products during 2016-17 is estimated to be at 186.2 million metric tonnes.

Price Volatility

Oil market does not follow the basics of demand and supply, and the control of oil prices is an international game. The dominant price controller in the oil markets is USA because majority transactions are in terms of US Dollar only. This is termed as oil-dollar standard holding. The short term concerns relates to a sudden disruption of supply and a higher risk of a diminution in the cushion provided by Saudi Arabia which provides the bulk of surplus capacity.

Hence, to cushion the high impact of international oil prices and domestic inflationary conditions, India is diversifying its sources of crude oil imports. This will reduce India's dependence on any one region. Of the 189.24 million tonnes total crude oil imported by India in 2013-14, 115.86 million tonnes of oil was bought from Middle East (i.e. 61%). Latin America has emerged as its second biggest supplier region, supplying 31.73 million tonnes of oil and Africa at third provided 30.39 million tonnes of oil in 2013-14. India has also allowed for ONGC and Reliance's extensive oil exploration, specifically on its coasts. In addition, foreign companies, including Canadian company Kern, have been allowed to explore for oil, especially in the desert state of Rajasthan, which is similar to Arab countries that produce oil, and the Krishna Godavari Basin in South India as well as areas in north-east India, around the state of Assam, where oil was discovered in 1889.

Barter arrangement

To protect the Indian consumers the Government has modulated the retail selling price of diesel and has subsidized domestic LPG (refined oil), resulting in incidence of under-recovery on sale of these products.

This has lead the Indian Government to explore possibilities for a barter arrangement of oil imports against refined petroleum products export resulting in saving of foreign exchange and export promotion.

To tackle the issue of possible supply disruption caused by calamities or political crises abroad India is building two storage facilities at the country's west coast scheduled to be finished by the second half of 2015. The oil reserve will set India closer to the Paris-based International Energy Agency standards, mandating its members to hold crude stocks equivalent to 90 days of imports.

Conclusion

India is currently responsible for producing around 1% of total crude oil whereas when it comes to consumption of crude oil, it's approximately 3.9% of global production. Making India a largely import dependent nation, which is a major challenge in a number of ways. It makes India more prone to international crude price shocks. Also, it is becoming increasing difficult for the Indian economy to cope with domestic demand increases at heavily subsidized petroleum products. However, Indian Government has realized the gravity of the situation and has introduced measures like diversification of crude oil imports, petroleum storage facilities and making arraignments for a barter system. Further consolidation methods to curb consumption and look forward towards alternatives are also expected from the government in coming years.●

Commodity Watch

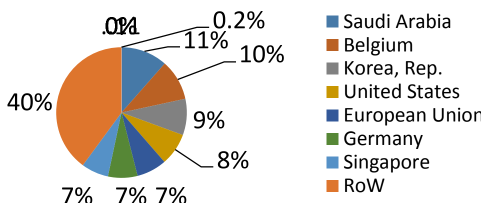
Global markets for Polypropylene and Plastics

By Devansh Doshi
MBA (IB) 2013-15

Packaging is a major sector where plastic is an important input. Another major sector for plastics' consumption is automobiles.

A look at the trade figures for the HS code for plastics shows up some interesting facts. India is a net importer of plastics. This should not be surprising as we are a country of one billion plus people. Packaging is a major sector where plastic is an important input. Another major sector for plastics' consumption is automobiles. Hyundai makes i20 and i30 in India and exports them to Europe but it hasn't launched i30 in India which shows that India is an important manufacturing hub for the company. Construction, transportation, medical devices, and electrical goods other sectors where plastics consumption will be on the rise.

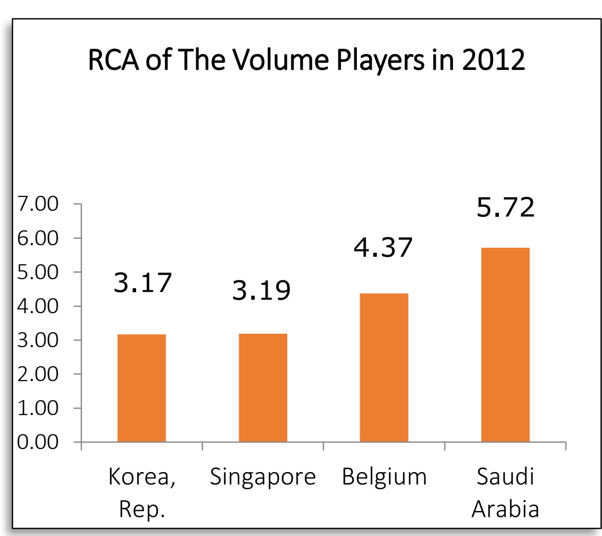
India has a relatively meagre share of 1.1% in world exports and 1.7% share in world imports. Looking at the trade balances in plastics items, one finds that India imports raw materials and export finished goods. In 2013, India had a negative trade balance of 145 million USD in scraps showing India's potential of processing plastics. But largely we consume a lot, leaving little for exports.



But what might surprise you that in 2013, 55% of export value in plastics was in primary form. While we are net importers of the primary forms of plastics, polypropylene stands out to be an exception. There is a positive trade balance of 314 million USD in polypropylene in 2013. IOC, HCPL, RIL, and BPCL are the major producers in India. With capacity expansion and new players planning to enter the market, India's production of polypropylene is set to increase.

Global Suppliers of Polypropylene

An analysis shows that the global markets can be segmented in two parts: the volume players and innovators.



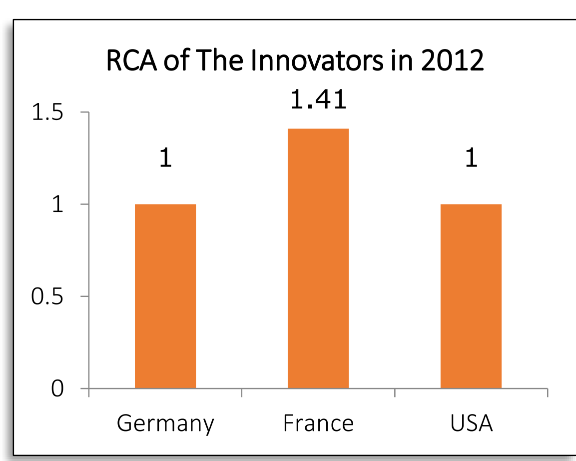
The Volume Players

When crude oil undergoes fractional distillation, polypropylene is formed. Hence logically the countries endowed with crude oil

reserves are bound to be the top exporters in this category. Hence Saudi Arabia continues to enjoy high relative comparative advantage in polypropylene exports. Other countries South Korea, Belgium, and Singapore have large production capacity and low domestic demand propelling a high comparative advantage for them

The Innovators

USA, Germany, and France are the top exporters besides having relatively lower comparative advantage than the volume players. The polypropylene industries in these countries are on the decline. But what keeps their plastics exports high is their ability to innovate and use polypropylene for manufacturing other plastic items. These countries also find it profitable to market their surplus production.



Global Markets for Plastics

A simple analysis of global trade balances of various countries in plastics reveals that there are four segments of players: consumers, processors, suppliers, and exporters. These four segments tell us about these countries respective capacities and demand in this sector.

Exporters

These are the countries that have positive trade balance in primary and processed forms.

Positive Balance of Primary Form

Negative Balance of Processed Form | Positive Balance of Processed Form

Suppliers	Exporters
Consumer	Processor

Negative Balance of Primary Form

These countries have access to raw materials and sufficiently large production capacity. The major countries in this segment are Belgium, Netherlands, Japan, South Korea, and United States of America. They are the biggest competitors for India in the global markets.

Processors

These countries have established capacities for processing of primary forms of plastics. The major countries in this segment are China, Germany, India, and Italy. China and India have huge internal demand for plastics since they have a large population. Their oil resources are used for production of plastics. Germany and Italy have huge processing capacities and generally supply processed plastics to other EU members.

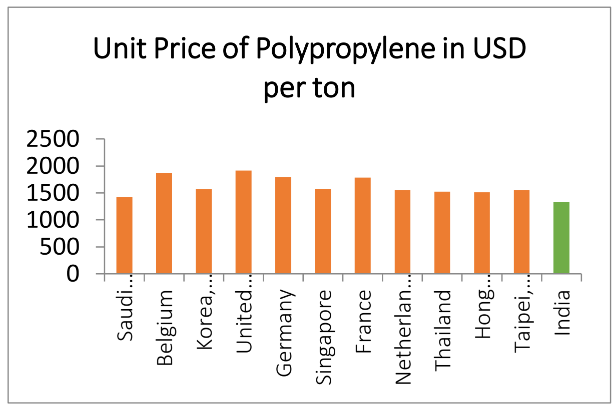
Consumers

These are the countries that have huge internal demand for plastics and inadequate production and processing capacities. The major countries within this segment are Brazil, Indonesia, Mexico, Myanmar, Norway, and Yemen. Huge internal demand results in imports of raw material and finished goods. Their production capacities are utilized to the maximum. These countries have a negative trade balance in primary and processed forms

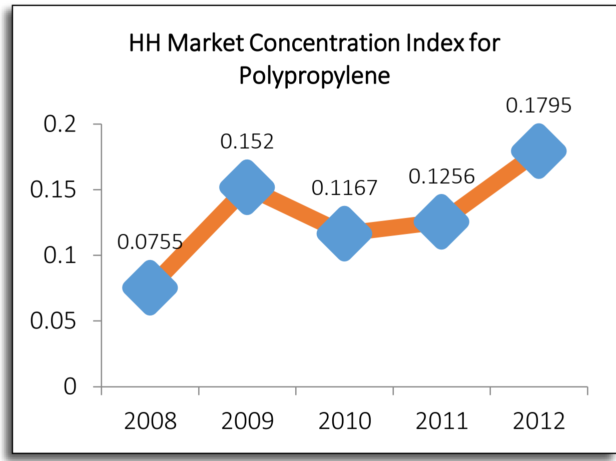
trade balance in primary and processed forms of plastics. India should be looking at these markets because of low competition from domestic players in these countries.
Except South Africa, all African countries fall under this category. Low level of development and manufacturing competitiveness is the reason for this trend. Niger, Sao Tome and Principe, Botswana, Burundi, Cape Verde, Namibia, Rwanda, Mauritius, Mauritania, South Africa, and Mozambique are some of the African countries that have less than 0.5 value of RCA. This opens up an opportunity for India to export to these countries.

Suppliers
These countries have huge capacities for production of plastics in primary forms but lack processing capabilities. This results in large exports of primary forms of plastics and import of processed plastics. The major countries are France, Japan, Kuwait, Saudi Arabia, Singapore, and UAE. As we can see most of these countries have access to crude oil which makes production cheaper. But lack of processing capability makes them pay more for processed products.

India's Polypropylene Exports
An interesting observation in this graph is that despite importing a major share of crude oil, we still manage to export polypropylene at the lowest price as compared to other top exporters. This exemplifies our operational expertise.



The graph below shows that our export market concentration index has been quite low. But the rise needs to be kept under check.



As discussed earlier in this article, India exports polypropylene. Conventional wisdom says that more processed products fetch a higher value and hence higher profit. Hence we should focus on developing capacity for innovative and micro targeted products that will boost our image in the global market.
3D printing can be seen as the biggest threat to processed plastic products trade. With the proliferation of 3D printers and advancement of the technology, it might sound a death knell for processed plastics exports. They lower the cost of producing these processed plastic goods and are capable of mass production as well. Hence, future developments in this area of technology are going to be a major inhibitor in the global trade of processed plastics. Keeping this in view, expanding production of primary forms of plastics seems to ensure long term sustainability. As this technology will become more widespread, the demand for plastics in primary forms is bound to increase.●

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